

# East Hertfordshire District Council

Audit Results Report - ISA (UK and Ireland) 260  
for the year ended 31 March 2016

15 September 2016

Ernst & Young LLP



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In April 2015 Public Sector Audit Appointments Ltd (PSAA) issued “Statement of responsibilities of auditors and audited bodies 2015-16”. It is available from the Chief Executive of each audited body and via the PSAA website ([www.psaa.co.uk](http://www.psaa.co.uk))

The Statement of responsibilities serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas.

The ‘Terms of Appointment from 1 April 2015’ issued by PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and statute, and covers matters of practice and procedure which are of a recurring nature.

This Audit Results Report is prepared in the context of the Statement of responsibilities. This report is intended solely for the use of the Members of the audited body. We, as appointed auditor, take no responsibility to any third party.

Our Complaints Procedure – If at any time you would like to discuss with us how our service to you could be improved, or if you are dissatisfied with the service you are receiving, you may take the issue up with your usual partner or director contact. If you prefer an alternative route, please contact Steve Varley, our Managing Partner, 1 More London Place, London SE1 2AF. We undertake to look into any complaint carefully and promptly and to do all we can to explain the position to you. Should you remain dissatisfied with any aspect of our service, you may of course take matters up with our professional institute. We can provide further information on how you may contact our professional institute.

## 1. Executive summary

The National Audit Office's Code of Audit Practice (the Code) requires us to report to those charged with governance – the Audit and Governance Committee – on the work we have carried out to discharge our statutory audit responsibilities together with any governance issues identified. This report summarises the findings from the 2015/16 audit which is substantially complete. It includes messages arising from our audit of your financial statements and the results of the work we have undertaken to assess your arrangements to secure economy, efficiency and effectiveness in your use of resources.

Below are the results and conclusions on the significant areas of the audit process as at the date of drafting this report.

<b>Status of the audit</b>	<p>We have substantially completed our audit of the financial statements of East Hertfordshire District Council for the year ended 2015/16. Subject to satisfactory completion of the following remaining items included in Appendix C we will issue an audit opinion in the form which appears in Appendix F.</p> <p>Based on the procedures we have performed to date, as outlined in our Audit Plan, we anticipate issuing an unqualified opinion on the Authority's financial statements.</p> <p>We still finalising our work in relation to one aspect of your value for money arrangements, but expect to conclude that you have put in place proper arrangements to secure value for money in your use of resources.</p> <p>It is expected that the Council will be below the materiality threshold set by the National Audit Office (NAO) for the Whole of Government Accounts return. We are therefore not expecting to have to complete any procedures related to this, other than confirming that the Council is below the threshold.</p> <p>We expect to issue the audit certificate at the same time as the audit opinion.</p>
<b>Audit differences</b>	<p>We have not identified any unadjusted audit differences within the draft financial statements which management have chosen not to amend.</p> <p>Our audit identified some minor misstatements which our team have highlighted to management for amendment. These have been corrected during the course of our work. We do not consider any of these to be significant and they have not impacted on useable reserves. We have therefore not provided further details of these amendments in this report.</p>
<b>Scope and materiality</b>	<p>In our Audit Plan presented at the 16 March 2016 Audit and Governance Committee meeting, we communicated that our audit procedures would be performed using a materiality of £1.5 million. We have reassessed this based on the actual results for the financial year and have increased this amount to £1.744 million. The difference results from an increase in gross expenditure in the cost of services from £75.770 million in 2014/15 to £87.199million in 2015/16.</p> <p>The threshold for reporting audit differences which impact the financial statements has also increased as a result from £0.075 million to £0.087 million.</p> <p>The basis of our assessment of materiality is 2% of gross operating expenditure, which has remained consistent with prior years.</p>

We also identified the following areas where misstatement at a level lower than our overall materiality level might influence the reader. For these areas we developed an audit strategy specific to these areas. The areas identified and audit strategy applied include:

- **Remuneration disclosures including any severance payments, exit packages and termination benefits.** We checked the bandings reported in the financial statements, tested the completeness of the disclosures and confirmed that the disclosures made were compliant with the Code of Practice. We agreed transactions back to the payroll system and supporting documentation.
- **Related party transactions.** Our audit strategy was to obtain and review declarations from senior officers and members of the Council for any material disclosures and ensure that the disclosure was compliant with the Code. To test the completeness of the disclosure, we carried out a sample check of contracts from the Council's contract register to Companies House records to identify whether any key decision-makers in the Council had an interest in the company.

We carried out our work in accordance with our Audit Plan. We did not identify any issues.

#### Significant audit risks

We identified the following audit risk during the planning phase of our audit, and reported this to you in our audit plan:

- Risk of management override.

The 'addressing audit risks' section of this report sets out how we have gained audit assurance over this issue.

We also identified significant risks to our value for money conclusion in relation to:

- Sustainable resource deployment: Achievement of savings needed over the medium term; and
- Informed decision making: Purchase of Old River Lane.

Since issuing our Audit Plan in March 2016, we have identified an additional significant risk to the value for money conclusion in relation to:

- Sustainable resource deployment: Weaknesses in the Council's arrangements for procuring supplies and services.

#### Other reporting issues

We wish to report the following matters:

- Management did not publish the Annual Governance Statement and Narrative Report for public viewing along with the Statement of Accounts. The Council was therefore not fully compliant with the requirements of the Accounts and Audit Regulations in relation to the documents to be published in advance of the commencement of the period for the exercise of public rights of inspection.
- The Council published its financial statements on its website in time for the public inspection period beginning 30 June 2016.

#### Control observations

We have adopted a fully substantive approach and have therefore not tested the operation of controls.

We would like to take this opportunity to thank the Council's staff for their assistance during the course of our work. In particular, we would like to thank the Council for their flexibility in rescheduling the audit timetable to enable us to effectively manage the impact of a change in our Audit Manager part way through the audit.

**Debbie Hanson**

For and on behalf of Ernst & Young LLP, Appointed Auditor

Luton

September 2016

## 2. Responsibilities and purpose of our work

### The Council's responsibilities

The Council is responsible for preparing and publishing its Statement of Accounts, accompanied by the Annual Governance Statement (AGS). In the AGS, the Council reports publicly on the extent to which it complies with its own code of governance, including how it has monitored and evaluated the effectiveness of its governance arrangements in the year, and on any planned changes in the coming period.

The Council is also responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

### Purpose of our work

Our audit was designed to:

- Express an opinion on the 2015/16 financial statements and the consistency of other information published with them;
- Report on an exception basis on the Annual Governance Statement;
- Consider and report any matters that prevent us being satisfied that the Council had put in place proper arrangements for securing economy, efficiency and effectiveness in the use of resources (the value for money conclusion); and
- Discharge our statutory duties and responsibilities as established by the Local Audit and Accountability Act 2014 and Code of Audit Practice.

In addition, this report contains our findings related to the areas of audit emphasis and any views on significant deficiencies in internal control or the Council's accounting policies and key judgments.

Alongside our work on the financial statements, we also review and report to the National Audit Office on your Whole of Government Accounts return. The extent of our review and the nature of our report are specified by the National Audit Office.

### 3. Financial statements audit

#### Addressing audit risks

We identified the following audit risks during the planning phase of our audit, and reported these to you in our Audit Plan. Here, we set out how we have gained audit assurance over those issues.

A significant audit risk in the context of the audit of the financial statements is an inherent risk with both a higher likelihood of occurrence and a higher magnitude of effect should it occur and which requires special audit consideration. For significant risks, we obtain an understanding of the entity's controls relevant to each risk and assess the design and implementation of the relevant controls.

Significant Risks (including fraud risks)	Audit procedures performed	Assurance gained and issues arising
<p><b>Risk of management override</b></p> <p>As identified in ISA (UK and Ireland) 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. We identify and respond to this fraud risk on every audit engagement.</p> <p>For local authorities the potential for the incorrect classification of revenue spend as capital is a particular area where there is a risk of management override.</p>	<ul style="list-style-type: none"> <li>We tested the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements. Our work on this area is still in progress.</li> <li>We reviewed accounting estimates for evidence of management bias covering property, plant and equipment, pension liability and business rates appeals provision;</li> <li>Evaluated the business rationale for any significant unusual transactions; and</li> <li>Reviewed capital expenditure on property, plant and equipment to ensure it meets the relevant accounting requirements to be capitalised.</li> </ul>	<p>We did not identify any material misstatements, evidence of management bias or significant unusual transactions in our testing.</p> <p>Our review of accounting estimates did not identify any evidence of management bias.</p> <p>We identified some areas for improvement in the procedures for the instruction of internal and external valuers in respect of material valuation estimates to support the financial statements for property, plant and equipment. Management should look to strengthen these arrangements in future years.</p> <p>Our testing did not identify any expenditure which had been inappropriately capitalised.</p>

#### Other matters

As required by ISA (UK&I) 260 and other ISAs specifying communication requirements, we are required to communicate to you significant findings from the audit and other matters that are significant to you oversight of the Council's financial reporting process, including the following:

- Qualitative aspects of your accounting practices; estimates and disclosures;
- Matters specifically required by other auditing standards to be communicated to those charged with governance. For example, issues about fraud, compliance with laws and regulations, external confirmations and related party transactions;
- Any significant difficulties encountered during the audit; and
- Other audit matters of governance interest

We wish to report the following matters:

- The Council brought forward its timetable for the preparation of the financial statements this year in preparation for the earlier close timetable in 2017/18. This is a positive step. There remain



areas where further changes can be made by both the Council and the audit team to prepare for the earlier deadlines for both the production and audit of the accounts in 2017/18. We will continue to work with management to further streamline and improve these processes.

- The Council did not publish its Annual Governance Statement and Narrative Report for public viewing along with the Statement of Accounts in advance of the public inspection period beginning on 30 June 2016. The Accounts and Audit Regulations 2015, require that the Responsible Finance Officer (on behalf of the Council) must publish the Statement of Accounts, Annual Governance Statement and Narrative Statement in advance of the commencement of the period for the exercise of public rights of inspection of the accounts. The Council has therefore not fully complied with the requirements of the Accounts and Audit Regulations. The Council should ensure that in future years the publication of the accounts and additional documents is fully compliant with these statutory requirements.

## Control themes and observations

It is the responsibility of the Council to develop and implement systems of internal financial control and to put in place proper arrangements to monitor their adequacy and effectiveness in practice. Our responsibility as your auditor is to consider whether the Council has put adequate arrangements in place to satisfy itself that the systems of internal financial control are both adequate and effective in practice.

We have adopted a fully substantive approach and have therefore not tested the operation of controls.

We have reviewed the Annual Governance Statement and can confirm that it not misleading or inconsistent with other information forthcoming from the audit or our knowledge of the Council.

## Request for written representations

We have requested a management representation letter to gain management's confirmation in relation to a number of matters, as outlined in Appendix G. In addition to the standard representations, we have requested the following specific representations, for areas where cannot otherwise gain audit assurance:

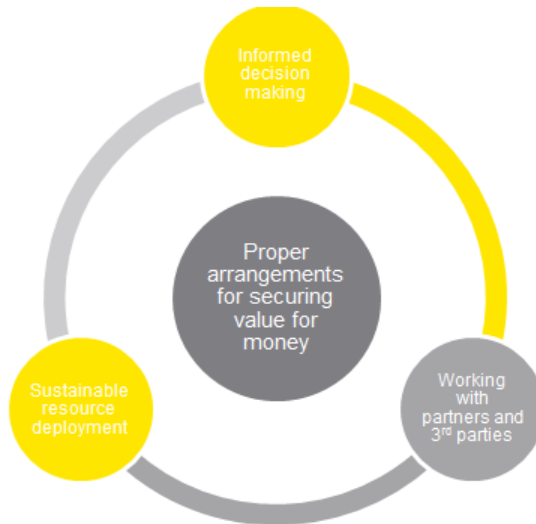
- **Use of a specialist:** We have requested representation that Members and management did not give or cause any instructions to be given to the specialists with respect to the values or amounts derived in an attempt to bias their work, and that Members and management are not otherwise aware of any matters that have had an effect on the independence or objectivity of the specialists;
- **Estimates:** For the estimates for property, plant and equipment, investment properties, pension liabilities and business rate appeals we have requested representation from Members and management that the estimates appropriately reflect their intent and ability to make judgments, estimates and assumptions that affect the amounts reported for assets and liabilities as at the balance sheet date and the amounts reported for the revenue and expenses during the year on behalf of the entity; and
- **Retirement benefits:** We have requested representation from Members and management that the actuarial assumptions underlying the scheme liabilities are consistent with the knowledge Members and management of the business and that all significant retirement benefits and all settlements and curtailments have been identified and properly accounted for.

## Whole of Government Accounts

Alongside our work on the financial statements, we also review and report to the National Audit Office on your Whole of Government Accounts return. The extent of our review and the nature of our report are specified by the National Audit Office.

It is expected that the Council will be below the materiality threshold set by the National Audit Office (NAO) for the Whole of Government Accounts return. We are therefore not expecting to have to complete any procedures related to this, other than confirming that the Council is below the threshold.

## 4. Value for money



We are required to consider whether the Council has put in place 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources. This is known as our value for money conclusion.

Proper arrangements are defined by statutory guidance issued by the National Audit Office. They comprise your arrangements to:

- ▶ Take informed decisions;
- ▶ Deploy resources in a sustainable manner; and
- ▶ Work with partners and other third parties.

### Overall conclusion

We identified the following significant risks in relation to these criteria and reported these in our March 2016 Audit Plan:

- **Sustainable resource deployment:** Achievement of savings needed over the medium term; and
- **Informed decision making:** Governance arrangement for the purchase of Old River Lane.

Since issuing our audit plan in March 2016, we have completed the outstanding areas of our value for money arrangements risk assessment and as a result have identified an additional significant risk in relation to the Council's arrangements for:

- **Sustainable resource deployment:** Arrangements for procuring supplies and services effectively to support the delivery of strategic priorities. The Council did not have contracts with some of their suppliers and did not source sufficient quotes from suppliers for the provision of goods and services.

To address the specific risks we have identified, we have:

- Undertaken a more detailed review of the Council's MTFP and the key assumptions within this. We have also looked at the level and planned use of reserves as well as progress on addressing the budget gaps identified in the current MTFP.
- Reviewed the governance arrangements in relation to the purchase of Old River Lane, along with supporting business plans and reports to Council.
- Reviewed the Council's contract register and assessed its completeness and accuracy, and reviewed a sample of procurements.

As a result of our work, we have concluded that:

- The Council has responded well to the financial challenges it, along with other public sector bodies, is facing. We did not identify any significant weaknesses in the Council's arrangements. We noted that the Council plans to use reserves to help fund the budget gaps over the medium term. While the level of earmarked reserves would remain above the minimum level recommended by the Finance Director, reliance on the use of reserves on an ongoing basis to balance its budget is not a sustainable strategy. Although we recognise that this is part of a short term strategy to manage the current period of transition during which efficiency savings are being identified to provide longer term solutions, this still presents a risk to the Council's future financial sustainability.
- Appropriate governance arrangements are in place regarding the purchase of Old River Lane.
- Our work on reviewing the Council's procurement arrangements is still in progress at this time. We have identified some weaknesses in arrangements, but at present do not believe that these will be of sufficient significance to result on a qualification to our value for money conclusion. We will update the Audit and Governance Committee on the conclusion of this work and our detailed findings at the meeting on 21 September.

We therefore expect to conclude that you have put in place proper arrangements to secure value for money in your use of resources.

We have set out further details of the work we have undertaken and our findings below.

## Significant risks

The table below presents the findings of our work in response to the risk area outlined above.

VFM risk identified	Work undertaken and key findings
<b>Sustainable resource deployment: Achievement of savings needed over the medium term</b>	
<p>Significant cumulative budget gap over the next three years, inclusion of £3 million of New Homes Bonus grant in base budget funding each year and the planned use of reserves to bridge the funding gaps.</p>	<p>We have considered:</p> <ul style="list-style-type: none"> <li>• The adequacy of the Council's budget monitoring process, comparing budget to outturn.</li> <li>• The robustness of any assumptions used in medium term planning.</li> <li>• The Council's approach to prioritising resources whilst maintaining services.</li> <li>• The savings/income plans in place, and assessing the likelihood of whether these plans can provide the Council with the required savings/efficiencies over the medium term.</li> </ul> <p>Our findings are:</p> <ul style="list-style-type: none"> <li>• On the basis of the work we have undertaken we have concluded that the Council are likely to achieve the savings and efficiencies currently identified.</li> <li>• There remains however a cumulative funding gap by 2018/19 of over £2 million for which efficiency savings have not as yet been fully identified or quantified. The Council is currently working on ways to reduce this gap and is developing strategies around waste and leisure and recreation to identify savings as well as ongoing work with the Administration to identify other opportunities. Given the Council's history of delivering savings and a balanced budget, we have concluded that it is likely that savings and efficiencies to bridge this gap will be identified and delivered. In addition, the Council has sufficient reserves that could be applied to bridge any gaps as part of their short term strategy while longer term solutions are identified.</li> <li>• We have considered the Council's budget monitoring arrangements as part of our audit work. July 2016 is early in terms of budget monitoring so details regarding the progress of 2016/17 savings is limited at the moment. However the finance team have done work around this and based on the evidence provided, the Council are on track to deliver the majority of savings and any remaining gap remains within reasonable levels.</li> <li>• Work has also been undertaken by the Leadership Team to identified further savings to reduce the 2017/18 budget gap. While not all options will be viable, actions are being taken and this remains a top priority for senior management.</li> <li>• Progress in bridging the significant funding gap at this stage appears reasonable. Nevertheless, this remains a key challenge for the Council. We have therefore set out further comments on this issue below.</li> </ul>
<b>Informed decision making: Purchase of Old River Lane</b>	
<p>Purchased of a significant investment property in Bishops Stortford. This is a transaction outside the Councils normal activities and needs to be supported by informed decision making and governance arrangements.</p>	<p>Our approach has focused on ensuring the arrangements supporting the acquisition decision were appropriate. We therefore considered:</p> <ul style="list-style-type: none"> <li>• Demonstrate the application of the principles and values of sound governance.</li> <li>• Have used appropriate and reliable financial and performance information to support the decision.</li> <li>• Provide evidence that the risk related to the acquisition have been clearly identified and managed effectively.</li> </ul> <p>Our findings are:</p> <ul style="list-style-type: none"> <li>• The decisions relating to the purchase of Old River Lane are supported by appropriate reports including analysis of financial information</li> <li>• The risks related to the procurement have been identified and are being managed.</li> </ul>
<b>Sustainable resource deployment: Procurement arrangements</b>	

Weaknesses in arrangements for procuring supplies and services effectively to support the delivery of strategic priorities

Our approach is to undertake:

- A detailed review of the quotations sourced for goods and services to determine whether procurement arrangements were appropriate; and
- A review of the suppliers that do not have contracts with the Council to determine the types of services provided and whether or not a contract would be necessary, taking into account the significance of the services provided to the Council.

Our work in this area is still in progress.

Our work to date has identified some weaknesses in arrangements including the lack of a complete and accurate contracts register.

We will report our findings and conclusions in relation to this area to the Audit and Governance Committee at the meeting on 21 September

## Other matters to bring to your attention

As noted above, the Council has continued to respond well to the financial challenges it is facing. The scale of that challenge is however increasing and the level of funding pressures beyond 2016/17 could have a significant impact on the Council's future financial stability. We have set out below further details on how the Council has responded to the challenges it is facing along with our understanding of the current financial position.

### Key findings regarding the Council's financial management and planning

**Current budget gap** – In its updated MTFP issued in February 2016, the Council identified a cumulative funding gap of £2.3 million over the next three years. Bridging this gap to ensure its future financial viability presents a significant challenge for the Council. The Council continues to take proactive steps to identify savings and income generation opportunities. An initial draft of future savings to balance the budget for 2017/18 has been discussed by the Leadership Team. While not all of the potential savings identified will be viable, this demonstrates the actions being taken to bridge the funding gap. Savings are discussed regularly at senior management meetings and are a top priority.

**MTFP and key assumptions** – The MTFP is based on a number of assumptions, including estimates of future levels of Government funding from areas such as Revenue Support Grant (RSG) and the New Homes Bonus (NHB). The reduction of any Government funding source in future years, would present a risk to achievement of the Council's future budgets.

The Council clearly recognises these risks and the MTFP reflects a reduction in RSG of 44% in 2016/17 and 69% year on year in 2017/18, with RSG being phased out entirely by 2018/19. A levy for business rates adjustment has also been included from 2018/19. The NHB included in the MTFP is broadly in line with the confirmed settlements. By the end of the spending review's four year settlement, the Council's grant funding will have fallen by 83% and this is reflected in the budget.

The Council has assumed a 1% per year growth in the council tax base for future years after 2016/17 when no increase in council tax has been included. The council tax freeze grant has also been excluded after 2016/17.

The business rates retention baseline funding was set at £1.171 million for 2015/16 based on the actual determination. Expected Business rates from 2016/17 range between £1,948 and £1,975 million. No issues were noted here.

A provision for pay and inflation increase of 1% has been made. This seems prudent in light of the Government expectation that pay awards in the public sector be limited to 1% for the next three years. Future levels of general inflation, although currently remaining low, are however, less certain.

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**Reserves and balances** – At the end of 2016, the level of General Fund balance was £5.916 million. This is significant above the recommended minimal level of £3 million. The Council does however plan to use this reserve, with £3.8 million forecast to remain in the reserve and a further £2.1 million allocated to bridge the current funding gap in 2016/17. Future allocations in the MTFP would deplete General Fund reserves during 2018/19 should efficiencies and savings not be identified to bridge the significant funding gaps. The Council is however working on proposals to bridge the funding gap for 2017/18 and beyond.

In addition to the General Fund balance, the Council also has earmarked reserves of £8.3 million. Some of these reserves are allocated towards specific items of spend but not all are specifically allocated and so could be released to support budgets in the short term if needed.

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**Track record of delivering previous budgets and savings** – The Council has a good record of delivering its budget and planned savings. The Council has delivered savings of £0.797 million and £0.108 million in 2012/13 and 2013/14 respectively, while also underspending or breaking even on spend on services. There were no planned savings for 2014/15. This consistent performance indicates that the Council has a sound system of budgetary control.

The outturn position for 2015/16 reported to Executive in June 2016 showed an underspend against Net Cost of Service budgets of £0.433m

As part of the 2016/17 budget, the Council has planned for an underspend of £0.424million.

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## Appendix C – Outstanding matters

The following items relating to the completion of our audit procedures are outstanding at the date of the release of this report

Item	Actions to resolve	Responsibility
Management representation letter	Receipt of signed letter of representation	Management and Audit and Scrutiny Committee
Narrative Statement, Accounts and Annual Governance Statement.	<ul style="list-style-type: none"> <li>• Incorporation of EY review comments on disclosure notes</li> <li>• Approval of accounts by Audit and Scrutiny Committee</li> <li>• Accounts re-certified by the Finance Director</li> </ul>	EY, management and Audit and Scrutiny Committee
Subsequent events review	Completion of the subsequent events procedures to the date of signing the audit report	EY and management
Remaining audit work - opinion	<ul style="list-style-type: none"> <li>• Journal testing;</li> <li>• Income and expenditure testing;</li> <li>• Housing benefits predictive analytical review</li> <li>• Disclosure of related parties;</li> <li>• Completion of minor disclosure notes; and</li> <li>• Completion of Manager and Director review procedures.</li> </ul>	EY
Remaining audit work - value for money conclusion	Finalisation of our review of procurement and contract management arrangements, including sample testing on individual procurements.	EY



## Appendix D – Independence

We confirm there are no changes in our assessment of independence since our confirmation in our Audit Plan dated 2 March 2016.

We complied with the Auditing Practices Board's Ethical Standards for Auditors and the requirements of the Public Sector Audit Appointments Ltd (PSAA)'s Terms of Appointment. In our professional judgement the firm is independent and the objectivity of the audit engagement partner and audit staff has not been compromised within the meaning of regulatory and professional requirements.

We confirm that we are not aware of any relationships that may affect the independence and objectivity of the firm that we are required by auditing and ethical standards to report to you.

We consider that our independence in this context is a matter that should be reviewed by both you and ourselves. It is therefore important that you consider the facts of which you are aware and come to a view. If you wish to discuss any matters concerning our independence, we will be pleased to do so at the forthcoming meeting of the Audit Committee on 21 September 2016.

We confirm that we have met the reporting requirements to the Audit Committee, as 'those charged with governance' under International Standards on Auditing (UK and Ireland) 260 – Communication with those charged with governance. Our communication plan to meet these requirements was set out in our Audit Plan of 2 March 2016.

## Appendix E – Auditor fees

The table below sets out the scale fee and our final proposed audit fees.

Description	Proposed final Fee 2015/16 £	Scale Fee 2015/16 £	Variation comments
<b>Total Audit Fee - Code work</b>	52,331	52,331	Not Applicable
<b>Certification of claims and returns</b>	8,316	8,316	Not Applicable

Our actual fee is in line with the scale fee set by the PSAA at this point in time, subject to satisfactory clearance of the outstanding work.

We confirm we have not undertaken any non-audit work outside of the PSAA's requirements.

## Appendix F – Draft audit report

### Independent auditor's report to the members of East Hertfordshire District Council.

#### Opinion on the Authority's financial statements

We have audited the financial statements of East Hertfordshire District Council for the year ended 31 March 2016 under the Local Audit and Accountability Act 2014. The financial statements comprise the:

- Movement in Reserves Statement;
- Comprehensive Income and Expenditure Statement;
- Balance Sheet;
- Cash Flow Statement;
- The related notes 1 to 39; and
- Collection Fund and related notes 1 to 4.

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 2015/16.

This report is made solely to the members of East Hertfordshire District Council, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and for no other purpose, as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. 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 Responsible Finance Office and auditor

As explained more fully in the Statement of the Responsible Finance Office Responsibilities set out on page 64, the Responsible Finance Office 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 2015/16, 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 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 Finance Director; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Statement of Accounts 2015/16 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 2016 and of its expenditure and income for the year then ended; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16.

## **Opinion on other matters**

In our opinion the information given in the Statement of Accounts 2015/16 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 report to you if:

- in our opinion the annual governance statement is misleading or inconsistent with other information forthcoming from the audit or our knowledge of the Council;
- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014;
- we make written recommendations to the audited body under Section 24 of the Local Audit and Accountability Act 2014;
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014;
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014; or
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014.

We have nothing to report in these respects.

## **Conclusion on East Hertfordshire District Council's arrangements for securing economy, efficiency and effectiveness in the use of resources**

### **Authority's responsibilities**

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.

### **Auditor's responsibilities**

We are required under Section 20(1) (c) of the Local Audit and Accountability Act 2014 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 National Audit Office (NAO) requires us to report to you our conclusion relating to proper arrangements.

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 criterion issued by the Comptroller and Auditor General (C&AG) in November 2015, as to whether East Hertfordshire District Council had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined this criterion as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether East Hertfordshire District Council put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2016.

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, East Hertfordshire District Council 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 issued by the C&AG in November 2015, 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 2016.

### **Certificate**

We certify that we have completed the audit of the accounts of East Hertfordshire District Council in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice issued by the National Audit Office.

### **Debbie Hanson**

For and on behalf of Ernst & Young LLP, Appointed Auditor  
Luton  
September 2016

## Appendix G – Management representation letter

[To be prepared on the entity's letterhead]

[Date]

Debbie Hanson  
Ernst & Young  
400 Capability Green  
Luton  
Bedfordshire  
LU1 3LU

Dear Debbie,

### **East Hertfordshire District Council Letter of Representations**

This letter of representations is provided in connection with your audit of the financial statements of East Hertfordshire District Council (“the Council”) for the year ended 31 March 2016. We recognise that obtaining representations from us concerning the information contained in this letter is a significant procedure in enabling you to form an opinion as to whether the financial statements give a true and fair view of the financial position of East Hertfordshire District Council as of 31 March 2016 and of its income and expenditure for the year then ended in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16.

We understand that the purpose of your audit of our financial statements is to express an opinion thereon and that your audit was conducted in accordance with International Standards on Auditing (UK and Ireland), which involves an examination of the accounting system, internal control and related data to the extent you considered necessary in the circumstances, and is not designed to identify - nor necessarily be expected to disclose - all fraud, shortages, errors and other irregularities, should any exist.

Accordingly, we make the following representations, which are true to the best of our knowledge and belief, having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

#### **A. Financial Statements and Financial Records**

1. We have fulfilled our responsibilities, under the relevant statutory authorities, for the preparation of the financial statements in accordance with [the Accounts and Audit Regulations 2015 and CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16].
2. We acknowledge, as members of management of the Council, our responsibility for the fair presentation of the financial statements. We believe the financial statements referred to above give a true and fair view of the financial position, financial performance (or results of operations) and cash flows of the Council in accordance with [the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16. We have approved the financial statements.
3. The significant accounting policies adopted in the preparation of the financial statements are appropriately described in the financial statements.
4. As members of management of the Council, we believe that the Council has a system of internal controls adequate to enable the preparation of accurate financial statements in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in

the United Kingdom 2015/16, that are free from material misstatement, whether due to fraud or error.

5. We believe that the effects of any unadjusted audit differences, summarised in the accompanying schedule, accumulated by you during the current audit and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the financial statements taken as a whole. We have not corrected these differences identified by and brought to the attention from the auditor because of the reasons specified in the Schedule of Unadjusted Differences.

OR

6. There are no unadjusted audit differences identified during the current audit and pertaining to the latest period presented

## **B. Fraud**

1. We acknowledge that we are responsible for the design, implementation and maintenance of internal controls to prevent and detect fraud.
2. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
3. We have disclosed to you all significant facts relating to any frauds, suspected frauds or allegations of fraud known to us that may have affected the Council (regardless of the source or form and including, without limitation, allegations by “whistle-blowers”), whether involving management or employees who have significant roles in internal control. Similarly, we have disclosed to you our knowledge of frauds or suspected frauds affecting the entity involving others where the fraud could have a material effect on the financial statements. We have also disclosed to you all information in relation to any allegations of fraud or suspected fraud communicated by employees, former employees, analysts, regulators or others, that could affect the financial statements.

## **C. Compliance with Laws and Regulations**

1. We have disclosed to you all identified or suspected non-compliance with laws and regulations whose effects should be considered when preparing the financial statements.

## **D. Information Provided and Completeness of Information and Transactions**

1. We have provided you with:
  - Access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;
  - Additional information that you have requested from us for the purpose of the audit; and
  - Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
2. All material transactions have been recorded in the accounting records and are reflected in the financial statements.
3. We have made available to you all minutes of the meetings of the Council, Policy, Finance and Resources Committee and Audit and Scrutiny Committee or summaries of

actions of recent meetings for which minutes have not yet been prepared held through the to the most recent meeting on the following date: XXX

4. We confirm the completeness of information provided regarding the identification of related parties. We have disclosed to you the identity of the Council's related parties and all related party relationships and transactions of which we are aware, including sales, purchases, loans, transfers of assets, liabilities and services, leasing arrangements, guarantees, non-monetary transactions and transactions for no consideration for the period ended, as well as related balances due to or from such parties at the period end. These transactions have been appropriately accounted for and disclosed in the financial statements.
5. We believe that the significant assumptions we used in making accounting estimates, including those measured at fair value, are reasonable.
6. We have disclosed to you, and the Council has complied with, all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance, including all covenants, conditions or other requirements of all outstanding debt.

#### **E. Liabilities and Contingencies**

1. All liabilities and contingencies, including those associated with guarantees, whether written or oral, have been disclosed to you and are appropriately reflected in the financial statements.
2. We have informed you of all outstanding and possible litigation and claims, whether or not they have been discussed with legal counsel.
3. We have recorded and/or disclosed, as appropriate, all liabilities related litigation and claims, both actual and contingent. There are no guarantees that we have given to third parties.

#### **F. Subsequent Events**

1. As described in Note Vii to the financial statements, there have been no events subsequent to period end which require adjustment of or disclosure in the financial statements or notes thereto.

#### **Representations required in specific circumstances**

#### **G. Use of the Work of a Specialist**

1. We agree with the findings of the specialists that we engaged to evaluate the Property, Plant and Equipment, Investment Properties, Pension Liabilities and business rate appeals and have adequately considered the qualifications of the specialists in determining the amounts and disclosures included in the financial statements and the underlying accounting records. We did not give or cause any instructions to be given to the specialists with respect to the values or amounts derived in an attempt to bias their work, and we are not otherwise aware of any matters that have had an effect on the independence or objectivity of the specialists.

#### **H. Estimates for Property, Plant and Equipment, Investment Properties, Pension Liabilities and Business Rate Appeals**

1. We believe that the measurement processes, including related assumptions and models, used to determine the accounting estimate(s) have been consistently applied and are



appropriate in the context of the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16.

2. We confirm that the significant assumptions used in making the estimates for property, plant and equipment, investment properties, pension liabilities and business rate appeals.
3. The estimates for property, plant and equipment, investment properties, pension liabilities and business rate appeals appropriately reflect our intent and ability to make judgments, estimates and assumptions that affect the amounts reported for assets and liabilities as at the balance sheet date and the amounts reported for the revenue and expenses during the year on behalf of the entity.
4. We confirm that the disclosures made in the financial statements with respect to the accounting estimate(s) are complete and made in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16.
5. We confirm that no adjustments are required to the accounting estimate(s) and disclosures in the financial statements due to subsequent events

#### **I. Retirement Benefits**

1. On the basis of the process established by us and having made appropriate enquiries, we are satisfied that the actuarial assumptions underlying the scheme liabilities are consistent with our knowledge of the business. All significant retirement benefits and all settlements and curtailments have been identified and properly accounted for.

*Yours Sincerely,*

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Finance Director

I confirm that this letter has been discussed and agreed at the Audit and Governance Committee on 21 September 2016

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Chairman of Audit and Governance Committee

## Appendix H – Required communications with the audit committee

There are certain communications that we must provide to the Audit Committee of UK clients. These are detailed here:

Required communication	Reference
<b>Planning and audit approach</b>	
Communication of the planned scope and timing of the audit, including any limitations.	Audit Plan
<b>Significant findings from the audit</b>	
<ul style="list-style-type: none"> <li>▶ Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures</li> <li>▶ Significant difficulties, if any, encountered during the audit</li> <li>▶ Significant matters, if any, arising from the audit that were discussed with management</li> <li>▶ Written representations that we are seeking</li> <li>▶ Expected modifications to the audit report</li> <li>▶ Other matters if any, significant to the oversight of the financial reporting process</li> </ul>	Audit Results Report
<b>Going concern</b>	
Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including:	Audit Results Report
<ul style="list-style-type: none"> <li>▶ Whether the events or conditions constitute a material uncertainty</li> <li>▶ Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements</li> <li>▶ The adequacy of related disclosures in the financial statements</li> </ul>	No conditions or events were identified, either individually or in aggregate, that indicated there could be doubt about East Hertfordshire District Council ability to continue as a going concern for the 12 months from the date of our report.
<b>Misstatements</b>	
<ul style="list-style-type: none"> <li>▶ Uncorrected misstatements and their effect on our audit opinion</li> <li>▶ The effect of uncorrected misstatements related to prior periods</li> <li>▶ A request that any uncorrected misstatement be corrected</li> <li>▶ In writing, corrected misstatements that are significant</li> </ul>	Audit Results Report
<b>Fraud</b>	
<ul style="list-style-type: none"> <li>▶ Enquiries of the audit committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity</li> <li>▶ Any fraud that we have identified or information we have obtained that indicates that a fraud may exist</li> <li>▶ A discussion of any other matters related to fraud</li> </ul>	Audit Results Report We have made enquiries of management. We have not been made aware of any material fraud or illegal acts during our audit.
<b>Related parties</b>	
Significant matters arising during the audit in connection with the entity's related parties including, when applicable:	Audit Results Report
<ul style="list-style-type: none"> <li>▶ Non-disclosure by management</li> <li>▶ Inappropriate authorisation and approval of transactions</li> <li>▶ Disagreement over disclosures</li> <li>▶ Non-compliance with laws and regulations</li> <li>▶ Difficulty in identifying the party that ultimately controls the entity</li> </ul>	We have no matters we wish to report.

Required communication	Reference
<b>External confirmations</b>	
<ul style="list-style-type: none"> <li>▶ Management's refusal for us to request confirmations</li> <li>▶ Inability to obtain relevant and reliable audit evidence from other procedures</li> </ul>	<p>Audit Results Report</p> <p>We have received all requested confirmations.</p>
<b>Consideration of laws and regulations</b>	
<ul style="list-style-type: none"> <li>▶ Audit findings regarding non-compliance where the non-compliance is material and believed to be intentional. This communication is subject to compliance with legislation on tipping off</li> <li>▶ Enquiry of the audit committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the audit committee may be aware of</li> </ul>	<p>Audit Results Report</p> <p>We have not identified any material instances of non-compliance with laws and regulations.</p>
<b>Independence</b>	
<p>Communication of all significant facts and matters that bear on EY's objectivity and independence</p>	<p>Audit Plan and Audit Results Report</p>
<p>Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as:</p>	
<ul style="list-style-type: none"> <li>▶ The principal threats</li> <li>▶ Safeguards adopted and their effectiveness</li> <li>▶ An overall assessment of threats and safeguards</li> <li>▶ Information about the general policies and process within the firm to maintain objectivity and independence</li> </ul>	
<b>Significant deficiencies in internal controls identified during the audit</b>	<p>Annual Audit Letter/Audit Results Report</p>
<b>Fee Information</b>	
<ul style="list-style-type: none"> <li>▶ Breakdown of fee information at the agreement of the initial audit plan</li> <li>▶ Breakdown of fee information at the completion of the audit</li> </ul>	<p>Audit Plan</p> <p>Audit Results Report</p> <p>Annual Audit Letter</p>
<b>Certification work</b>	
<ul style="list-style-type: none"> <li>▶ Summary of certification work undertaken</li> </ul>	<p>Certification Report</p>

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