

North Hertfordshire District Council

Annual Report to Those Charged With Governance (ISA 260)

September 2011



The image shows a handwritten balance sheet on aged paper. The title is "BALANCE SHEET" followed by "1910-11" and "North Hertfordshire District Council". The document is organized into columns and rows, with various financial items listed on the left and their corresponding values on the right. The handwriting is in dark ink, and the paper shows signs of age and wear.

BALANCE SHEET	
1910-11	
North Hertfordshire District Council	
Assets	
Cash	£ 100
Debtors	£ 200
Creditors	£ 100
Reserves	£ 500
Fixed Assets	£ 1,000
Total Assets	£ 1,800
Liabilities	
Capital	£ 1,000
Reserves	£ 800
Total Liabilities	£ 1,800

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1. Executive summary

Purpose of this report

This report has been prepared for the benefit of discussion between Grant Thornton UK LLP and the Finance, Audit & Risk Committee of North Hertfordshire District Council (the Council). The purpose of this report is to highlight the key issues arising from the Council's financial statements for the year ending 31 March 2011.

This report meets the mandatory requirements of International Standard on Auditing 260 (ISA 260) to report the outcome of the audit to 'those charged with governance', designated as the Finance, Audit & Risk Committee. The requirements of ISA 260, and how we have discharged them, are set out in more detail at Appendix A.

The Council is responsible for the preparation of financial statements which record its financial position as at 31 March 2011, and its income and expenditure for the year then ended. We are responsible for undertaking an audit and reporting whether, in our opinion, the Council's financial statements present a true and fair view of the financial position.

Under the Audit Commission's Code of Audit Practice we are also required to reach a formal conclusion on whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Audit conclusions

Financial statements opinion

We were presented with draft financial statements on 29 June 2011, in advance of the 30 June 2011 deadline. The supporting working papers were of a good standard and the financial statements have been compiled in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2010/11 (the Code), based on International Financial Reporting Standards (IFRS).

Based on our work to date, a number of adjustments have been identified to the financial statements, the most significant being:

- write down of £1.8m in relation to the Council's owned share of Hitchin Town Hall resulting from errors identified in initial valuation workings; and
- recognition of £400k Performance Reward Grant income from 'receipts in advance' following confirmation that all relevant conditions had been met

We identified no other adjustments that impact on the Council's income and expenditure position. Further adjustments noted on the balance sheet were largely of a presentational nature only and had no overall net effect on the Council's reported assets and liabilities.

The key messages arising from our audit of the Council's financial statements are:

- the need to undertake a comprehensive exercise to update and ensure the accuracy of property asset information relating to valuations;
- to consider current procedures for identifying and recognising grant contributions against the requirements of the Code; and
- to review current working paper and financial closedown arrangements to identify potential efficiencies for future reporting under IFRS, including an appropriate formalisation of terms of engagement with contributors such as property valuers.

We anticipate providing an unqualified opinion on the Council's financial statements, following approval by the Finance, Audit and Risk Committee on 19 September 2011.

Further details of the outcome of the financial statements audit are given in section 2.

Value for Money Conclusion

In providing the opinion on the financial statements we are required to reach a conclusion on the adequacy of the Council's arrangements for ensuring economy, efficiency and effectiveness in its use of resources (the Value for Money Conclusion).

We are pleased to report that, based on our review of the Council's arrangements, we propose to give an unqualified conclusion.

Further details of the outcome of our value for money review are given in section 3.

The way forward

Matters arising from the financial statements audit have been discussed with the Strategic Director of Finance, Policy and Governance. We have made a small number of recommendations, which are set out in the action plan at Appendix C. This has been discussed and agreed with the Strategic Director of Finance, Policy and Governance and the senior finance team.

Use of this report

This report has been prepared solely for use by the Council to discharge our responsibilities under ISA 260, and should not be used for any other purpose. We assume no responsibility to any other person. This report should be read in conjunction with the Statement of Responsibilities and the Council's Letter of Representation.

Acknowledgements

We would like record our appreciation for the assistance and co-operation provided to us during our audit by the Council's staff.

Grant Thornton UK LLP
19 September 2011

2. Key audit issues

Matters identified at the planning stage

We have not altered or changed our planned approach to the audit which was communicated to you in our Audit and Approach Memorandum dated June 2011.

Our response to the matters identified at the planning stage are detailed below.

Issue	Audit areas affected	Work completed	Assurances gained
Accounting under IFRS	All areas of the financial statements	<ul style="list-style-type: none"> • A specific review of the Council's preparedness for IFRS has been completed. The results of this review have been reported to the senior finance team in a red/amber/green (RAG) format • We have maintained ongoing liaison with the senior finance team regarding emerging IFRS issues and guidance and have been provided with support for any proposed changes to accounting treatment being considered under IFRS • Our substantive audit procedures have focused on the high risk areas identified as a result of the transition to IFRS, in particular property, plant and equipment (PPE) 	<ul style="list-style-type: none"> • The review of the Council's preparedness supported an overall 'green' rating, with 'amber' ratings noted in relation to disclosure notes to the main financial statements • Opening balances and the restated balance sheet have been reviewed with no significant errors identified within restatement workings • Substantive audit procedures undertaken in relation to PPE balances did not identify any IFRS related misstatements, however, a number of disclosure amendments to outstanding lease obligations and investment property receipts have been required to ensure full compliance with the Code and IFRS

Issue	Audit areas affected	Work completed	Assurances gained
Accounting for housing benefit debts	Current assets	<ul style="list-style-type: none"> • Queries have been made of the senior finance team and housing benefits team to update our understanding of the measures put in place to address prior year audit findings in this area • A high level review of systems information has been undertaken alongside detailed housing benefits testing required by the Audit Commission's 'HB COUNT' approach, following submission of the 2010/11 subsidy claim 	<ul style="list-style-type: none"> • System reports used to support the subsidy claim and the accounting balances reported in the financial statements have been considered and checked for integrity. No significant concerns have been raised. • Reconciliation workings were reviewed to consider the validity and accuracy of adjustments processed by the finance team, which identified an amendment to the current year opening debtors balance
Revaluation of fixed assets	Property, plant and equipment	<ul style="list-style-type: none"> • We confirmed that controls relating to PPE activity and valuation are implemented and are operating effectively • We reviewed information recorded within the Council's asset record system (GVAS) and made direct enquiries of the Valuer to determine the appropriateness of assumptions applied as part of the adopted valuation methodology as well as the completeness and accuracy of any information used to perform valuation calculations, including non-financial information • We reviewed the approach to valuation activity undertaken during the year to ensure that it had been conducted and recorded in the financial statements in accordance with IAS 16, Property, Plant and Equipment 	<ul style="list-style-type: none"> • Our work highlighted issues with the accuracy of underlying asset records, in particular the measurement of floor spaces, which has led to a significant amendment to the financial statements. Our work also highlighted some concerns regarding the current nature of engagement with and recording of the work of the valuer and other contributors to the financial statements. (Recommendations for improvement in these areas are set out in Appendix C). • We gained assurance that the overall valuation had been completed in accordance with IAS 16 and that the findings of the valuer had been accurately reflected in the financial statements.

Issue	Audit areas affected	Work completed	Assurances gained
<p>Use of estimates and judgements</p>	<p>All areas of the financial statements</p>	<ul style="list-style-type: none"> • We have discussed with the senior finance team the likely areas where estimates and judgements will be used and the requirement to ensure that these are clearly documented and evidenced • We reviewed the accounting policies and disclosures for areas where critical accounting judgements and estimation techniques would be used • The calculations and assumptions supporting significant estimates were reviewed as part of our tests of detail to consider any potential unidentified impacts to the financial statements 	<ul style="list-style-type: none"> • The areas where calculations and assumptions were reviewed included allowances made for doubtful amounts, certain accruals and prepayments and valuation of property, plant and equipment (PPE) • We concluded that adequate disclosures had been made in respect of areas where material estimates and critical judgements have been made in the financial statements • Potential for improvements to the documentation and evidencing of estimates and critical judgements have been made as part of recommendations set out in Appendix C, in the context of identifying future audit efficiencies

Status of the audit

We carried out our audit in accordance with the proposed timetable and deadlines communicated to you in our Audit Approach Memorandum. Our audit is substantially complete although we are finalising our procedures in the following areas:

- review of the final version of the financial statements;
- obtaining and reviewing the Council's letter of representation; and
- updating our post balance sheet events review, to the date of signing the accounts

We anticipate providing an unqualified opinion on the Council's financial statements, following approval by the Finance, Audit and Risk Committee on 19 September 2011.

In addition, finance staff dealt with our audit queries efficiently and provided timely responses to requests for additional information.

A number of issues arose during the course of the audit, which whilst not considered to still represent a material unadjusted impact to the reported financial performance, should be considered by the Finance, Audit and Risk Committee. These are set out in the following paragraphs. Where appropriate, we have made recommendations for improvement, as set out in the agreed action plan at Appendix C.

Matters arising from the financial statements audit

We are pleased to report that the financial statements were accompanied by good working papers, although we have raised some recommendations in relation to the overall content and presentation of working papers to support the financial statements, in particular where critical judgements and estimates have been applied.

Records supporting the calculation of property valuations and the extent of valuation activity undertaken

Building cost assumptions sourced from the Building Costs Information Service (BCIS) and measured floor spaces are entered against asset records maintained on the GVAS Property Manager system. This information then forms the principle basis for the majority of the Council's specialised property asset valuations as performed by the valuer.

Our review highlighted both a perceived lack of accompanying non-financial information recorded on the GVAS system in support of the valuation methodology applied and a number of discrepancies in respect of recorded floor space measurements.

Further review carried out in respect of recorded floor spaces suggests that a significant number of measurements have been rolled forward between valuation exercises without sufficient review or re-measuring being undertaken, where there is evidence to suggest that measurements may be inaccurate, in particular due to subsequent physical alterations to property, revised usage or the availability of more accurate measuring techniques.

We have undertaken sufficient work to support that, given consideration of the extent of assets that are either specialised or have a restricted use, the issue identified does not represent a current significant risk of material misstatement of the Council's overall property assets. However, a specific adjustment of £1.8m has been identified in relation to overvaluation of the Council's ownership of the Hitchin Town Hall asset.

The Council has elected to undertake a specific review of the recorded measured internal floor spaces of all specialised assets, in order to identify and correct for any further potential discrepancies in the current financial year.

Recognition of grant and contribution income within the Comprehensive Income and Expenditure Account

Where previously amounts received would have been deferred and offset against associated expenses as they were incurred, revised requirements of the Code now require the recognition of grant and contribution income within the Comprehensive Income and Expenditure Statement as soon as any conditions attached to these amounts by the granting body or individual can be evidenced to have been met.

Our review of the conditions attached to significant grants and contributions, and amounts still recorded as 'receipts in advance', highlighted £400k of as yet unrecognised income relating to Performance Recognition Grant. An adjustment has been made to recognise this income in year and remove the outstanding liability from the Council's balance sheet.

Other accounts issues arising

In addition to the matters raised above, there were a number of specific minor presentational changes that arose during the course of our audit that have been made to the financial statements, including:

- reclassification of the 'holiday pay accrual' from current provisions to an accrual disclosed within 'Short term creditors' balances required to reflect the accepted accounting practice in relation to this balance;
- a number of disclosure amendments to outstanding future lease obligations and investments property income in order to ensure full compliance with the specific reporting requirements of the Code and IFRS;
- a number of corrections to disclosed amounts of grants, contributions and donations received and credited to services or non-specific grant income; and

- reclassification of £200k Churchgate development contributions from current to non-current debtors in order to reflect the expected timing of the scheme

A number of minor amendments were processed to the explanatory foreword, main financial statements and the supporting disclosure notes in order to ensure the general consistency of information presented within the financial statements, in particular changes brought about by the transition to IFRS or revised requirements of the Code, and to enhance their interpretation by general readers and users of the published statements.

Misstatements

No misstatements were identified by the management team during the course of the audit.

A small number of misstatements were identified as a result of the audit work performed, the most significant of these are:

- the write down of £1.8m in relation to the Council's owned share of Hitchin Town Hall resulting from errors identified in current valuation workings and historic accounting records; and
- recognition of £400k Performance Reward Grant income from 'receipts in advance' following confirmation that all relevant conditions had been met

All adjusted and unadjusted misstatements are set out at Appendix B.

The auditor is required to communicate all uncorrected misstatements, other than those considered to be clearly trivial, to the entity's management and to request that management corrects them.

Our audit identified the following amendments to the financial statements that have not been processed by management on the grounds of materiality. The unadjusted misstatements relate to:

- an under accrual of year end creditor balances totalling £42k identified by unrecorded liability testing; and
- a gross understatement of £137k to year end 'Housing Benefit Overpayments' debtors (less any management allowance applied to doubtful amounts) due to an error found in reconciliation workings

The impact of these unadjusted misstatements would be a net increase of up to £95k in the recorded current assets of the Council, with a corresponding impact on the income and expenditure for the year ended 31 March 2011.

Evaluation of key controls

Internal Controls

We have undertaken sufficient work on key financial controls for the purpose of designing our programme of work for the financial statements audit. Our on-going work in auditing the accounts has identified minor internal control deficiencies in a small number of areas including:

- the potential integrity of journal input processes and controls; and
- use and ownership for the results of work and opinions of experts presented in the financial statements

We have discussed these issues with management and made recommendations for improvement which are detailed in Appendix C.

Review of IT

We performed a high level review of the general IT control environment as part of the overall review of the internal control system and concluded that there were no material weaknesses within the IT arrangements that

could adversely impact on our audit of the accounts.

Review of internal audit

We periodically review the Internal Audit function for compliance with requirements of the 2006 CIPFA Internal Audit Standards. Our most recent review in March 2011 concluded that Internal Audit met these requirements.

This work supports our review of the Annual Governance Statement (AGS) which in turn informs our Value for Money (VfM) conclusion in the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources and our audit of the financial statements.

We note the overall Internal Audit opinion for the financial year ended 31 March 2011 concluded that an effective internal control environment was in place with regard to key financial systems and that an adequate internal control environment was in place with regard to the wider audit environment. This opinion provides an element of assurance to the Council about its overall governance arrangements.

Management of the risk of fraud

We have sought assurances from the Strategic Director of Finance, Policy and Governance and the Chair of the Finance, Audit and Risk Committee in respect of processes in place to identify and respond to the risk of fraud at the Council.

From these enquiries we have established that the Council considers there are adequate processes in place to mitigate against the risk of fraud occurring at the Council and that those charged with governance have sufficient oversight over these processes to give them the assurances they require in this area.

Annual Governance Statement (AGS)

We have examined the Council's arrangements and processes for compiling the AGS. In addition, we read the AGS and considered whether the statement is in accordance with the requirements of the Code and consistent with our knowledge of the Council.

We reviewed the draft AGS provided to us in May 2011 and noted only minor proposed amendments to its structure and content, which were accordingly processed by management.

Public challenge matters

At the time of writing we have received no questions or objections in respect of the financial statements for the year ended 31 March 2011 that prevent us from issuing our audit certificate.

Next steps

The Finance, Audit and Risk Committee is required to consider and approve the financial statements for the year ended 31 March 2011. In forming its conclusions the Committee's attention is drawn to the adjustments to the financial statements and the required Letter of Representation.

3. Value for money

Value for money conclusion

In order for us to provide a positive conclusion, the Council needs to demonstrate proper arrangements in place for securing economy, efficiency and effectiveness in its use of resources.

The Audit Commission Code of Audit Practice 2010 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
- review regularly the adequacy and effectiveness of these arrangements.

For the year ended 31 March 2011 we are required to give our conclusion based on the following two criteria specified by the Audit Commission:

- the Council has proper arrangements in place for securing financial resilience
- the Council has proper arrangements for challenging how it secures economy, efficiency and effectiveness

Programme of work - review of proper arrangements

Our work has encompassed a review against proper corporate performance and financial management arrangements as defined by the Code. The findings from our review against these arrangements are detailed below:



Code criteria	Work completed	Conclusion
<p>Having a sound understanding of costs and performance and achieving efficiencies in activities</p>	<p>Refer to our review of Financial Resilience</p>	<p>The FR review highlighted significant work performed by the Council in identifying available savings and efficiencies. Clear efficiency and investment option plans have been put in place.</p> <p>Proper arrangements considered to be in place.</p>
<p>Reliable and timely financial reporting that meets the needs of internal users, stakeholders and local people</p>	<p>Reviewed as part of financial resilience work and our audit of the financial statements</p>	<p>The Council provide detailed quarterly finance reports for Cabinet. Senior management performs challenge and scrutiny through the Challenge Board. This includes performance against budget and review of progress against efficiency plans.</p> <p>The financial statements were submitted on time with no significant adjustments identified.</p> <p>Proper arrangements considered to be in place.</p>
<p>Commissioning and procuring services and supplies that are tailored to local needs and deliver sustainable outcomes and value for money</p>	<p>Considered as part of our risk assessment of the Council's arrangements to prioritise resources and improve efficiency and productivity</p>	<p>Work performed in prior years has not highlighted any significant issues around this criteria. The Council has been seen to undertake consultations with key stakeholders.</p> <p>Our monitoring of developments throughout the year did not highlight a significant change in performance and we are, therefore, satisfied that the criteria has been met.</p> <p>Proper arrangements considered to be in place.</p>

Code criteria	Work completed	Conclusion
<p>Producing relevant and reliable data and information to support decision making and manage performance priorities</p>	<p>Considered as part of our risk assessment of the Council's arrangements to prioritise resources and improve efficiency and productivity</p>	<p>Work performed in prior years has not highlighted any significant issues around this criteria. Financial reports include reporting against key financial health indicators.</p> <p>Our monitoring of developments throughout the year did not highlight a significant change in performance and we are, therefore, satisfied that the criteria has been met.</p> <p>Proper arrangements considered to be in place.</p>
<p>Promoting and demonstrating the principles and values of good governance</p>	<p>Refer to our review of Financial Resilience and our review of the AGS</p>	<p>The FR review includes specific consideration of financial governance. This has not highlighted any significant issues, with appropriate information being regularly provided to Challenge Board and Cabinet to provide an opportunity for review and challenge.</p> <p>Proper arrangements considered to be in place.</p>
<p>Managing risks and maintaining a sound system of internal control</p>	<p>Refer to our review of Financial Resilience and our review of the AGS</p>	<p>The FR review includes specific consideration of financial control. This has not highlighted any significant issues.</p> <p>Internal Audit concluded that an effective internal control environment was in place with regard to key financial systems and in accordance with proper practice.</p> <p>Proper arrangements considered to be in place.</p>

Code criteria	Work completed	Conclusion
<p>Making effective use of natural resources</p>	<p>We have updated our prior year assessment through discussions with officers and a review of documentation.</p>	<p>Work performed in prior years has not identified any significant issues around this criteria. The Council has a Climate Change Strategy in place and our monitoring of developments throughout the year did not highlight a significant change in performance.</p> <p>Proper arrangements considered to be in place.</p>
<p>Managing assets effectively to help deliver strategic priorities and service needs</p>	<p>Considered as part of our risk assessment of the Council's arrangements to prioritise resources and improve efficiency and productivity</p>	<p>The FR review has identified that the Council are implementing a new Asset Management Plan. This is to respond to the changing economic environment and the reducing levels of capital receipts. A clear strategy has been put in place and this will be monitored going forward.</p> <p>Proper arrangements considered to be in place.</p>
<p>Planning, organising and developing the workforce effectively to support the achievement of strategic priorities</p>	<p>Refer to our review of Financial Resilience. Considered as part of our risk assessment of the Council's arrangements to prioritise resources and improve efficiency and productivity.</p>	<p>The Council's workforce forms a significant part of the MTFS going forward. Consideration of the MTFS through the FR review has identified that the Council is ensuring a focus on their corporate priorities and, therefore, ensuring that resources are aligned accordingly.</p> <p>Proper arrangements considered to be in place.</p>

Matters arising from the review of Value for Money

Key outcomes from our local programme of work are detailed below. Where we have identified areas of weakness in the Council's arrangements, recommendations to support improvements have been made and are detailed in Appendix C of this report.

Securing Financial Resilience

We have completed a review to assess whether the Council has robust systems and processes in place to effectively manage its financial risks and opportunities and secure a stable financial position. We also have considered whether the Council's financial position should enable it to continue to operate for the foreseeable future.

To support our conclusion against this criteria we have undertaken a review which considered the Council's arrangements against three key areas:

- Strategic financial planning
- Financial governance
- Financial control

The key findings from this review are:

- The Council was able to undertake the most recent MTFs process with an effective lead in time and it is clear that the process had a high level of stakeholder involvement. A series of revisits have been made to medium term financial planning assumptions following each subsequent announcement made regarding annual funding as part of the Local Government Finance Settlement. The MTFs will be revised for 2012/13 onwards following the final announcements expected in late 2011. The ongoing scrutiny and challenge offered by the Challenge Board also highlights the Council's commitment to dealing with the financial challenges that they are facing.

- The Council has seen a significant drop in the level of usable reserves over the past three years. This is primarily due to the reduction in the level of the capital receipts reserve. The future funding of capital expenditure, seen as vital to both improving services and replacing existing assets as they reach the end of their useful lives, is a key area of focus for the Council. They have recognised that there is a significant potential gap between what the Council will need to spend on its assets over the next five years and what they are able to afford if significant reliance continues to be placed on capital receipts and reductions are seen in central capital funding. Whilst a level of borrowing may be acceptable in the short term, it is not plausible as a long term solution. As a result of these issues, the Council has considered alternative funding sources as part of a capital strategy that includes a prudent use of set-aside capital receipts that resulted from the transfer of its housing stock in 2003.
- Reserve levels in general are an area of focus for the Council and it is positive to note that during 2010/11, the Council was not required to utilise any contributions from reserves in order to achieve a net surplus of £399k and maintain the planned level of the General Fund.
- The Council has a robust approach to financial and performance management and associated financial controls. In addition, they have a good record in controlling spend and achieving efficiencies and savings.
- It is anticipated that the Shared Internal Audit Service (SIAS) will increase resilience and give a greater economy of scale to allow access to specialist skills. However, for all members of the shared service, it is vital that quality is high and that each member is provided with sufficient levels of IA work and assurance. The Council must ensure that suitable monitoring arrangements are put in place to maintain a high standard of internal audit support.

- The Council have achieved significant improvement on the levels of sickness absence and are now performing better than the public sector average.

Securing Economy, Efficiency and Effectiveness

We have reviewed whether the Council has prioritised its resources to take into account budget constraints and whether it has achieved cost reductions and improved productivity and efficiencies.

We have completed a review against key risk indicators which has not highlighted any significant issues that would impact upon our conclusion in respect of this criteria.

Overall conclusion

On the basis of our work, having regard to the guidance on the specified criteria published by the Audit Commission in October 2010, we are satisfied that, in all significant respects North Hertfordshire District Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2011.

Appendices

A. The reporting requirements of ISA 260

Purpose of report

The purpose of this report is to highlight the key issues affecting the results of the Council and the preparation of the Council's financial statements for the year ended 31 March 2011.

The document is also used to report to management to meet the mandatory requirements of International Standard on Auditing (UK and Ireland) 260.

We would like to point out that the matters dealt with in this report 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 of the Council.

This report is strictly confidential, and although it has been made available to management to facilitate discussions, it may not be taken as altering our responsibilities to the Council arising under the terms of our audit engagement.

The contents of this report should not be disclosed with third parties without our prior written consent.

Responsibilities of the directors and auditors

The directors are responsible for the preparation of the financial statements and for making

available to us all of the information and explanations we consider necessary. Therefore, it is essential that the directors confirm that our understanding of all the matters in this report is appropriate, having regard to their knowledge of the particular circumstances.

Clarification of the roles and responsibilities with respect to internal controls

The Council's management is responsible for the identification, assessment, management and monitoring of risk, for developing, operating and monitoring the system of internal control and for providing assurance to the Finance, Audit & Risk Committee that it has done so.

The Finance, Audit and Risk Committee is required to review the Council's internal financial controls. In addition, the Finance, Audit and Risk Committee is required to review all other internal controls and approve the statements included in the annual report in relation to internal control and the management of risk.

The Finance, Audit & Risk Committee should

ISAUK 260 requires communication of:

- relationships that have a bearing on the independence of the audit firm and the integrity and objectivity of the engagement team
- nature and scope of the audit work
- significant findings from the audit

receive reports from management as to the effectiveness of the systems they have established as well as the conclusions of any testing conducted by internal audit or ourselves.

We have applied our audit approach to document, evaluate and assess your internal controls over the financial reporting process in line with the requirements of auditing standards.

Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of 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 would be pleased to discuss any further work in this regard with the Finance, Audit & Risk Committee.

Independence and robustness

Ethical standards require us to give you full and fair disclosure of the matters relating to our independence. In this context we ensure that:

- the appointed audit partner and audit manager are subject to rotation every seven years;
- Grant Thornton, its partners and the audit team have no family, financial, employment, investment or business relationship with the Council;
- our fees paid by the Council do not represent an inappropriate proportion of total fee income for either the firm, office or individual partner; and
- at all times during the audit, we will maintain a robustly independent position in respect of key judgement areas

Audit and non-audit services

Services supplied to the Council for the year ended 31 March 2011 are as follows:

£

Audit services

Statutory audit	120,143
Certification of claims and returns*	27,500

*the quoted fee for grant certification work is an estimate only and will be charged at published hourly rates

Audit quality assurance

Grant Thornton's audit practice is currently monitored by the Audit Inspection Unit, an arm of the Financial Reporting Council which has responsibility for monitoring the firm's public interest audit engagements.

The audit practice is also monitored by the Quality Assurance Directorate of the ICAEW. Grant Thornton also conducts internal quality reviews of engagements.

Furthermore, audits of public interest bodies are subject to the Audit Commission's quality review process.

We would be happy to discuss further the firm's approach to quality assurance.

B. Audit adjustments

Adjustment type

Misstatement - A change in the value of a balance presented in the financial statements

Classification - The movement of a balance from one location in the accounts to another

Disclosure - A change in the way in which a balance is disclosed or presented in an explanatory note

Adjustments to the financial statements

Adjustment type	£000	Account balance	Impact on financial statements
Misstatement	1,808	Property, plant and equipment - Buildings	Balance sheet as at 31 March 2011 - reduction of recorded non-current asset values by £1,808k relating to overvaluation of Hitchin Town Hall asset.
Misstatement	400	Receipts in advance - Other entities and individuals	Balance sheet as at 31 March 2011 - reduction of recorded current liabilities by £400k relating to Performance Recognition Grant Comprehensive Income and Expenditure Account - recognition of additional income of £400k within Net Cost of Services
Classification	200	Short term debtors - Other entities and individuals	None - reclassification between short term debtors and long term debtors <i>No impact to net worth or surplus on provision of services</i>
Classification	95	Provisions (< 1 year)	None - reclassification between short term provisions and short term creditors, <i>No impact to net worth or surplus on provision of services</i>
Disclosure	n/a	Financial instruments - current debtors	None, disclosure only - current debtors figure disclosed includes prepayments (£1,225k), which do not meet the recognition criteria of financial instruments and should be excluded. <i>No impact to net worth or surplus on provision of services</i>

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Adjustment type	£000	Account balance	Impact on financial statements
Disclosure	n/a	Grant and contribution income	<p>None, disclosure only - housing benefit subsidy (£41,303k) not disclosed as grant income within Net Cost of Services. Area Based Grant amounts (£112k) included within non-specific grant income rather than within Net Cost of Services. Refuse Service grant (£47k) included within Waste Minimisation grant amounts should be disclosed separately.</p> <p><i>No impact to net worth or surplus on provision of services</i></p>
Disclosure	n/a	Future lease expense obligations and outstanding investment property receipts	<p>None, disclosure only - current disclosures of future minimum lease payments and expected investment property income have been prepared on the previous UK GAAP basis, amendment therefore required to ensure full compliance with the disclosure requirements of the Code and IFRS.</p> <p><i>No impact to net worth or surplus on provision of services</i></p>

Unprocessed adjustments to the financial statements

Adjustment type	£000	Account balance	Impact on financial statements
Misstatement	137	Short term debtors - Housing benefit overpayments	<p>Balance sheet as at 31 March 2011 - increase of gross recorded current assets by £137k, (less any management allowance applied to doubtful amounts) relating to error identified in reconciliation workings</p> <p>Comprehensive Income and Expenditure Account - recognition of additional income of £137k within Net Cost of Services (less the expense of any management allowance applied to doubtful amounts)</p>
Misstatement	42	Short term creditors - Other entities and individuals	<p>Balance sheet as at 31 March 2011 - increase of recorded current liabilities by £42k relating to under accrual of year end credit balances identified by unrecorded liabilities testing</p> <p>Comprehensive Income and Expenditure Account - recognition of additional expense of £42k within Net Cost of Services</p>

C. Action plan

Priority

High - Significant effect on control system

Medium - Effect on control system

Low - Best practice

Rec No.	Recommendation	Priority	Management Comments	Implementation date and responsibility
1	The Council should instruct its valuation team to undertake a comprehensive exercise to ensure the integrity of data underlying asset valuation calculations through the remeasuring of floor spaces of all property assets where the valuation methodology is reliant on the accuracy of this information.	High	In the short term the measurements and related data for a sample of other significantly sized council owned buildings will be checked for accuracy and to establish whether this error was a one-off issue. The council currently has a rolling five year programme of reviews, however a structured accelerated programme of reviews will be established to commence in the new calendar year that will run into 2012/13. This will be facilitated by the completion of a recruitment process already underway for a Graduate Surveyor to work with the Council's Estates Surveyor.	30th September 2012 (Completion of review programme) Senior Estates Surveyor
2	Formal arrangements should be put in place regarding the issue of instructions to qualified professionals responsible for providing valuation information for inclusion in the Councils accounts and financial statements. Arrangements should include the receipt of a signed two part report comprising detail of the assumptions and methodologies applied accompanied by a detailed schedule of results from the work performed.	High	Formal written arrangements will be instigated to set out the requirements for valuation work requested. This will include the requirement that valuations then provided have the backing documentation, stated assumptions and methodologies applied included to support the conclusions reported back. However we will also retain the flexibility to make adhoc/urgent requests as and when specific requirements emerge resulting from external factors or unforeseen events.	30 November 2012 (Written arrangement in place) Valuation requests - Head of Finance, Performance & Asset Management. Valuation reports - Senior Estates Surveyor.

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3	Processes for the identification and accounting recognition of grants and contributions should be revisited to ensure ongoing compliance with the requirements of the Code of Practice.	Medium	A comprehensive log of all grants and contributions has already begun to be populated in 2011/12. We had identified that a log was needed in order to ensure that Members were aware when external funding was coming to an end. The log has been circulated to Heads of Service to ensure it is complete. The accountancy team will ensure it has all the necessary backing documents to accompany every grant listed so that the correct accounting treatment can be applied at year end.	31 March 2012 Accountancy Manager
4	Journal input processes and controls should be reviewed to ensure the accurate recording of journal inputters and authorisers and the minimisation of potential unauthorised manual changes to journal amounts.	Low	<p>The process for inputting and authorising journals has not changed for a number of years and no problems have been identified in the past. The accountancy team are the only officers who have access to input journals. However, the Council is investing £40k in the financial system in 2011/12 to bring the system up to the latest version and also incorporate new functionality to streamline processes.</p> <p>Part of this enhancement will be a revisit of many processes, including the inputting and authorising of journals and this may result in the electronic authorisation of journals.</p>	31 March 2012 Accountancy Manager
5	An exercise should be undertaken to review the current financial closedown arrangements, including the preparation of supporting working papers, to ensure efficient accounts preparation and ongoing compliance with the Code of Practice, in particular the support of critical judgements and estimates.	Low	The move to IFRS has resulted in changes in the audit approach and it became apparent during the audit this year that the working paper format (which has been complimented in the past) needs to be revised to better meet the changing requirements of the auditors and the regulations. We have received feedback during the audit and these will be incorporated into a revised format for 2012/13. A further closure review meeting is planned between the Accountancy Manager and Grant Thornton to ensure the working papers enable the most efficient audit process as possible next year for the benefit of the auditor and auditee .	31 March 2012 Accountancy Manager



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