



North Hertfordshire District Council

Accounts Audit Approach Memorandum

For the year ended 31 March 2012

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Our accounts audit approach

This memorandum is intended to provide additional detail regarding our audit approach, as set out in our Audit Plan 2011/12 (issued in January 2012), as well as an update on our response to key risks from the results of interim audit work carried out to date.

Audit approach reminder

We will:

- work closely with the finance team to ensure that we meet audit deadlines and conduct the audit efficiently
- plan our audit on an individual task basis at the start of the audit, and agree timetables with all staff involved; and
- consider the materiality of transactions when planning our audit and when reporting our findings

The logistical details of our annual accounts audit, as agreed with the Strategic Director of Finance, Policy and Governance, are detailed in Appendix A to this memorandum.

Planning	<ul style="list-style-type: none"> • Updating our understanding of the Council through discussions with management and a review of in year internal financial reporting • Identifying and resolving specific accounting treatment issues.
Control evaluation	<ul style="list-style-type: none"> • Reviewing the design effectiveness and implementation of internal financial controls including IT, where they impact the financial statements • Assessing audit risk and developing and implementing an appropriate audit strategy • Testing the operating effectiveness of selected controls • Assessing the Council's arrangements for complying with tax legislation and Bribery Act requirements • Assessing the effectiveness of internal audit.
Substantive procedures	<ul style="list-style-type: none"> • Reviewing material disclosure issues in the financial statements • Performing analytical review • Verifying all material income and expenditure and balance sheet accounts, taking into consideration whether audit evidence is sufficient and appropriate.
Completion	<ul style="list-style-type: none"> • Performing overall evaluation of our work on the financial statements to determine whether they give a true and fair view • Determining an audit opinion • Reporting to the Finance, Audit and Risk Committee through our ISA 260 report and Annual Audit Letter.

Materiality

An item would be considered material to the financial statements if, through its omission or non-disclosure, the financial statements would no longer show a true and fair view.

Materiality is set at the outset of planning to ensure that an appropriate level of audit work is planned. It is then used throughout the audit process in order to assess the impact of any item on the financial statements. Any identified errors or differences greater than 2% of materiality will be recorded on a schedule of potential misstatements.

These are assessed individually and in aggregate, communicated to you and, if you agree with any management decisions to not adjust for such items, signed off by you in your letter of representation to us, confirming your view that they are immaterial to the financial statements.

An item of low value may be separately judged to be material by its nature, for example any item that affects the disclosure of directors' emoluments. An item of higher value may equally be judged not material if it does not distort the truth and fairness of the financial statements.

Reliance on internal audit

We work with the internal audit function to ensure our audit approach takes account of the risks identified from reviews they have conducted relevant to the financial statements, subject to our review of the effectiveness of the internal audit function.

Where significant risks to the financial statements are identified from our own work, it may be possible to coordinate with the work of internal audit to avoid unnecessary duplication of effort. Where such reliance takes place this will be specifically detailed in the reporting of our results.

Review of information technology controls

You utilise complex computer systems and accounting applications to routinely process large numbers of transactions. These may be used either directly or indirectly in preparing financial reporting information, including the annual accounts. Accordingly, our approach requires a review of the internal controls in the Council's information technology (IT) environment.

Based on our assessment of the complexity of the overall IT environment, we have involved specialist Technology Risk Services (TRS) team members in our audit work in order to undertake a review of the overall IT control environment and financial ledger system. Where significant systems are outsourced, or new systems or applications introduced in year, additional review work may be undertaken on this risk assessed basis.

Internal controls

Auditing standards require that we evaluate the design effectiveness of internal controls over the financial reporting process to identify areas of weakness that could lead to material misstatement. Therefore, we will focus our control review on the higher risk areas of the financial statements.

In order to assess whether controls have been implemented as intended, we will conduct a combination of inquiry and observation procedures, and, where appropriate, transaction walkthroughs. Where further assurance or audit efficiency may be gained, we will consider directly testing any controls that we may consider to be key in relation to the identified risk.

However, our controls work cannot be relied upon to identify all defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive controls review exercise might identify.

Update on accounts audit risk assessment

As part of our planning and control evaluation work we have reviewed the key audit risks identified in our Audit Plan 2011/12 and have set out in Table 1 below the outcome of work completed to date and further work planned.

We will report our findings and conclusions in respect of each risk identified in our Annual Report to Those Charged with Governance (ISA 260) on completion of our final accounts audit.

Our updated review of the key risks facing the Council has not identified any new key risk areas.

Table 1. Key accounting risks and planned assurances

Issue	Audit areas affected	Work completed to date	Further work planned
Financial performance	All areas of the financial statements	<ul style="list-style-type: none"> Quarterly liaison meetings have been held with the Strategic Director of Finance, Policy and Governance and other senior finance staff in order to maintain our understanding of the Council's ongoing financial position Ongoing reviews have been carried out of revenue and capital financial reporting to the Finance, Audit and Risk committee and Cabinet. 	<ul style="list-style-type: none"> We will maintain these ongoing liaison and review arrangements up to the date of issuing our final audit opinion Our final substantive audit procedures will focus on the potential for misstatement of the financial position, with specific consideration of whether disclosures within the accounts provide a consistent and coherent reflection of the Council's financial position whilst following correct accounting treatment.

Table 1. Key accounting risks and planned assurances (continued)

Issue	Audit areas affected	Work completed to date	Further work planned
Accounting for property, plant and equipment	Non-current assets and income and expenditure	<ul style="list-style-type: none"> • Early discussions have been held with key finance staff of the Council regarding the approach taken to ensuring the completeness and accuracy of in year revaluation exercises with particular emphasis on greater formalisation of arrangements for providing instructions to the valuer, and receiving appropriate assurances in return. 	<ul style="list-style-type: none"> • The reasonableness of assumptions and accounting treatments will be discussed with both the valuer and the finance team • As part of this review, specific consideration will be given to the underlying quality and accurateness of the information that forms the basis of valuations • We will consider the final accounting entries recorded by the Council, including the correct treatment of any revaluation gains and losses through reserves and the income and expenditure statement.
Weaknesses in the Council's IT systems are not addressed	All areas of the financial statements	<ul style="list-style-type: none"> • Our TRS specialists have undertaken a high level review of network controls and the main accounting system (Integra), which included follow up on the implementation status of any previous recommendations. 	<ul style="list-style-type: none"> • The significant findings from the review will be reported as part of our ISA 260 report in September and considered as part of our review of the overall internal control environment and Annual Governance Statement.

Results of interim audit work

Scope

As part of the interim audit work, and in advance of our final accounts audit fieldwork, we considered:

- the effectiveness of the Internal Audit function;
- a review of closedown procedures in preparation for the final accounts;
- journal entry controls;
- walkthrough testing and tests of controls to confirm whether controls are implemented as per our understanding and have operated effectively in year in areas where we have identified significant accounting assertion risk; and
- a review of Information Technology controls.

The internal audit function

We have reviewed internal audit's overall arrangements against a checklist based on the 2006 CIPFA Internal Audit Standards, supported by a compliance review of one of their files selected at random. From the work completed we are satisfied that arrangements remain adequate to conclude that the service itself (now operating as SIAS) continues to contribute positively to the internal control environment and overall governance arrangements within the Council.

We have considered internal audit's 2011/12 annual work programme in order to identify reviews of relevance to the Council's preparation of the financial statements, that may in turn support our own audit planning and

risk assessment. Our review of reports issued to date has not highlighted any additional risks that require us to modify our planned audit approach.

Closedown procedures

Our review considered the Council's timetable for closedown and the arrangements for preparing the draft accounts, including guidance provided on working papers required to be made available as part of the closedown process.

A suitable timetable is in place, and the Council expects be able to provide detailed working papers to support the accounts at the start of our final accounts audit fieldwork, which is scheduled to commence on 4 July 2012, as well as providing the draft Annual Governance Statement and explanatory foreword in advance of this date.

Journal entry controls

We have reviewed the Council's journal entry policies and procedures as part of determining our journal entry testing strategy and have not identified any material weaknesses which are likely to adversely impact on the Council's control environment or financial statements.

We will review 'unusual' journal entries made during the year as part of our audit and report our detailed findings and any significant issues identified resulting from our work.

Walkthrough testing and tests of controls

Walkthrough tests and tests of controls were completed in relation to the specific accounts assertion risks which we consider to present a significant risk of material misstatement to the financial statements.

No significant issues were noted where walkthrough testing was able to be completed as planned and in-year internal controls were observed to have been implemented and operated satisfactorily in accordance with our documented understanding.

We intend to complete any outstanding work in these areas during June 2012.

Review of information technology controls

Our information systems specialist performed a high level review of the general IT control environment, as part of the overall review of the internal controls system. We have also performed a follow up of the issues that were raised in the previous year. We concluded that, from the work undertaken to date, there are no material weaknesses which are likely to adversely impact on the Council's financial statements for 2011/12.

We have, however, reiterated areas for improvement identified during the course of our work in these areas. We do not consider the majority of these findings to pose a significant risk to the accounts, and will report the results of this review separately to the Finance, Audit and Risk Committee as part of our ISA 260 report. In order that the implementation of any improvement actions are not delayed we have reported our findings to management as part of an interim feedback meeting.

Additional assurance work

To support the audit opinion for 2011/12, we have undertaken brief reviews in the following areas:

- VAT - a checklist of the Council's current arrangements has been completed to identify whether they are appropriate to ensure VAT is accounted for correctly and in accordance with current legislation
- PAYE - a checklist of the arrangements the Council has in place regarding taxation associated with payroll, including National Insurance and PAYE has been completed in order to provide assurance that figures recorded within the financial statements are true and fair and calculated appropriately and in accordance with current legislation.

Appendices

A. Logistics

Timetables and milestones

The following proposed timetable and deadlines have been set and agreed with management:

Event	Date
Pre year end fieldwork including internal controls review	Feb-Apr 2012
Completion of outstanding internal controls reviews and housing benefits testing	June 2012
Statutory accounts emailed to auditor	30 June 2012
Commence accounts audit fieldwork	4 July 2012
Partner visit to review work	21 July 2012
Clearance meeting to discuss our findings	24 July 2012
Draft ISA 260 report to be issued by	6 Sept 2012
Report to Finance, Audit and Risk Committee (ISA 260)	20 Sept 2012

The audit process is underpinned by effective project management to ensure that we co-ordinate and apply our resources efficiently to meet your deadlines. It is therefore essential that we work closely with your team to achieve this timetable. An agreed format and schedule of update arrangements will be maintained throughout the course of our audit fieldwork.

Engagement team

In accordance with our Audit Plan 2011/12 issued January 2012, the main engagement team for the accounts audit will include:

Name	Role	Contact details
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Information requirements

The information and working paper requirements that would assist us in an efficient and timely audit of the year-end financial statements have been communicated to the finance team within our Arrangements Letter, issued in February 2012.



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