

# The Audit Findings for East Hertfordshire District Council

---

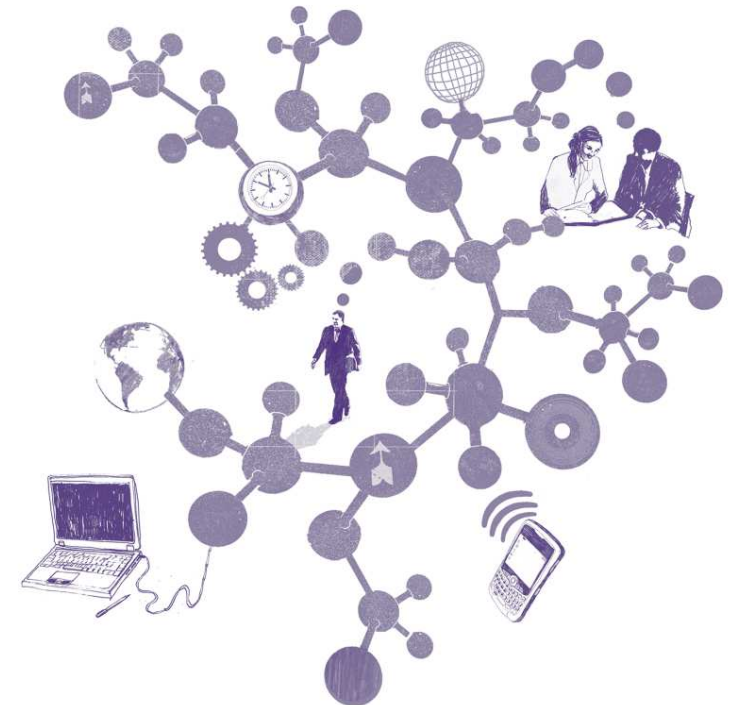
**Year ended 31 March 2015**

September 2015

**Paul Grady**  
Engagement Lead  
T 020 7728 2301  
E [paul.d.grady@uk.gt.com](mailto:paul.d.grady@uk.gt.com)

**Sarah Ironmonger**  
Senior Manager  
T 07880 456149  
E [sarah.l.ironmonger@uk.gt.com](mailto:sarah.l.ironmonger@uk.gt.com)

**Will King**  
Executive  
T 020 7728 2819  
E [will.d.king@uk.gt.com](mailto:will.d.king@uk.gt.com)



East Hertfordshire District Council  
Wallfields  
Pegs Lane  
Hertford  
SG13 8EQ

7 September 2015

Dear Members of the Audit Committee

### **Audit Findings for East Hertfordshire District Council for the year ending 31 March 2015**

This Audit Findings report highlights the significant findings arising from the audit for the benefit of those charged with governance (in the case of East Hertfordshire District Council, the Audit Committee) , as required by International Standard on Auditing (UK & Ireland) 260. Its contents have been discussed with management.

As auditors we are responsible for performing the audit, in accordance with International Standards on Auditing (UK & Ireland), which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities for the preparation of the financial statements.

The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed primarily for the purpose of expressing our opinion on the financial statements. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

We would like to take this opportunity to record our appreciation for the kind assistance provided by the finance team and other staff during our audit.

Yours sincerely

**Paul Grady**  
**Engagement Lead**

#### **Chartered Accountants**

Grant Thornton UK LLP is a limited liability partnership registered in England and Wales: No.OC307742. Registered office: Grant Thornton House, Melton Street, Euston Square, London NW1 2EP. A list of members is available from our registered office. Grant Thornton UK LLP is authorised and regulated by the Financial Conduct Authority.  
Grant Thornton UK LLP is a member firm of Grant Thornton International Ltd (GTIL). GTIL and the member firms are not a worldwide partnership. Services are delivered by the member firms. GTIL and its member firms are not agents of, and do not obligate, one another and are not liable for one another's acts or omissions. Please see grant-thornton.co.uk for further details.

---

# Contents

<b>Section</b>	<b>Page</b>
1. Executive summary	4
2. Audit findings	7
3. Value for Money	21
4. Fees, non-audit services and independence	25
5. Communication of audit matters	27

## **Appendices**

- A Action plan
- B Audit opinion

---

# Section 1: Executive summary

**01. Executive summary**

02. Audit findings

03. Value for Money

04. Fees, non-audit services and independence

05. Communication of audit matters

# Executive summary

## Purpose of this report

This report highlights the key matters arising from our audit your financial statements for the year ended 31 March 2015. It is also used to report our audit findings to management and those charged with governance in accordance with the requirements of International Standard on Auditing 260 (ISA UK&I).

Under the Audit Commission's Code of Audit Practice we are required to report whether, in our opinion, your financial statements present a true and fair view of the financial position and expenditure and income for the year and whether they have been properly prepared in accordance with the CIPFA Code of Practice on Local Authority Accounting. We are also required to reach a formal conclusion on whether you have put in place proper arrangements to secure economy, efficiency and effectiveness in your use of resources (the Value for Money conclusion).

## Introduction

In the conduct of our audit we have not had to alter or change our planned audit approach, which we presented to you in our Audit Plan on 15 July 2015.

Our audit is substantially complete subject to the finalisation of our work in the following areas:

- receipt and review of information to complete testing of year end debtors and creditors
- receipt and review of information to complete testing on remaining payroll samples
- receipt and review of the final version of the financial statements

- obtaining and reviewing the final management letter of representation
- receipt and review of final version of the Annual Governance Statement and
- updating our post balance sheet events review, to the date of signing the opinion
- completion of Whole of Government Accounts review

We received draft financial statements and accompanying working papers at the start of our audit, in accordance with the agreed timetable.

## Key issues arising from our audit

### Financial statements opinion

Subject to the satisfactory resolution and completion of the above matters, we anticipate providing an unqualified opinion on your financial statements.

The key messages arising from our audit of your financial statements are:

- your information system capability caused difficulties during the audit, in particular:
  - providing a detailed listing of debtor and creditor amounts that remained outstanding at the balance sheet date was problematic;
  - producing support for your asset management figures was difficult
- comparison of your carrying value to fair value for property assets identified a significant variance.

We have not identified any adjustments affecting your reported financial position, and your recorded net expenditure remains unchanged at £18.9 million

We have also identified a number of adjustments to improve the presentation of the financial statements.

Further details are set out in section two of this report.

### **Value for Money conclusion**

We are pleased to report that, based on our review of your arrangements to secure economy, efficiency and effectiveness in its use of resources, we propose to give an unqualified VfM conclusion.

Further detail of our work on Value for Money is set out in section three of this report.

### **Whole of Government Accounts (WGA)**

We will complete our work in respect of the Whole of Government Accounts in accordance with the national timetable.

## **Controls**

### **Roles and responsibilities**

You are responsible for the identification, assessment, management and monitoring of risk, and for developing, operating and monitoring the system of internal control.

Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we report these to you.

### **Findings**

We bring the following internal control issues to your attention:

- our testing of your asset management system identified assets where invoices had not been retained to support the carrying value of the asset, assets no longer in use and
- our testing identified one purchase order that was initiated and authorised by the same person
- our testing identified a number of journals that were posted and authorised by the same person.

Further details are provided within section two of this report.

### **The way forward**

Matters arising from the financial statements audit and review of your arrangements for securing economy, efficiency and effectiveness in its use of resources have been discussed with the Director of Finance and Support Services.

We have made a number of recommendations, which are set out in the action plan in Appendix A. Recommendations have been discussed and agreed with the Director of Finance and Support Services and the finance team.

### **Acknowledgment**

We would like to take this opportunity to record our appreciation for the kind assistance provided by management, the finance team and other staff during our audit.

---

## Section 2: Audit findings

01. Executive summary

**02. Audit findings**

03. Value for Money

04. Fees, non-audit services and independence

05. Communication of audit matters

# Audit findings

In this section we present our findings in respect of matters and risks identified at the planning stage of the audit and additional matters that arose during the course of our work. We set out on the following pages the work we have performed and the findings arising from our work in respect of the audit risks we identified in our audit plan, presented to the Audit Committee on 15 July 2015. We also set out the adjustments to the financial statements arising from our audit work and our findings in respect of internal controls.

## **Changes to Audit Plan**

We have not made any changes to our Audit Plan as previously communicated to you.

## **Audit opinion**

Our proposed audit opinion is set out in Appendix B.



# Audit findings against significant risks

"Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, either due to size or nature, and that therefore occur infrequently. Judgmental matters may include the development of accounting estimates for which there is significant measurement uncertainty" (ISA (UK&I) 315).

In this section we detail our response to the significant risks of material misstatement which we identified in the Audit Plan. As we noted in our plan, there are two presumed significant risks which are applicable to all audits under auditing standards.

	Risks identified in our audit plan	Work completed	Assurance gained and issues arising
1.	<p><b>Improper revenue recognition</b></p> <p>Under ISA (UK&amp;I) 240 there is a presumed risk that revenue may be misstated due to improper recognition</p>	<ul style="list-style-type: none"> <li>• review and testing of revenue recognition policies</li> <li>• testing of material revenue streams</li> <li>• review of unusual significant transactions</li> </ul>	<p>Subject to the satisfactory resolution of outstanding matters summarised on page 5, our audit work has not identified any significant issues in respect of revenue recognition policies. Our testing confirms compliance with the policies.</p> <p>We agreed amendments to the revenue recognition policies in relation to revenue from council tax and business rates.</p>
2.	<p><b>Management override of controls</b></p> <p>Under ISA (UK&amp;I) 240 there is a presumed risk of management over-ride of controls</p>	<ul style="list-style-type: none"> <li>• review of accounting estimates, judgements and decisions made by management</li> <li>• testing of journal entries</li> <li>• review of unusual significant transactions</li> </ul>	<p>Subject to the satisfactory resolution of outstanding matters summarised on page 5, our audit work has not identified any evidence of management override of controls.</p> <p>The findings of our review of journal controls and testing of journal entries has not identified any significant issues. Your system allows journals to be self authorised and our review of all twenty eight self authorised journals has not identified any indication of management override.</p> <p>We set out later in this section of the report our work and findings on key accounting estimates and judgments.</p>

# Audit findings against other risks

In this section we detail our response to the other risks of material misstatement which we identified in the Audit Plan. Recommendations, together with management responses, are attached at Appendix A.



Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
<p><b>Operating expenses</b></p>	<p>Creditors understated or not recorded in the correct period</p>	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> <li>• documented our understanding of processes and key controls over the transaction cycle</li> <li>• undertaken walkthrough of the key controls to assess the whether those controls were in line with our documented understanding</li> <li>• Substantively tested material expenditure streams</li> <li>• Reviewed post year end expenditure for unrecorded liabilities</li> <li>• Substantively tested year end payable balances.</li> </ul>	<p>Subject to the satisfactory resolution of outstanding matters summarised on page 5, our audit work has not identified any significant issues in relation to the risk identified.</p>
<p><b>Employee remuneration</b></p>	<p>Employee remuneration accrual understated</p>	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> <li>• documented our understanding of processes and key controls over the transaction cycle</li> <li>• undertaken walkthrough of the key controls to assess the whether those controls were in line with our documented understanding</li> <li>• Substantively tested payroll payments</li> <li>• Tested the year end reconciliation of payroll expenditure</li> <li>• Tested senior officer remuneration and significant exit packages</li> </ul>	<p>Subject to the satisfactory resolution of outstanding matters summarised on page 5, our audit work has not identified any significant issues in relation to the risk identified.</p>

# Significant matters discussed with management




	Significant matter	Commentary
1.	Business conditions affecting you, and business plans and strategies that may affect the risks of material misstatement	<p>We reviewed:</p> <ul style="list-style-type: none"> <li>• your assessment of whether you are a going concern</li> <li>• your financial plans for 2015/16 and future years.</li> </ul> <p>We have confirmed that your assessment, that you are a going concern, is reasonable.</p>

# Accounting policies, estimates & judgements



In this section we report on our consideration of accounting policies, in particular revenue recognition policies, and key estimates and judgements made and included with in your financial statements.

Accounting area	Summary of policy	Comments	Assessment
<b>Revenue recognition</b>	<ul style="list-style-type: none"> <li>Activity is accounted for in the year that it takes place, as set out in detail on page 11 of your financial statements.</li> </ul>	<ul style="list-style-type: none"> <li>Amendments were agreed to accounting policy to clarify the revenue recognition for council tax and business rates. The amended disclosure is in line with the requirement of the Code.</li> <li>Subject to the satisfactory resolution of outstanding matters summarised on page 5, our testing of material income and expenditure streams has not identified any instances of inappropriate revenue recognition.</li> </ul>	 <b>(Amber)</b>
<b>Estimates and judgements</b>	<p>Key estimates and judgements include:</p> <ul style="list-style-type: none"> <li>provisions and allowance for bad debt</li> <li>accruals and prepayments</li> <li>actuarial valuations of the pension fund under IAS19</li> <li>PPE valuations, impairment and depreciation (see separate section below)</li> </ul>	<ul style="list-style-type: none"> <li>Judgements and estimates have been disclosed appropriately and adequately. These disclosures detail the level of judgement used and the extent of judgement involved.</li> <li>Subject to the satisfactory resolution of outstanding matters summarised on page 5, no evidence has been identified during our audit to suggest management has not exercised appropriate and reasonable judgement.</li> </ul>	 <b>(Green)</b>

## Assessment

-  Marginal accounting policy which could potentially attract attention from regulators (Red)
-  Accounting policy appropriate but scope for improved disclosure (Amber)
-  Accounting policy appropriate and disclosures sufficient (Green)

# Accounting policies, estimates & judgements continued

Accounting area	Summary of policy	Comments	Assessment
<b>Going concern</b>	You have a reasonable expectation that the services provided by you will continue for the foreseeable future. For this reason, you continue to adopt the going concern basis in preparing the financial statements.	We have reviewed your assessment and are satisfied with your assessment that the going concern basis is appropriate for the 2014/15 financial statements.	 <b>(Green)</b>
<b>Other accounting policies</b>	We have reviewed your policies against the requirements of the CIPFA Code and accounting standards.	Our review of accounting policies has not highlighted any issues which we wish to bring to your attention	 <b>(Green)</b>

**Assessment**

● Marginal accounting policy which could potentially attract attention from regulators (Red)

● Accounting policy appropriate but scope for improved disclosure (Amber)

● Accounting policy appropriate and disclosures sufficient (Green)

# Accounting policies, Estimates & Judgements– review of issues raised in prior year

	Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
1.	X	<p><b>Estimates and judgements - Property, Plant &amp; Equipment</b></p> <p>Last year we noted that you carry out a rolling programme of revaluations, with the date of the valuations varying over four years. This approach was similar to many other authorities and we were satisfied that you had satisfied yourselves that the carrying amount of Property, Plant and Equipment (based on these valuations) did not differ materially from the fair value at 31 March 2014.</p> <p>However, in our view this rolling programme did not meet the Code's requirement to value items within a class of property , plant and equipment simultaneously, as this Code requirement, which is based on IAS 16 Property, Plant and Equipment, only permits a class of assets to be revalued on a rolling basis provided that:</p> <ul style="list-style-type: none"> <li>the revaluation of the class of assets is completed within a 'short period'</li> <li>the revaluations are kept up to date.</li> </ul> <p>In our view, we would normally expect this 'short period' to be within a single financial year. This is because the purpose of simultaneous valuations is to 'avoid reporting a mixture of costs and values as at different dates'. This purpose is not met where a revaluation programme for a class of assets straddles more than one financial year.</p>	<p>Page 21 of the accounts sets out your policy of a four year rolling programme of revaluations. In our view this rolling programme continues to not meet the Code requirements.</p> <p>You undertook your assessment that the carrying amount of Property, Plant and Equipment did not differ materially from the fair value at 31 March 2015 during the audit. The difference between your carrying value and fair value increased over the previous year. If this trend continues, there is the potential that the difference may become material in future years.</p> <p>You should undertake a robust comparison of your carrying value to your fair value for future years with sufficient time to allow additional valuations if required should the difference be material.</p> <p>You have recognised the issue with your asset management system and it is included within your Annual Governance Statement action plan.</p>

**Assessment**  
 ✓ Action completed  
 X Not yet addressed

## Other communication requirements

We set out below details of other matters which we are required by auditing standards to communicate to those charged with governance.




	Issue	Commentary
1.	<b>Matters in relation to fraud</b>	<ul style="list-style-type: none"> <li>We have previously discussed the risk of fraud with both the Director of Finance and the Chair of the Audit Committee.</li> </ul>
2.	<b>Matters in relation to laws and regulations</b>	<ul style="list-style-type: none"> <li>We are not aware of any significant incidences of non-compliance with relevant laws and regulations.</li> </ul>
3.	<b>Written representations</b>	<ul style="list-style-type: none"> <li>A letter of representation has been requested from you.</li> </ul>
4.	<b>Disclosures</b>	<ul style="list-style-type: none"> <li>Our review found no non-trivial omissions in the financial statements. Amendments were made to enhance the quality of the disclosures.</li> </ul>
5.	<b>Matters in relation to related parties</b>	<ul style="list-style-type: none"> <li>We identified one related party transactions which had not been disclosed and agreed an amendment.</li> </ul>
6.	<b>Confirmation requests from third parties</b>	<ul style="list-style-type: none"> <li>We obtained direct confirmations from the PWLB and UBS for loans and requested from you permission to send confirmation requests to Investec, Morgan Stanley, Nat West, Goldman Sachs, Barclays and Lloyds for bank and investment balances. This permission was granted and the requests were sent. All confirmations were received.</li> </ul>

# Internal controls



The purpose of an audit is to express an opinion on the financial statements.

Our audit included consideration of internal controls relevant to the preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control. We considered and walked through the internal controls for Employee Remuneration and Operating Expenses as set out on page [...] above.

The matters that we identified during the course of our audit are set out in the table below. These and other recommendations, together with management responses, are included in the action plan attached at Appendix A.

	Assessment	Issue and risk	Recommendations
1.	 (Amber)	<ul style="list-style-type: none"> <li>Your Property, Plant and Equipment asset system needs improvement. The issues identified during the audit were:                             <ul style="list-style-type: none"> <li>£633k of equipment assets were in use but the invoices supporting the carrying value were no longer available</li> <li>£85k of equipment assets were no longer in use and should be written off</li> <li>Asset lives recorded in the system differed from those used in the valuer's report</li> <li>Depreciation was incorrectly applied before the revaluation of 1 April 2014.</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>As noted in your Annual Governance Statement action plan, you should review your asset management system.</li> </ul>
2.	 (Amber)	<ul style="list-style-type: none"> <li>One Accountancy team member has the ability to both initiate and then self-authorise purchase orders. There is a risk that fictitious purchase orders could be raised. We have reviewed all purchase orders made by this person and did not identify any untoward purchase orders raised.</li> </ul>	<ul style="list-style-type: none"> <li>You should consider amending the access rights to prevent purchase orders being initiated and authorised by the same person.</li> </ul>
3.	 (Amber)	<ul style="list-style-type: none"> <li>Your Principal Accountants can self-authorise journals and 28 journals were self-authorized during the year. There is a risk that journals which are posted and authorised by the same person may contain errors. Our review of all 28 self-authorized journals did not identify any indication of fraud or error.</li> </ul>	<ul style="list-style-type: none"> <li>You should establish controls that reduce the number and significance of journals which are self-authorized.</li> </ul>

## Assessment

-  Significant deficiency – risk of significant misstatement (Red)
-  Deficiency – risk of inconsequential misstatement (Amber)



# Internal controls – review of issues raised in prior year

	Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
1.	X	<ul style="list-style-type: none"> <li>Our audit identified a small number of areas where you could consider making minor improvements to security access settings within your general ledger system.</li> </ul>	<ul style="list-style-type: none"> <li>Officers agreed to review these recommendations and evaluate whether there are sufficient controls in place to mitigate risks identified. The review remains on-going.</li> </ul>
2.	✓	<ul style="list-style-type: none"> <li>Seven journals did not display the name of the authoriser as the authoriser had left the Council and had been removed from the system. The removal of the authoriser in this way left gaps in the audit trail.</li> </ul>	<ul style="list-style-type: none"> <li>No instances were identified in our 2014/15 audit.</li> </ul>
3.	X	<ul style="list-style-type: none"> <li>The Fixed Assets Register applied depreciation before the revaluation which was as at 1 April 2013. The revalued assets were depreciated on the basis of their previous value. The difference was not significant in 2013/14 however the difference may be significant in another year.</li> </ul>	<ul style="list-style-type: none"> <li>See note on page 16.</li> </ul>
4.	X	<ul style="list-style-type: none"> <li>The listing to support the Creditors balance includes £391k of suspense accounts. Testing of a sample of these balances identified that the amounts were not suspense items. It is not considered good practice to hold suspense amounts at the year end.</li> </ul>	<ul style="list-style-type: none"> <li>Due to a structural issue with your general ledger the heading of 'suspense accounts' remains within the Creditors balance.</li> </ul>

**Assessment**

- ✓ Action completed
- X Not yet addressed

## Unadjusted misstatements

The table below provides details of adjustments identified which we request be processed but which have not been made within the final set of financial statements. The Audit Committee is required to approve management's proposed treatment of all items recorded within the table below:

Detail	Comprehensive Income and Expenditure Account £'000	Balance Sheet £'000	Reason for not adjusting
1 Equipment assets with no invoices to support the valuation	633	(633)	Invoices are retained according to corporate document retention policies. Assets remain in use beyond this timeframe.
3 Audit estimation of fair value differs from carrying value	-	1,100	The audit estimation include inherent uncertainty. Revised approach considered for 2015/16.
4 Equipment assets no longer in use which should have been written off	85	(85)	It will be amended during 2015/16
<b>Overall impact</b>	<b>£808</b>	<b>£382</b>	

## Misclassifications & disclosure changes

The table below provides details of misclassification and disclosure changes identified during the audit which have been made in the final set of financial statements.

Adjustment type	Value £'000	Account balance	Impact on the financial statements
1 Minor typographical, presentation and disclosure and amendments.	NA	Various	Impact on Disclosure notes only.
2 Disclosure <ul style="list-style-type: none"> <li>• Amounts included incorrectly for Council Tax and Business Rates</li> <li>• Update to show reconciliation of financial instruments to the balance sheet</li> <li>• Update to clarify the disclosure for treasury limits</li> </ul>	319  NA  NA	Financial instruments disclosure note	Impact on Disclosure note only. No impact on net book value at 31 March 2015.
3 Disclosure updated for omitted related party	8	Related party	Impact on Disclosure note only. No impact on net book value at 31 March 2015.
4 Disclosure <ul style="list-style-type: none"> <li>• Update for council tax and business rates revenue recognition</li> <li>• Update for provisions</li> </ul>	NA	Accounting policies	Impact on Disclosure note only.
5 Disclosure updated for revaluation method	NA	Note 6 – Property, Plant and Equipment	Impact on Disclosure note only.

---

## Section 3: Value for Money

01. Executive summary

02. Audit findings

**03. Value for Money**

04. Fees, non-audit services and independence

05. Communication of audit matters

# Value for Money

## Value for money conclusion

The Code of Audit Practice 2010 (the Code) describes the Council's responsibilities to put in place proper arrangements to:

- secure economy, efficiency and effectiveness in its use of resources;
- ensure proper stewardship and governance; and
- review regularly the adequacy and effectiveness of these arrangements.

We are required to give our VfM conclusion based on two criteria specified by the Audit Commission which support our reporting responsibilities under the Code.

These criteria are:

**The Council has proper arrangements in place for securing financial resilience** - the Council has robust systems and processes to manage effectively financial risks and opportunities, and to secure a stable financial position that enables it to continue to operate for the foreseeable future.

**The Council has proper arrangements for challenging how it secures economy, efficiency and effectiveness** - the Council is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.

## Key findings

### Securing financial resilience

We have undertaken a review which considered your arrangements against the three expected characteristics of proper arrangements as defined by the Audit Commission:

- Financial governance;
- Financial planning; and
- Financial control.

Overall our work confirmed that you have proper arrangements in place for financial governance and financial control. Your arrangements for financial planning remain robust. You could, however, enhance your medium term financial strategy with a sensitivity analysis of your assumptions. You achieved your financial performance measures and you have arrangements in place to secure financial resilience. Our work included:

- an assessment of your financial performance during the year and its impact on your financial health
- a review of your medium term financial plans covering financial forecasting, planning assumptions and the robustness of future savings plans
- a review of your investment plans, specifically the use of property funds and reserves
- review of on-going arrangements to strengthen budget setting and monitoring
- a follow up review of compliance with the Reserves Policy
- a follow up review on progress made on significant control gaps identified in your prior year Annual Governance Statement

### Challenging economy, efficiency and effectiveness

We have considered your arrangements to challenge economy, efficiency and effectiveness against the following themes:

- Prioritising resources
- Improving efficiency & productivity

Overall our work confirmed that you have proper arrangements in place to challenge economy, efficiency and effectiveness. Our work included:

- review of your interim Chief Executive arrangements and your arrangements to appoint a new Chief Executive
- a follow up review on strategic initiatives in place, such as shared services

## Overall VfM conclusion

On the basis of our work, and having regard to the guidance on the specified criteria published by the Audit Commission, we are satisfied that in all significant respects you have proper arrangements in place to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2015

We set out below our detailed findings against six risk areas which have been used to assess the Council's performance against the Audit Commission's criteria. We summarise our assessment of each risk area using a red, amber or green (RAG) rating, based on the following definitions:

<b>Green</b>	Adequate arrangements
<b>Amber</b>	Adequate arrangements, with areas for development
<b>Red</b>	Inadequate arrangements

The table below and overleaf summarises our overall rating for each of the themes reviewed:

Theme	Summary findings	RAG rating
<b>Key indicators of performance</b>	You have delivered an underspend of £1.8 million. Within this there are services with overspends which have been managed through other underspends and additional income sources. Although overall you have an underspend, you need to continue to focus on budget management to ensure you remain in an underspend position if additional income sources do not materialise in future years.	<b>Green</b>
<b>Strategic financial planning</b>	Your medium-term financial strategy (MTFS) remains robust and supports decision-making by quantifying the potential budget gap from 2017/18. Your savings requirement is relatively small and your budget gap of unidentified savings is £0.029 million in 2017/18 and £0.270 million in 2018/19. Your MTFS is supported by assumptions which you have updated and you have undertaken a 'stress test' to aid understanding the risk within the MTFS.	<b>Green</b>
<b>Financial governance</b>	You have continued to maintain your sound arrangements for financial governance with regular reporting to the Executive. In 2014/15 you remained within your reserves policy. In 2013/14 you exceeded your maximum reserve policy. In 2014/15 the maximum reserves policy was £5.479 million and the outturn reserves position was £5.167 million.  Supporting your Annual Governance Statement is an action plan to address internal control weaknesses. In 2013/14 the action plan contained eleven areas of which all matters have been addressed except three areas where progress has been made, but not fully completed.	<b>Green</b>

The table continued:

Theme	Summary findings	RAG rating
<b>Financial control</b>	<p>During 2014/15 you have continued to develop your budget setting arrangements to move to an outcomes based budgeting system that commenced in June 2015 for the 2016/17 budget.</p> <p>Internal Audit continued to deliver 100% of its reports for 2014/15. (p7) and continued to meet its performance standard (p9). We note that your internal auditors have made several recommendations for improvements of your core financial systems. None of these recommendations are rated high priority and therefore there is no indication of a fundamental weakness or lack of control around core financial systems. Accordingly, we do not consider that these present a material risk to our VFM conclusion. Notwithstanding this, management should, of course, ensure the matters raised by internal audit are addressed.</p>	<b>Green</b>
<b>Prioritising resources</b>	<p>Your Treasury Management Strategy allows you to invest in Property Funds. You have identified that investment income is increased through the use of Property Funds. Early indications (after three months) suggest your investment income exceeds 8% for property funds compared with 4% for money market funds and 1.4% for monies held at the bank.</p> <p>Your Chief Executive retired in May 2015 and you established arrangements to continue to deliver services and statutory functions. You moved quickly to recruit a replacement and established a Chief Executive Recruitment Committee which met on three occasions during June 2015 to agree the candidate list, to interview the short-listed candidates and to recommend an appointment.</p>	<b>Green</b>
<b>Improving efficiency &amp; productivity</b>	<p>You have made progress in implementing shared services and extended your internal audit shared services to include fraud. You have also developed a business case for joint working with North Herts District Council on waste management, which analyses the potential for financial savings and efficiencies.</p>	<b>Green</b>

---

## Section 4: Fees, non-audit services and independence

01. Executive summary

02. Audit findings

03. Value for Money

**04. Fees, non-audit services and independence**

05. Communication of audit matters



# Fees, non-audit services and independence

We confirm below our final fees charged for the audit.

## Fees

	Per Audit plan £	Actual fees £
Council audit	69,775	69,775
Grant certification on behalf of Audit Commission	7,940	Tbc
<b>Total audit fees</b>	<b>77,715</b>	<b>tbc</b>

Our grant certification audit is on-going and the actual fees will be confirmed on completion.

## Independence and ethics

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Financial Reporting Council's Ethical Standards and therefore we confirm that we are independent and are able to express an objective opinion on the financial statements.

We confirm that we have implemented policies and procedures to meet the requirements of the Auditing Practices Board's Ethical Standards.

---

## Section 5: Communication of audit matters

01. Executive summary

02. Audit findings

03. Value for Money

04. Fees, non-audit services and independence

05. Communication of audit matters

# Communication of audit matters to those charged with governance

International Standard on Auditing ISA (UK&) 260, as well as other (UK&I) ISAs, prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table opposite.

The Audit Plan outlined our audit strategy and plan to deliver the audit, while this Audit Findings report presents the key issues and other matters arising from the audit, together with an explanation as to how these have been resolved.

## Respective responsibilities

The Audit Findings Report has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission ([www.audit-commission.gov.uk](http://www.audit-commission.gov.uk)).

We have been appointed as the Council's independent external auditors by the Audit Commission, the body responsible for appointing external auditors to local public bodies in England. As external auditors, we have a broad remit covering finance and governance matters.

Our annual work programme is set in accordance with the Code of Audit Practice (the Code) issued by the Audit Commission and includes nationally prescribed and locally determined work. Our work considers the Council's key risks when reaching our conclusions under the Code.

It is the responsibility of the Council to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Council is fulfilling these responsibilities.

Our communication plan	Audit Plan	Audit Findings
Respective responsibilities of auditor and management/those charged with governance	✓	
Overview of the planned scope and timing of the audit. Form, timing and expected general content of communications	✓	
Views about the qualitative aspects of the entity's accounting and financial reporting practices, significant matters and issues arising during the audit and written representations that have been sought		✓
Confirmation of independence and objectivity	✓	✓
A statement that we have complied with relevant ethical requirements regarding independence, relationships and other matters which might be thought to bear on independence. Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged Details of safeguards applied to threats to independence	✓	✓
Material weaknesses in internal control identified during the audit		✓
Identification or suspicion of fraud involving management and/or others which results in material misstatement of the financial statements		✓
Compliance with laws and regulations		✓
Expected auditor's report		✓
Uncorrected misstatements		✓
Significant matters arising in connection with related parties		✓
Significant matters in relation to going concern		✓

# Appendices

# Appendix A: Action plan

Rec No.	Recommendation	Priority	Management response	Implementation date & responsibility
1	As noted in your Annual Governance Statement action plan, you should review your asset management system.	Medium	Officers are reviewing our asset management system in line with the deadline commitment in the Annual Governance Statement.	Director of Finance and Support Services 31 March 2016
2	You should consider amending the access rights to prevent purchase orders being initiated and authorised by the same person.	Low	Officers will review this recommendation and evaluate whether there are sufficient controls in place to mitigate risks identified as the IT system is not able to restrict access rights in this regard.	Director of Finance and Support Services 31 March 2016
3	You should establish controls that reduce the number and significance of journals which are self-authorised.	Low	Officers will review processes to ensure that self-authorised journals are minimised.	Director of Finance and Support Services 31 March 2016

# Appendix B: Audit opinion

**We anticipate we will provide you with an unmodified audit report**

## **INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF EAST HERTFORDSHIRE DISTRICT COUNCIL**

We have audited the financial statements of East Hertfordshire District Council for the year ended 31 March 2015 under the Audit Commission Act 1998. The financial statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement, the Collection Fund and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2014/15.

This report is made solely to the members of East Hertfordshire District Council, as a body, in accordance with Part II of the Audit Commission Act 1998 and as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010. Our audit work has been undertaken so that we might state to the members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

### **Respective responsibilities of the Director of Finance and Support Services and auditor**

As explained more fully in the Statement of the Director of Finance and Support Services Responsibilities, the Director of Finance and Support Services is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2014/15, and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards also require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

### **Scope of the audit of the financial statements**

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Authority's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Director of Finance and Support Services; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the explanatory foreword to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

### **Opinion on financial statements**

In our opinion the financial statements: give a true and fair view of the financial position of East Hertfordshire District Council as at 31 March 2015 and of its expenditure and income for the year then ended; and have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2014/15 and applicable law.

### **Opinion on other matters**

In our opinion, the information given in the explanatory foreword for the financial year for which the financial statements are prepared is consistent with the financial statements.

### **Matters on which we report by exception**

We are required to report to you if: in our opinion the annual governance statement does not reflect compliance with 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007; or we issue a report in the public interest under section 8 of the Audit Commission Act 1998; or we designate under section 11 of the Audit Commission Act 1998 a recommendation as one that requires the Authority to consider it at a public meeting and to decide what action to take in response; or we exercise any other special powers of the auditor under the Audit Commission Act 1998.

We have nothing to report in these respects.

**Conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in the use of resources**

**Respective responsibilities of the Authority and the auditor**

The Authority is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

We are required under Section 5 of the Audit Commission Act 1998 to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires us to report to you our conclusion relating to proper arrangements, having regard to relevant criteria specified by the Audit Commission in October 2014.

We report if significant matters have come to our attention which prevent us from concluding that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

**Scope of the review of arrangements for securing economy, efficiency and effectiveness in the use of resources**

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission in October 2014, as to whether the Authority has proper arrangements for:  
securing financial resilience; and  
challenging how it secures economy, efficiency and effectiveness.

The Audit Commission has determined these two criteria as those necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2015.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to form a view on whether, in all significant respects, the Authority had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

**Conclusion**

On the basis of our work, having regard to the guidance on the specified criteria published by the Audit Commission in October 2014, we are satisfied that, in all significant respects, East Hertfordshire District Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2015.

**Certificate**

We certify that we have completed the audit of the financial statements of East Hertfordshire District Council in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission.

[Signature]

Paul Grady  
for and on behalf of Grant Thornton UK LLP, Appointed Auditor

Grant Thornton House, Melton Street, London, NW1P 2EP

[Date] September 2015



© 2015 Grant Thornton UK LLP. All rights reserved.

'Grant Thornton' means Grant Thornton UK LLP, a limited liability partnership.

Grant Thornton is a member firm of Grant Thornton International Ltd (Grant Thornton International). References to 'Grant Thornton' are to the brand under which the Grant Thornton member firms operate and refer to one or more member firms, as the context requires. Grant Thornton International and the member firms are not a worldwide partnership. Services are delivered independently by member firms, which are not responsible for the services or activities of one another. Grant Thornton International does not provide services to clients.

**[grant-thornton.co.uk](http://grant-thornton.co.uk)**