

# The Audit Findings for North Hertfordshire District Council

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**Year ended 31 March 2013**

September 2013

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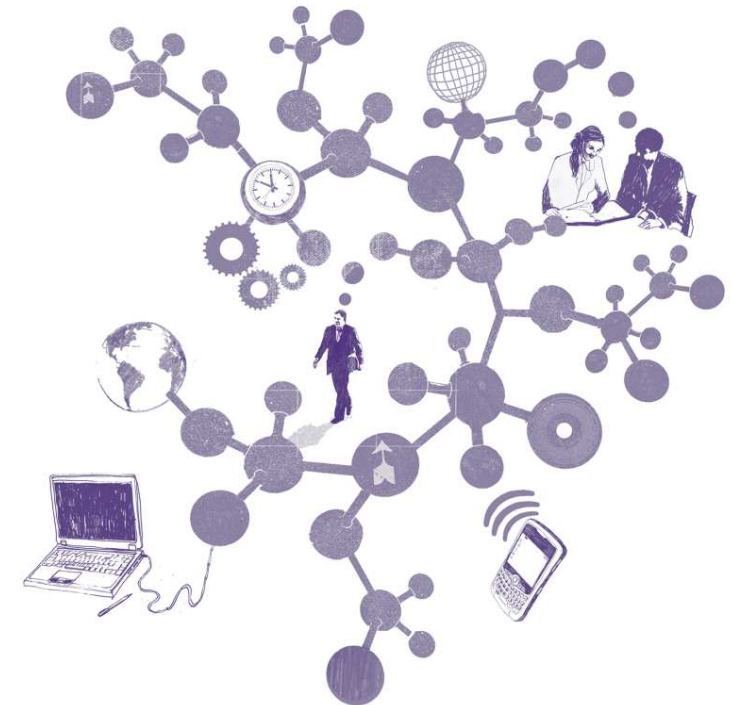
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The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed primarily for the purpose of expressing our opinion on the financial statements. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify.

We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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## Section 1: Executive summary

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# Executive summary

## Purpose of this report

This report highlights the key matters arising from our audit of North Hertfordshire District Council's ('the Council') financial statements for the year ended 31 March 2013. It is also used to report our audit findings to management and those charged with governance in accordance with the requirements of International Standard on Auditing 260 (ISA).

Under the Audit Commission's Code of Audit Practice we are required to report whether, in our opinion, the Council's financial statements present a true and fair view of the financial position, its expenditure and income for the year and whether they have been properly prepared in accordance with the CIPFA Code of Practice on Local Council Accounting. 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 (the Value for Money conclusion).

## Introduction

In the conduct of our audit we have not had to alter or change our planned audit approach, which we communicated to you in our Audit Plan dated 4<sup>th</sup> March 2013.

Our audit is substantially complete although we are finalising our work in the following areas:

- review of the final version of the financial statements

- obtain and review the final management letter of representation
- updating our post balance sheet events review, to the date of signing the opinion
- review of the Whole of Government Accounts
- receipt of outstanding investment letters

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

## Key issues arising from our audit

### Financial statements opinion

We anticipate providing an unqualified opinion on the financial statements.

We have identified no adjustments affecting the Council's reported financial position. We have made a number of recommendations to improve the presentation of the financial statements.

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

- the decision to review the current valuation methodology has resulted in certain land assets being accounted for under an amenity valuation basis, and a significant impairment of £2.3m has been charged to the service accounts relating to these assets. The decrease in valuation has been offset by an upward revaluation of property, plant and equipment of £2m.

## Executive summary

- the council have reviewed and amended their accounting treatment of assets held for sale, which resulted in £3.75m being reclassified from assets held for sale to surplus assets to reflect their correct classification within the Balance Sheet. There is no impact on the net financial position of the council.
- the accounting treatment of the Leisure contract provision has been reassessed to reflect the likelihood that the risk of the Council incurring costs is considered to have diminished. This has resulted in a £0.6m credit to the financial statements. We have confirmed that the provision has been treated correctly and that the future exposure on this contract has reduced. This has now been reflected as a risk within the general fund balance.
- The Council has adopted the Sector view in accounting for the Local Council Mortgage Scheme. We consider that the scheme represents a financial guarantee and therefore that disclosure of the fair value of this guarantee would be required. The fair value is insignificant at present although it could potentially increase in the future. The council have confirmed that they will continue to review future guidance and reassess the potential impact to the financial statements in future periods.
- there has been a notable improvement in the maintenance of the non-current assets (property plant and equipment) accounting records. There are now quarterly meetings between the finance and estates teams which has improved the reconciliation process, and has assisted in supporting the valuation of the councils property estate, in accordance with the requirements of the accounting standards.

Further details are set out in section 2 of this report.

### **Value for money conclusion**

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

Further detail of our work on Value for Money is set out in section 3 of this report.

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

We are currently in the process of completing our work on the Whole of Government Accounts and will report the results of our work to the Finance, Audit & Risk Committee.

### **Controls**

The Council's management is responsible for the identification, assessment, management and monitoring of risk, and for developing, operating and monitoring the system of internal control.

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

We draw your attention in particular to control issues identified in relation to:

- Information technology, password rotation and length

Further details are provided within section 2 of this report.

### **The way forward**

Matters arising from the financial statements audit and review of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources have been discussed with the Strategic Director of Finance, Policy & Governance.

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

### **Acknowledgment**

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

**Grant Thornton UK LLP**  
**September 2013**

## Section 2: Audit findings

01. Executive summary

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# Audit findings

In this section we present our findings in respect of matters and risks identified at the planning stage of the audit and additional matters that arose during the course of our work. We set out on the following pages the work we have performed and findings arising from our work in respect of the audit risks we identified in our audit plan, presented to the Finance, Audit & Risk Committee on 20 March 2013. We also set out the adjustments to the financial statements from our audit work and our findings in respect of internal controls.

## **Changes to Audit Plan**

We have not made any changes to our Audit Plan as previously communicated to you on the 20<sup>th</sup> March 2013.

## **Audit opinion**

We anticipate that we will provide the Council with an unqualified opinion, as set out in Appendix B.

# Audit findings against significant risks

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

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

	Risks identified in our audit plan	Work completed	Assurance gained and issues arising
1.	<p><b>Improper revenue recognition</b></p> <p>Under ISA 240 there is a presumed risk that revenue may be misstated due to improper recognition.</p>	<ul style="list-style-type: none"> <li>• review and testing of revenue recognition policies.</li> <li>• testing of material revenue streams.</li> <li>• review of unusual significant transactions.</li> </ul>	<p>Our audit work has not identified any issues in respect of revenue recognition.</p>
2.	<p><b>Management override of controls</b></p> <p>Under ISA 240 there is a presumed risk of management over-ride of controls.</p>	<ul style="list-style-type: none"> <li>• review of accounting estimates, judgements and decisions made by management.</li> <li>• testing of journals entries.</li> <li>• review of unusual significant transactions.</li> </ul>	<p>Our audit work has not identified any evidence of management override of controls. In particular, the findings of our review of journal controls and testing of journal entries has not identified any significant issues.</p> <p>We set out later in this section of the report our work and findings on key accounting estimates and judgments.</p>

## Audit findings against other risks

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

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
<b>Operating expenses</b>	Operating expenses understated	<ul style="list-style-type: none"> <li>documented our understanding of processes and key controls over the transaction cycle.</li> <li>undertaken walkthroughs of the key controls to assess whether those controls are designed effectively.</li> <li>tested key controls.</li> <li>performed attribute testing over a sample of 60 expenditure items for occurrence, allocation and pricing to ensure expenditure is properly recorded in the accounts.</li> </ul>	Our audit work has not identified any significant issues in relation to the risk identified.
<b>Employee remuneration</b>	Remuneration expenses not correct	<ul style="list-style-type: none"> <li>controls testing on IT controls over starters and leavers.</li> <li>pay recorded at the correct rate.</li> <li>performed attribute testing over a sample of 25 employees for validity and completeness.</li> </ul>	Our audit work has not identified any significant issues in relation to the risk identified.

# Audit findings against other risks

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

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
<p><b>Welfare expenditure</b></p>	<p>Welfare benefits improperly computed</p>	<ul style="list-style-type: none"> <li>• analytical review based on trend analysis</li> <li>• predictive analytical review tool based on Department for Work and Pensions ('DWP') statistics.</li> <li>• performance of the annual up rating of system parameters.</li> <li>• we are currently in the process of completing the housing benefit testing modules to confirm welfare expenditure.</li> </ul>	<p>Our audit work has not identified any significant issues in relation to the risk identified subject to the completion of our housing benefits testing.</p>
<p><b>Property, plant &amp; equipment</b></p>	<p>PPE activity not valid</p>	<ul style="list-style-type: none"> <li>• review of in-year additions and disposals to provide assurance that property, plant and equipment has been correctly accounted for in the financial statements.</li> <li>• performance of existence testing over a sample of assets to confirm existence and completeness of the Council's fixed asset register.</li> <li>• review of capitalisation policies, presentation and disclosure of property, plant &amp; equipment, including assets held for sale.</li> </ul>	<p>Our audit work has not identified any significant issues in relation to the risk identified</p> <p>We note that the council has taken the view to reclassify £3.75m of assets that were previously recognised as "held for sale" to property, plant and equipment following a review of the plans and intentions for those assets.</p>

## Audit findings against other risks

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

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
<p><b>Property, plant &amp; equipment</b></p>	<p>Revaluation measurement not correct</p>	<ul style="list-style-type: none"> <li>• review significant revaluation movements and assess the assumptions employed by the valuer.</li> <li>• evaluation of the work of the valuations expert in determining the appropriateness of the valuation.</li> </ul>	<p>We reviewed significant movements in the property valuations. We noted that the council had revised its valuation methodology over a number of land sites from residential to amenity valuation, which contributed to the impairment charge of £2.3m charged to the service accounts in a impairment charge. This has been offset by the upward movement of property plant and equipment of £2m predominantly as a result of the upward trend in property prices.</p>

# Accounting policies, estimates & judgements

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

Accounting area	Summary of policy	Comments	Assessment
<p><b>Revenue recognition</b></p>	<p>Revenue from the provision of services is recognised when the Council can measure reliably the percentage of completion of the transaction and it is probable that economic benefits or service potential associated with the transaction will flow to the Council.</p> <p>Revenue from the sale of goods is recognised when the Council transfers the significant risks and rewards or ownership to the purchaser and it is probable that economic benefits or service potential associated with the transaction will flow to the Council.</p>	<ul style="list-style-type: none"> <li>the revenue recognition policy is in line with IAS 18, Revenue recognition standard and the model policies within the CIPFA Code of Practice.</li> <li>our review of council tax, grant, national non-domestic rates and other income confirmed the council has accounted for income in line with stated policies and the Code.</li> </ul>	<p><b>Green</b></p>

**Assessment**

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

# Accounting policies, estimates & judgements

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

Accounting area	Summary of policy	Comments	Assessment
<p><b>Judgements and estimates</b></p>	<ul style="list-style-type: none"> <li>• Key estimates and judgements include :                             <ul style="list-style-type: none"> <li>– pension fund valuations and settlements</li> <li>– revaluations</li> <li>– impairments</li> <li>– provisions</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>• we challenged the assumptions used by the actuary in arriving at the pension liability and reviewed the sensitivity to change in these assumptions and the impact on the liability.</li> <li>• we reviewed the qualification and expertise of the property valuer and challenged the assumptions used in arriving at the valuations. The movement and changes in valuation methodology have been appropriately disclosed in the financial statements.</li> <li>• whilst the provisions were not considered a material risk we ensured adequate presentation and disclosure of the Council's provisions was made in the financial statements.</li> <li>• we confirmed the £0.6m reversal of the leisure contracts provision to the general fund had been correctly treated. Future exposure has been minimised as this has been included as a risk within the general fund balance.</li> </ul>	<p><b>Green</b></p>
<p><b>Other accounting policies</b></p>	<ul style="list-style-type: none"> <li>• We have reviewed the Council's policies against the requirements of the CIPFA Code and accounting standards.</li> </ul>	<ul style="list-style-type: none"> <li>• our review of accounting policies has not highlighted any other issues which we wish to bring to your attention</li> </ul>	<p><b>Green</b></p>

**Assessment**

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

## Misclassifications & disclosure changes

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

Adjustment type	Value £'000	Account balance	Impact on the financial statements
1 Disclosure	-	-	The un-audited financial statements included an inconsistent approach to the inclusion of 2010/11 comparative figures. As there is no requirement to provide comparative figures, all have been removed in the interests of consistency.



## Misclassifications & disclosure changes

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

Adjustment type	Value £'000	Account balance	Impact on the financial statements
2 Disclosure	-	Allocation of resources	There were two areas of the 2012/13 accounts affected by errors in the presentation of the comparative 2011/12 figures, namely the Net cost of Services on the I&E account and Note 40 (segmental reporting). In both cases the net position was correct and the disclosure mis-statement appeared in the individual lines making up the net position
3 Disclosure	18	Financial Instrument	The council have adopted Sector guidance on accounting for the Local Council Mortgage Scheme. Our view is that the scheme represents a financial guarantee and therefore disclosure is required of the fair value of the guarantee. The fair value is insignificant at present although it could potentially increase in the future. The council have confirmed that they will continue to review future guidance and reassess the potential impact to the financial statements in future periods.

# Internal controls

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

Our audit included consideration of internal controls relevant to the preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control. The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

These and other recommendations, together with management responses, are included in the action plan attached at appendix A.

	Assessment	Issue and risk	Recommendations
1.	Amber	<p>Payroll System - Logical Access Control Settings</p> <ul style="list-style-type: none"> <li>• There are currently weaknesses in the configuration of logical access controls for the Trent payroll system. There is presently no control to ensure that staff who use the system regularly change their passwords. We were informed that passwords for the main users have not been changed since the system was implemented.</li> </ul> <p>We have highlighted the above issue for the Council to take into account when the new payroll system is introduced from 1<sup>st</sup> April 2014.</p>	<p>In 2013/14 the council should consider implementation of stronger logical access settings for the new payroll system. General practice would be:</p> <ul style="list-style-type: none"> <li>• password rotation (currently 30-60 days)</li> <li>• password complexity or strong passwords</li> <li>• minimum password length should be enforced, for example, password length 8 characters</li> <li>• account lockout after 3 failed attempts</li> <li>• no password re-use history</li> </ul>

## Assessment

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

## Other communication requirements

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

	Issue	Commentary
1.	<b>Matters in relation to fraud</b>	<ul style="list-style-type: none"> <li>We have previously discussed the risk of fraud with the Audit Committee and we have not been made aware of any other incidents in the period and no other issues have been identified during the course of our audit procedures.</li> </ul>
2.	<b>Matters in relation to laws and regulations</b>	<ul style="list-style-type: none"> <li>We are not aware of any significant incidences of non-compliance with relevant laws and regulations.</li> </ul>
3.	<b>Written representations</b>	<ul style="list-style-type: none"> <li>A standard letter of representation has been requested from the Council.</li> </ul>
4.	<b>Disclosures</b>	<ul style="list-style-type: none"> <li>Our review found no material omissions in the financial statements.</li> </ul>
5.	<b>Matters in relation to related parties</b>	<ul style="list-style-type: none"> <li>We are not aware of any related party transactions which have not been disclosed.</li> </ul>
6.	<b>Going concern</b>	<ul style="list-style-type: none"> <li>Our work has not identified any reason to challenge the Council's decision to prepare the financial statements on a going concern basis.</li> </ul>

## Section 3: Value for Money

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# Value for Money

## Value for Money conclusion

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

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

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

- **The Council has proper arrangements in place for securing financial resilience.** The Council has robust systems and processes to manage effectively financial risks and opportunities, and to secure a stable financial position that enables it to continue to operate for the foreseeable future.
- **The Council has proper arrangements for challenging how it secures economy, efficiency and effectiveness.** The Council is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.

## Key findings

### Securing financial resilience

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

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

Overall our work highlighted that the Council has in place the proper arrangements to secure the economy, efficiency and effectiveness in its use of resources.

### Challenging economy, efficiency and effectiveness

We have reviewed whether the Council has prioritised its resources to take account of the tighter constraints it is required to operate within. We have completed the following work:

We have completed a risk assessment of the Council's arrangements identifying and agreeing any specific areas of work to address any high risk areas identified.

## Overall VFM conclusion

On the basis of our work, and having regard to the guidance on the specified criteria published by the Audit Commission, we are satisfied that in all significant respects the Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2013 and no residual risks were identified.

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

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## Fees, non audit services and independence

We confirm below our final fees charged for the audit and confirm there were no fees for the provision of non audit services.

### Fees

	Per Audit plan £	Actual fees £
Council audit	68,842	68,842
Grant certification *	11,100	Tbc
<b>Total audit fees</b>	<b>79.942</b>	<b>Tbc</b>

\* grant certification fees are estimate only.

### Independence and ethics

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

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

## Section 5: Communication of audit matters

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# Communication of audit matters to those charged with governance

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

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

## Respective responsibilities

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

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

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

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

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

# Appendices

# Appendix A: Action plan

**Priority**

**High** - Significant effect on control system

**Medium** - Effect on control system

**Low** - Best practice

Rec No.	Recommendation	Priority	Management response	Implementation date & responsibility
1	<p>In 2013/14 the council should consider implementation of stronger logical access settings for the new payroll system due for implementation on 1<sup>st</sup> April 2014. General practice would be:</p> <ul style="list-style-type: none"> <li>•password rotation (currently 30-60 days)</li> <li>•password complexity or strong passwords</li> <li>•minimum password length should be enforced, for example, password length 8 characters</li> <li>•account lockout after 3 failed attempts</li> <li>•no password re-use history</li> </ul>	Medium		

# Appendix B: Audit opinion

**We anticipate we will provide the Council with an unmodified audit report**

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

### Opinion on the Authority financial statements

We have audited the financial statements of North Hertfordshire District Council for the year ended 31 March 2013 under the Audit Commission Act 1998. The financial statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement and Collection Fund and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13.

This report is made solely to the members of North Hertfordshire District Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010. 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 Strategic Director of Finance, Policy & Governance and auditor

As explained more fully in the Statement of the Strategic Director of Finance, Policy & Governance Responsibilities, the Strategic Director of Finance, Policy & Governance 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, 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 Strategic Director of Finance, Policy & Governance; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the explanatory foreword to identify material inconsistencies with the audited financial statements. 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 North Hertfordshire District Council as at 31 March 2013 and of its expenditure and income for the year then ended; and have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13.

### Opinion on other matters

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

### Matters on which we report by exception

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

We have nothing to report in these respects.

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

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

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

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

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 audit in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission in November 2012, as to whether the Authority has proper arrangements for:

securing financial resilience; and

challenging how it secures economy, efficiency and effectiveness.

The Audit Commission has determined these two criteria as those necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2013.

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

***Conclusion***

On the basis of our work, having regard to the guidance on the specified criteria published by the Audit Commission in November 2012, 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 ended 31 March 2013.

**Certificate**

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

Phil Westerman, Senior Statutory Auditor  
for and on behalf of Grant Thornton UK LLP, Appointed Auditor

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19 September 2013

## Appendix C: Overview of audit findings

In this section we present our findings in respect of matters and risks identified at the planning stage of the audit and additional matters that arose during the course of our work.

### Changes to Audit Plan

We have not had to change our Audit Plan as previously communicated to you on 20 March 2013.

Account	Transaction cycle	Material misstatement risk?	Description of risk	Change to the audit plan	Audit findings
Cost of services - operating expenses	Operating expenses	Other	Operating expenses understated	No	None
Cost of services – employee remuneration	Employee remuneration	Other	Remuneration expenses not correct	No	None
Costs of services – Housing & council tax benefit	Welfare expenditure	Other	Welfare benefits improperly computed	No	None
Cost of services – Housing revenue	HRA	Other	Housing revenue transactions not recorded	No	None
Cost of services – other revenues (fees & charges)	Other revenues	None		No	None
(Gains)/ Loss on disposal of non current assets	Property, Plant and Equipment	None		No	None
Payments to Housing Capital Receipts Pool	Property, Plant & Equipment	None		No	None
Precepts and Levies	Council Tax	None		No	None

Account	Transaction cycle	Material misstatement risk?	Description of risk	Change to the audit plan	Audit findings
Interest payable and similar charges	Borrowings	None		No	None
Pension Interest cost	Employee remuneration	None		No	None
Interest & investment income	Investments	None		No	<b>None</b>
Return on Pension assets	Employee remuneration	None		No	None
Dividend income from Joint Venture	Revenue			No	None
Impairment of investments	Investments	None		No	None
Investment properties: Income expenditure, valuation, changes & gain on disposal	Property, Plant & Equipment	None		No	None
Income from council tax	Council Tax	None		No	None
NNDR Distribution	NNDR	None		No	None
PFI revenue support grant and other Government grants	Grant Income <sup>9</sup>	None		No	None
Capital grants & Contributions (including those received in advance)	Property, Plant & Equipment	None		No	None

Account	Transaction cycle	Material misstatement risk?	Description of risk	Change to the audit plan	Audit findings
(Surplus)/ Deficit on revaluation of non current assets	Property, Plant & Equipment	None		No	None
Actuarial (gains)/ Losses on pension fund assets & liabilities	Employee remuneration	None		No	None
Other comprehensive (gains)/ Losses	Revenue/ Operating expenses	None		No	None
Property, Plant & Equipment	Property, Plant & Equipment	Other	PPE activity not valid	No	None
Property, Plant & Equipment	Property, Plant & Equipment	Other	Revaluation measurements not correct	No	None
Heritage assets & Investment property	Property, Plant & Equipment	None		No	None
Intangible assets	Intangible assets	None		No	None
Investments (long & short term)	Investments	None		No	None
Debtors (long & short term)	Revenue	None		No	None
Assets held for sale	Property, Plant & Equipment	None		No	None
Inventories	Inventories	None		No	None



Account	Transaction cycle	Material misstatement risk?	Description of risk	Change to the audit plan	Audit findings
Borrowing (long & short term)	Debt	None		No	None
Creditors (long & Short term)	Operating Expenses	Other	Creditors understated or not recorded in the correct period	No	None
Provisions (long & short term)	Provision	None		No	None
Pension liability	Employee remuneration	None		No	None
Reserves	Equity	None		No	None



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