

# The Audit Findings for North Hertfordshire District Council

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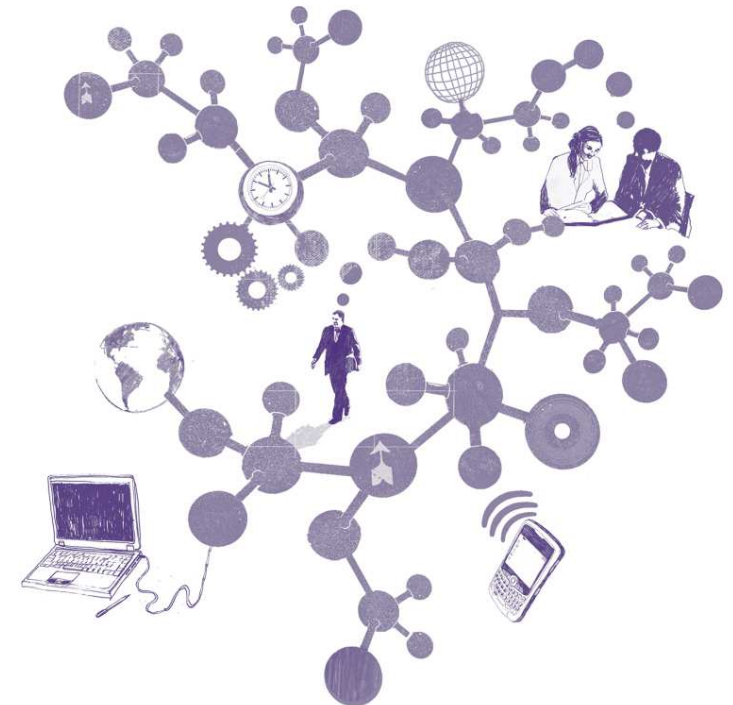
**Year ended 31 March 2014**

28 August 2014

**Philip Westerman**  
Engagement Lead  
T 020 7728 2584  
E [philip.r.westerman@uk.gt.com](mailto:philip.r.westerman@uk.gt.com)

**Richard Lawson**  
Manager  
T 07766 442038  
E [richard.lawson@uk.gt.com](mailto:richard.lawson@uk.gt.com)

**Andy Ayre**  
Audit Executive  
T +44 (0)207 728 2328  
E [andy.j.ayre@uk.gt.com](mailto:andy.j.ayre@uk.gt.com)



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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

# 1. 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 2014. 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 Authority 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 25 February 2014.

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

- obtaining the outstanding investment confirmation letters
- receipt of the letter confirming the Council's pension liabilities
- completion of housing benefit case testing
- review of the final version of the financial statements

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

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

## **Key issues arising from our audit**

### **Financial statements opinion**

We anticipate providing an unqualified opinion on the financial statements.

We have identified no material adjustments affecting the Council's reported financial position. We identified a small number of reclassification and presentational adjustments which are reported in Section 2.

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

- The Council transferred an asset valued at £2million from Surplus Assets to Assets Held for Sale in respect of Lloyd Way. IFRS 5 "Non Current Assets Held for Sale" requires that the assets recognised as held for sale should be expected to be sold within 12 months of the reporting date. It has been confirmed by management that under the current sales arrangement that this is expected to take longer than 12 months to complete. It is considered that the most appropriate treatment is to present this asset within assets held for sale.

- The Council have correctly applied the additional clarification in the cipfa guidance issued with the code of practice surrounding the valuation methodology for property, plant and equipment (PPE). Management have valued the PPE as at 1 April 2013 and have correctly satisfied themselves that the values have not changed materially as at 31 March 2014 through conducting a thorough review of the PPE asset base.
- The method for accounting for the Collection Fund has changed from the prior year, the Council have set aside a provision for Business Rate appeals based on the 2010 Valuation Office rating list. The provision for appeals provides all appeals up to 31<sup>st</sup> March 2014 from the 1<sup>st</sup> April 2010 but does not include provision for future appeals. We have performed our own internal procedures and sense checks and we are satisfied that the Council has provided an adequate amount for business rate appeals.
- The Council have purchased the Civic Offices for a total of £3.6million, which will save the Council £200k per annum in rental costs.

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 details of our work on Value for Money are set out in Section 3 of this report.

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

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

### **Controls**

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 access rights review and IT policy confirmation acknowledgement.

Further details are set out in 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 Section 2. 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.

## 2. Audit findings

In this section we present our findings in respect of matters and risks identified at the planning stage of the audit, as communicated in our Audit Plan dated 25 February 2014, and any additional matters that arose during the course of our work. We also set out the adjustments to the financial statements arising from our audit work and our findings in respect of internal controls.

### **Changes to Audit Plan**

We have not made any significant changes to our Audit Plan as previously communicated to you at the Finance, Audit and Risk Committee meeting on 19 March 2014.

### **Audit opinion**

We will be providing the Council with an unmodified audit opinion.

# Audit findings (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 journal 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 judgements.</p>

# Audit findings (other risks)

In this section we detail our response to the other risks of material misstatement which we identified in the Audit Plan.

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
<b>Operating expenses</b>	Creditors understated or not recorded in the correct period	<ul style="list-style-type: none"> <li>documented our understanding of processes and key controls over the transaction cycle</li> <li>undertaken walkthrough of the key controls to assess whether those controls are designed effectively</li> <li>tested key controls</li> <li>tested operating expenses including a judgemental sample of 20 items for occurrence, allocation and pricing to ensure expenditure is properly recorded in the accounts.</li> </ul>	<ul style="list-style-type: none"> <li>Our audit work has not identified any significant issues in relation to the risks identified.</li> </ul>
<b>Employee remuneration</b>	Employee remuneration accrual understated	<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 60 employees for validity and completeness.</li> </ul>	<ul style="list-style-type: none"> <li>Our audit work has not identified any significant issues in relation to the risk identified.</li> </ul>
<b>Welfare expenditure</b>	Welfare benefit expenditure improperly computed	<ul style="list-style-type: none"> <li>At the date of issue of this report, we are currently in the process of completing the housing benefit testing modules to confirm welfare expenditure.</li> </ul>	<ul style="list-style-type: none"> <li>Our audit work has not identified any significant issues in relation to the risk identified subject to the completion of our housing benefits testing.</li> </ul>

# Audit findings (other risks) continued

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
<b>Property, plant &amp; equipment (PPE)</b>	Activity not valid	<ul style="list-style-type: none"> <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 PPE, including assets held for sale.</li> </ul>	<ul style="list-style-type: none"> <li>• Our audit work has not identified any significant issues in relation to the risk identified</li> <li>• We note that the Council has recognised £2million as Assets Held for Sale, even though the assets disposal period will be beyond the 12 month recommended period for the asset to be recognised as an Asset Held for Sale. The asset remains classified as held for sale as this is considered to provide a more accurate presentation in the accounts.</li> </ul>
<b>Property, plant &amp; equipment</b>	Revaluation measurement not correct	<ul style="list-style-type: none"> <li>• Reviewed significant revaluation movements and assessed the assumptions employed by the valuer</li> <li>• Evaluated the work of the expert in determining the appropriateness of the valuation.</li> </ul>	<ul style="list-style-type: none"> <li>• The additional CIPFA code requirements surrounding the valuation of property, plant and equipment valuation have been introduced in 2013/14. The Council has correctly applied the new requirements regarding the revaluation of PPE</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>• Our audit work has not identified any significant issues in relation to the risk identified.</li> </ul>



# 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
<b>Revenue recognition</b>	<ul style="list-style-type: none"> <li>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.</li> <li>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.</li> </ul>	<ul style="list-style-type: none"> <li>The revenue recognition policy is in line with IAS 18, "Revenue recognition", 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>	<b>Green</b>
<b>Judgements and estimates</b>	<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 and 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>Whilst the Business Rates appeals and other provisions were not considered a material risk area, we ensured adequate presentation and disclosure of the Council's provisions was made in the financial statements.</li> </ul>	<b>Green</b>

## Assessment

**Green** Accounting policy appropriate and disclosures sufficient

## Adjusted misstatements and disclosure amendments

We are required to report all misstatements to those charged with governance, whether or not the financial statements have been adjusted by management. The only adjustment made to the draft accounts was a reclassification of a bad debt provision within debtors balance sheet headings.

There were a number of presentational adjustments that we have discussed and agreed with management and that have been reflected in the financial statements.

# 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. Both of the findings below are considered to be lower risk and therefore only represent a risk of inconsequential misstatement.

	Issue and risk	Recommendations
1.	<p><b>Lack of user access rights review – Network</b></p> <p>A review of user management processes identified that user accounts and associated permissions within network and network folders were not being routinely reviewed for appropriateness.</p> <p>In the absence of formalised users access rights reviews, access to information resources and system functionality may not be restricted on the basis of legitimate business need. Users access rights may become disproportionate to their responsibilities.</p>	<ul style="list-style-type: none"> <li>We recommend that formal reviews be undertaken of user access permissions (including the network folders) and when changes are made to user accounts to help identify anomalies and ensure that access is granted on the basis of a user's level of responsibility. This will ensure that access rights are proportionate to users responsibilities and protect systems and information from unauthorised access.</li> </ul>
2.	<p><b>No acknowledgement to confirm understanding of key IT policies by staff</b></p> <p>The Council has developed a suite of network and application information security policies for use by Council staff . The policies are updated periodically and placed for easy access on the intranet. All new employees are required to acknowledge these policies by signing their employment Terms and Conditions which require adherence to the policies and procedures. However, there is no requirement for existing staff to formally acknowledge any IT security documentation, following periodic updates. The absence of such documentation or the requirement for all users to acknowledge having read internal policy directives, may lead to a lack of awareness of the organisation expectations of staff members in relation to the use of IT. As a consequence, it is likely to be difficult to hold staff accountable for their actions in the event of a breach of these policies.</p>	<ul style="list-style-type: none"> <li>Management should introduce a process that requires staff to formally acknowledge IT security policy documentation in order to ensure they understand the controls and procedures in place that they need to adhere to.</li> </ul>

# 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 Finance, Audit &amp; Risk Committee and we have not been made aware of any incidents in the period and no other issues have been identified during the course of our audit.</li> </ul>
2.	<b>Matters in relation to laws and regulations</b>	<ul style="list-style-type: none"> <li>We are not aware of any significant incidences of non-compliance with relevant laws and regulations.</li> </ul>
3.	<b>Written representations</b>	<ul style="list-style-type: none"> <li>A letter of representation has been requested from 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>We concur with the Council's decision to prepare the financial statements on a going concern basis.</li> </ul>

## 3. Value for Money

### Value for money conclusion

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

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

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

These criteria are:

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

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

### Key findings

#### Securing financial resilience

We have considered the Council's arrangements to secure financial resilience against the following themes:

- Key financial performance indicators
- Financial governance
- Financial planning
- Financial control

Overall our work highlighted the organisation has robust systems and processes to manage financial risks and opportunities effectively, and to secure a stable financial position that enables it to continue to operate for the foreseeable future.

#### Challenging economy, efficiency and effectiveness

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

- Prioritising resources
- Improving efficiency & productivity

Overall our work highlighted that the organisation is successfully prioritising its resources within tighter budgets.

### 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 has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2014.

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

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

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

<b>Theme</b>	<b>Summary findings</b>	<b>RAG rating</b>
<b>Key indicators of performance</b>	<p>The Council has a good track record of financial management, achieving net underspends in each of the last two years. Benchmarked key indicators of performance indicate that the Council hold a reasonable level of useable reserves compared to their nearest neighbours.</p> <p>The current level of borrowing represents a resilient financial position for the Council, who are within the prudential borrowing limits, and the decreased amount of short term borrowing demonstrates the reduction on reliance of short term borrowing to meet cashflow requirements.</p> <p>The Council will need to carefully monitor these financial indicators to ensure that it remains financially resilient during the Medium Term Financial Strategy (MTFS) period.</p>	<b>Green</b>
<b>Strategic financial planning</b>	<p>The Council has in place a 5 year MTFS from 2014 – 2019 and the process had a high level of stakeholder engagement.</p> <p>The Council continue to monitor the MTFS during its delivery and the Council has delivered on the 2013/14 financial plan.</p>	<b>Green</b>
<b>Financial governance</b>	<p>The Council has good senior management and member engagement in financial planning and financial management as part of the Corporate Business Planning process.</p> <p>The Council has a well established approach and appropriate processes in place in relation to financial governance and has delivered good results.</p>	<b>Green</b>

Theme	Summary findings	RAG rating
<b>Financial control</b>	<p>The Council recorded a small surplus to the Revenue budgets of £0.5m for the second consecutive year . The capital budget recorded a £1.2million overspend compared to the original budget, although £2.4million was due to a capitalised contribution to the pension fund .</p> <p>Internal Audit have provided an opinion of substantial assurance over the adequacy and effectiveness of the key financial systems of the Council.</p> <p>The Council have in place a set of corporate health indicators that are reported to the Cabinet on a periodic basis, review of the year end indicators has found that four out of the five indicators are green and only building control fees are red rated. The overspend on building control is covered by the surpluses generated by the other 4 indicators.</p>	<b>Green</b>
<b>Prioritising resources</b>	<p>The financial pressures on the Council owing to the CSR has meant that significant focus has been on the need to prioritise resources. The Cabinet receive detailed financial reports on a quarterly basis and are kept up to date on any significant issues in the interim period.</p> <p>The Council utilise the Citizens panel every 2 years to provide feedback on Council services, which then drives the Council priorities. The latest feedback was that 94% of respondents to the December 2013 survey were satisfied with the area as a place to live.</p>	<b>Green</b>
<b>Improving efficiency &amp; productivity</b>	<p>The Council set an initial efficiency target of £850k for the year. Actual performance exceeded budget by £31k in a challenging financial environment ,with this year being the fifth continuous year since the spending review that the Council has made efficiency savings.</p>	<b>Green</b>

## 4. Fees, non audit services and independence

We confirm below our final fees charged for the audit and provision of non-audit services.

### Fees

	Per Audit plan £	Actual fees £
Council audit	68,482	69,442
Grant certification	11,400	tbc
<b>Total audit fees</b>	<b>79,882</b>	<b>tbc</b>

### Audit fee

There is additional fee of £940 in respect of work on material business rates balances. This additional work was necessary as auditors are no longer required to carry out work to certify NDR3 claims. The additional fee is 50% of the average fee previously charged for NDR3 certifications for a District Council and is subject to agreement by the Audit Commission.

### Fees for other services

Service	Fees £
VfM Review of Financial Services	7,325

### 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.



## 5. 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		✓



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