

# The Audit Plan for North Hertfordshire District Council

This version of the report is a draft. Its contents and subject matter remain under review and its contents may change and be expanded as part of the finalisation of the report.

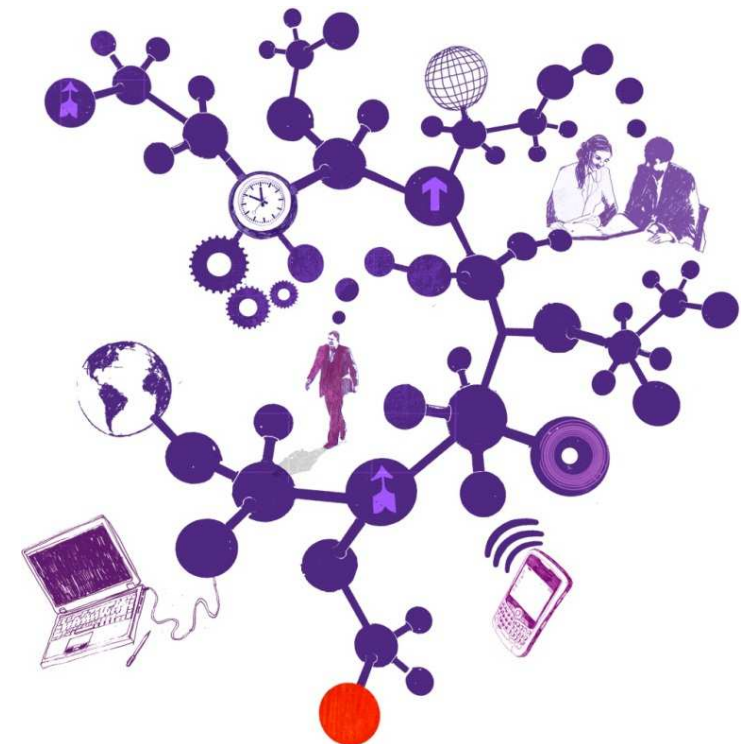
**Year ended 31 March 2015**

March 2015

**Iain Murray**  
Engagement Lead  
T 020 7728 3328  
E [iain.g.murray@uk.gt.com](mailto:iain.g.murray@uk.gt.com)

**Richard Lawson**  
Audit Manager  
T +44 (0)7766 442038  
E [richard.lawson@uk.gt.com](mailto:richard.lawson@uk.gt.com)

**Hetal Mistry**  
Audit Executive  
T 020 7728 2219  
E [hetal.mistry@uk.gt.com](mailto:hetal.mistry@uk.gt.com)



The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the Council or any weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. 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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# 1. Understanding your business

In planning our audit we need to understand the challenges and opportunities you are facing. We set out a summary of our understanding below.

## Challenges/opportunities

### 1. Partnership working

- Shared service working for the administration of building control and anti fraud services.
- Partnership working with other bodies including Hitchin Town Hall Ltd for the provision of Hitchin museum.
- Partnership working with neighbouring councils for the provision of waste services.

### 2. Local plan

- You have recently consulted on the preferred options for the North Herts local plan.
- Your local plan will play a key part in decisions about how you develop your local area and communities.

### 3. Investment and economic growth

- You are part of the Hertfordshire and The Greater Cambridge-Greater Peterborough Local Enterprise Partnerships (LEPs).
- These LEPs are an important part of your plans to create and promote sustainable growth in the district.

### 4. LG Finance Settlement

- The local government spending settlement means you are facing a cash reduction in your spending power of 15.5% in 2015-16.

### 5. New payroll provider

- You have recently introduced new payroll system with a third party provider, Serco, replacing the in-house payroll service.

## Our response

- We will discuss your plans in these areas through our regular meetings with senior management and those charged with governance, providing a view where appropriate

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- We will review your Medium Term Financial Plan and financial strategy as part of our work on your arrangements for financial resilience.

- We will perform procedures at the interim stage of the audit to ensure the transfer of data between systems was complete.

## 2. Developments relevant to your business and the audit

In planning our audit we also consider the impact of key developments in the sector and take account of national audit requirements as set out in the Code of Audit Practice ('the code') and associated guidance.

### Developments and other requirements

#### 1. Financial reporting

- Changes to the CIPFA Code of Practice

#### 2. Legislation

- Local Government Finance settlement
- Accounts and Audit Regulations 2015

#### 3. Corporate governance

- Annual Governance Statement (AGS)
- Explanatory foreword

#### 4. Financial Pressures

- Managing service provision with less resource
- Progress against savings plans

#### 5. Other requirements

- You are required to submit a Whole of Government accounts pack on which we provide an audit opinion
- You completes grant claims and returns on which audit certification is required

### Our response

We will ensure that

- you comply with the requirements of the CIPFA Code of Practice through discussions with management and our substantive testing

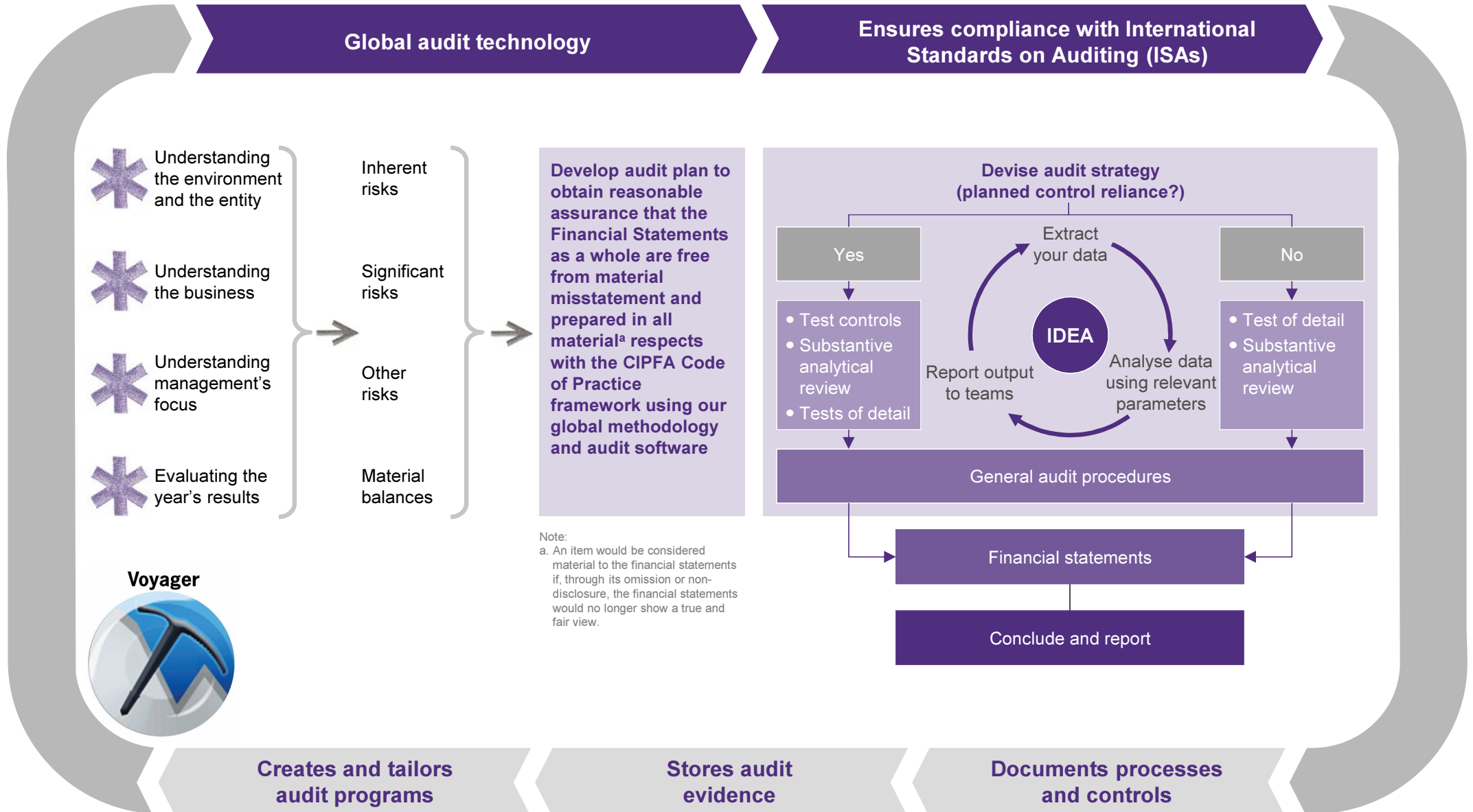
- We will discuss the impact of the legislative changes with you through our regular meetings with senior management and those charged with governance, providing a view where appropriate

- We will review the arrangements you have in place for the production of the AGS
- We will review the AGS and the explanatory foreword to consider whether they are consistent with our knowledge

- We will review the your performance against the 2014/15 budget, including consideration of performance against the savings plan
- We will undertake a review of Financial Resilience as part of our VfM conclusion

- We will carry out work on the WGA pack in accordance with requirements
- We will certify the housing benefit subsidy claim in accordance with the requirements specified by Public Sector Audit Appointments Ltd. This company will take over the Audit Commission's responsibilities for housing benefit grant certification from 1 April 2015.

# 3. Our audit approach



## 4. Significant risks identified

'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 outline the significant risks of material misstatement which we have identified. There are two presumed significant risks which are applicable to all audits under auditing standards (International Standards on Auditing – ISAs) which are listed below:

Significant risk	Description	Work planned
The revenue cycle includes fraudulent transactions	<p>Under ISA 240 there is a presumed risk that revenue may be misstated due to the improper recognition of revenue.</p> <p>This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.</p>	<p>Having considered the risk factors set out in ISA240 and the nature of the revenue streams at North Hertfordshire District Council, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:</p> <ul style="list-style-type: none"> <li>• there is little incentive to manipulate revenue recognition</li> <li>• opportunities to manipulate revenue recognition are very limited</li> <li>• the culture and ethical frameworks of local authorities, including North Hertfordshire District Council, mean that all forms of fraud are seen as unacceptable.</li> </ul>
Management over-ride of controls	<p>Under ISA 240 the presumption that the risk of management over-ride of controls is present in all entities.</p>	<p><b>Work planned at interim:</b></p> <ul style="list-style-type: none"> <li>• Testing of journal entries for months 1-10</li> </ul> <p><b>Further work planned:</b></p> <ul style="list-style-type: none"> <li>• Review of accounting estimates, judgments and decisions made by management</li> <li>• Testing of journal entries for months 11-12</li> <li>• Review of unusual significant transactions</li> </ul>
Completeness of payroll	<p>The provision of payroll services has been transferred from in-house to an external provider, Serco, from 1 April 2014.</p> <p>No parallel running of systems took place and there is a risk over the completeness of the data transfer.</p>	<p><b>Work planned at interim:</b></p> <ul style="list-style-type: none"> <li>• An assessment of the procedures in place to facilitate the data transfer between systems.</li> <li>• Testing to confirm that the data transferred between systems was complete.</li> </ul>

## 5. Other risks identified

The auditor should evaluate the design and determine the implementation of the entity's controls, including relevant control activities, over those risks for which, in the auditor's judgment, it is not possible or practicable to reduce the risks of material misstatement at the assertion level to an acceptably low level with audit evidence obtained only from substantive procedures (ISA 315).

In this section we outline the other risks of material misstatement which we have identified as a result of our planning.

Other risks	Description	Audit Approach
Operating expenses	Creditors understated or not recorded in the correct period (Operating expenses understated)	<p><b>Work planned at interim:</b></p> <ul style="list-style-type: none"> <li>• We will perform a walkthrough to gain assurance that the in-year controls were operating in accordance with our documented understanding.</li> <li>• We will test journal entries from months 1 – 10 on a sample basis to gain assurance that there are adequate controls in place over inputting and processing and that these have operated effectively through the financial year.</li> </ul> <p><b>Further work planned:</b></p> <ul style="list-style-type: none"> <li>• We will review and test year end creditor and accruals.</li> <li>• We will test a sample of items of expenditure to gain assurance that expenditure has been correctly classified and for occurrence and allocation.</li> <li>• We will perform tests of journals from months 11 – 12.</li> <li>• We will carry out procedures to confirm that expenditure cut-off is materially correct and that there are no material unrecorded liabilities.</li> </ul>
Employee remuneration	Employee remuneration accruals understated (Remuneration expenses not correct)	<p><b>Work planned at interim:</b></p> <ul style="list-style-type: none"> <li>• We will perform a walkthrough to gain assurance that the in-year controls were operating in accordance with our documented understanding.</li> <li>• We will test a sample of payroll payments made during months 1 – 10 to gain assurance that employees have been remunerated at the correct rates.</li> <li>• We will perform procedures to gain assurance over the data transfer between the old in house payroll system and the new outsourced Serco payroll system.</li> </ul> <p><b>Further work planned:</b></p> <ul style="list-style-type: none"> <li>• We will perform tests of payroll from months 11 – 12.</li> <li>• We will perform cut-off testing to ensure that transactions have been recorded in the correct accounting period.</li> <li>• In addition to a review of the work of the pension fund actuary, we will perform substantive tests on the cost of pensions.</li> </ul>



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## 6. Value for money

### Value for money

The Code requires us to issue a conclusion on whether you have put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the Value for Money (VfM) conclusion.

Our VfM conclusion is based on the following criteria specified by the Audit Commission:

VfM criteria	Focus of the criteria
The organisation has proper arrangements in place for securing financial resilience	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
The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness	The organisation is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity

We are in the process of undertaking a risk assessment to identify areas of risk to our VfM conclusion. We will update the Finance, Audit & Risk committee the outcome of the initial risk assessment via our next audit update report.

The results of our VfM audit work and the key messages arising will be reported in our Audit Findings report and in the Annual Audit Letter.

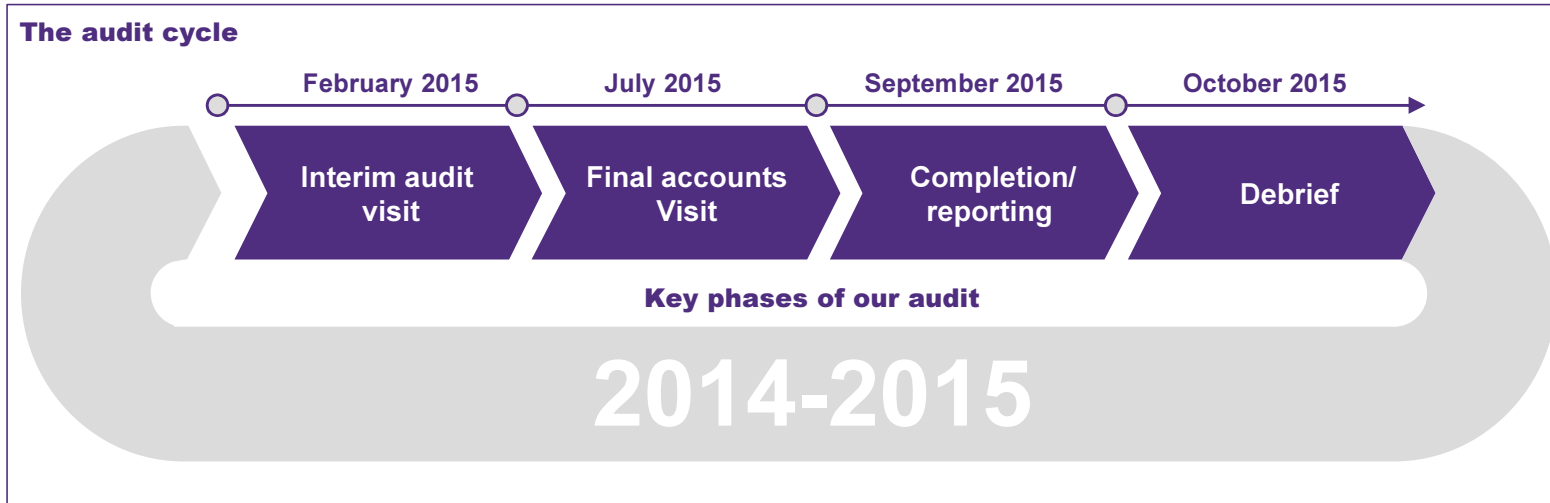
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## 7. Programme of interim audit work

The programme of our interim audit work is summarised in the table below:

Area	Work planned
<b>Internal audit</b>	Our review of internal audit will encompass: <ul style="list-style-type: none"><li>• review of internal audit's overall arrangements in accordance with auditing standards.</li><li>• review of internal audit's work on your key financial systems to date.</li></ul>
<b>Walkthrough testing</b>	We will complete walkthrough tests of controls operating in areas where we consider that there is a risk of material misstatement to the financial statements.
<b>Review of information technology controls</b>	Work to be performed on your IT controls: <ul style="list-style-type: none"><li>• Our information systems specialist will perform a high level review of the general IT control environment, as part of the overall review of the internal controls system.</li><li>• We will perform a follow up of the issues that were raised last year.</li></ul>
<b>Journal entry controls</b>	We will be reviewing your journal entry policies and procedures as part of determining our journal entry testing strategy.
<b>Value for money</b>	We will be carrying out an initial risk assessment of your value for money arrangements to ascertain if any further work is required to address any specific risks identified.

## 8. Key dates



<b>Date</b>	<b>Activity</b>
February 2015	Planning
February 2015	Interim site visit
March 2015	Presentation of audit plan to the Finance, Audit & Risk Committee
June - July 2015	Year end fieldwork
September 2015	Audit findings clearance meeting with the Strategic Director of Finance, Policy and Governance
September 2015	Report audit findings to the Finance, Audit & Risk Committee
September 2015	Sign financial statements opinion and value for money conclusion

## 9. Fees and independence

### Fees

	£
Council audit	68,482
Grant certification	11,400
<b>Total fees (excluding VAT)</b>	<b>79,882</b>

### Our fee assumptions include:

- Supporting schedules to all figures in the accounts are supplied by the agreed dates and in accordance with the agreed upon information request list
- The scope of the audit, and the Council and its activities, have not changed significantly
- The Council will make available management and accounting staff to help us locate information and to provide explanations

### Grant certification

- Our fees for grant certification cover only housing benefit subsidy certification, which falls under the remit of Public Sector Audit Appointments Limited, as the successor to the Audit Commission in this area.
- Fees in respect of other grant work, such as reasonable assurance reports, are shown under 'Fees for other services.'

### Fees for other services

Service	Fees £
None	Nil

### Fees for other services

Fees for other services reflect those agreed at the time of issuing our Audit Plan. Any changes will be reported in our Audit Findings Report and Annual Audit Letter.

### 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.

Full details of all fees charged for audit and non-audit services will be included in our Audit Findings report at the conclusion of the audit.

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

# 10. Communication of audit matters with those charged with governance

International Standards 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.

This document, The Audit Plan, outlines our audit strategy and plan to deliver the audit, while The Audit Findings will be issued prior to approval of the financial statements and will present key issues and other matters arising from the audit, together with an explanation as to how these have been resolved.

We will communicate any adverse or unexpected findings affecting the audit on a timely basis, either informally or via a report to the Council.

## Respective responsibilities

This plan 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.

Our communication plan	Audit plan	Audit findings
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 issue 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		✓
Non compliance with laws and regulations		✓
Expected modifications to the auditor's report, or emphasis of matter		✓
Uncorrected misstatements		✓
Significant matters arising in connection with related parties		✓
Significant matters in relation to going concern		✓



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