

# North Hertfordshire District Council

Annual Audit Letter for the year ended 31 March 2017

OCTOBER 2017

Ernst & Young LLP

## Contents

Executive Summary .....	2
Financial Statement Audit .....	7
Value for Money .....	10
Other Reporting Issues.....	13
Focused on your future.....	15

Public Sector Audit Appointments Ltd (PSAA) have issued a “Statement of responsibilities of auditors and audited bodies”. It is available from the Chief Executive of each audited body and via the PSAA website ([www.psa.co.uk](http://www.psa.co.uk))

The Statement of responsibilities serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas.

The “Terms of Appointment (updated 23 February 2017)” issued by PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and statute, and covers matters of practice and procedure which are of a recurring nature.

This Annual Audit Letter is prepared in the context of the Statement of responsibilities. It is addressed to the Members of the audited body, and is prepared for their sole use. We, as appointed auditor, take no responsibility to any third party.

Our Complaints Procedure - If at any time you would like to discuss with us how our service to you could be improved, or if you are dissatisfied with the service you are receiving, you may take the issue up with your usual partner or director contact. If you prefer an alternative route, please contact Steve Varley, our Managing Partner, 1 More London Place, London SE1 2AF. We undertake to look into any complaint carefully and promptly and to do all we can to explain the position to you. Should you remain dissatisfied with any aspect of our service, you may of course take matters up with our professional institute. We can provide further information on how you may contact our professional institute.

A close-up photograph of a hand holding a blue pen and writing on a document. The hand is positioned on the right side of the frame. In the background, a laptop is open, and a calculator is visible on the desk. To the left, a white mug is partially visible. The scene is brightly lit, suggesting an office environment. A yellow rectangular box is overlaid on the left side of the image, containing the text 'Executive Summary'.

## Executive Summary

## Executive Summary

We are required to issue an annual audit letter to North Hertfordshire District Council (the Council) following completion of our audit procedures for the year ended 31 March 2017. Below are the results and conclusions on the significant areas of the audit process.

Area of Work	Conclusion
Opinion on the Council's: ▶ Financial statements	Unqualified – the financial statements give a true and fair view of the financial position of the Council as at 31 March 2017 and of its expenditure and income for the year then ended
▶ Consistency of other information published with the financial statements	Other information published with the financial statements was consistent with the Annual Accounts
Concluding on the Council's arrangements for securing economy, efficiency and effectiveness	We concluded that you have put in place proper arrangements to secure value for money in your use of resources

Area of Work	Conclusion
Reports by exception: ▶ Consistency of Governance Statement	The Governance Statement was consistent with our understanding of the Council
▶ Public interest report	We had no matters to report in the public interest
▶ Written recommendations to the Council, which should be copied to the Secretary of State	We had no matters to report
▶ Other actions taken in relation to our responsibilities under the Local Audit and Accountability Act 2014	We had no matters to report
Reporting to the National Audit Office (NAO) on our review of the Council's Whole of Government Accounts return (WGA).	The Council is below the specified audit threshold of £350 million. Therefore, we did not perform any audit procedures on the consolidation pack.

As a result of the above we have also:

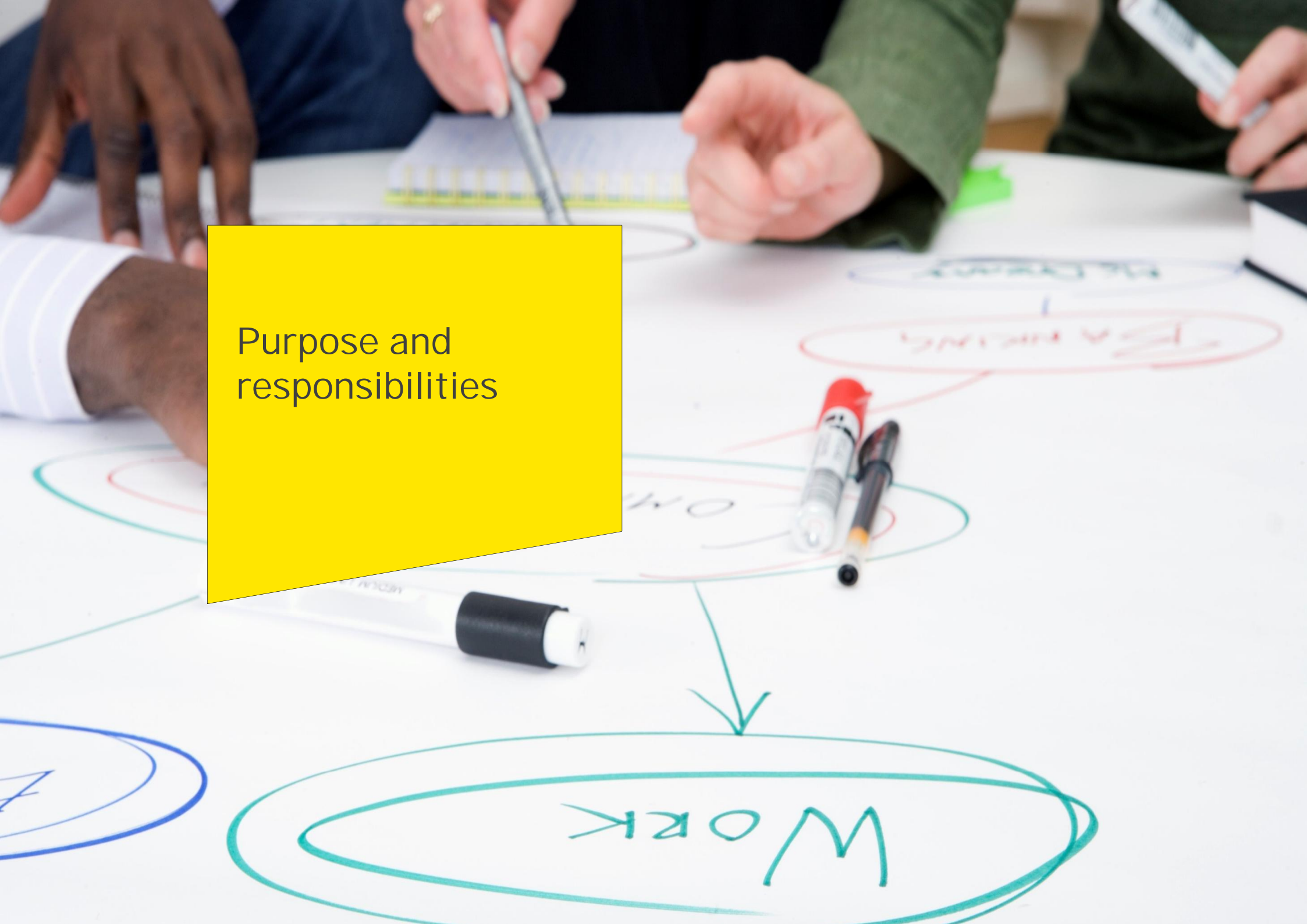
Area of Work	Conclusion
Issued a report to those charged with governance of the Council communicating significant findings resulting from our audit.	Our Audit Results Report was issued on 1 September 2017
Issued a certificate that we have completed the audit in accordance with the requirements of the Local Audit and Accountability Act 2014 and the National Audit Office's 2015 Code of Audit Practice.	Our certificate was issued on 22 September 2017

In January 2018 we will also issue a report to those charged with governance of the Council summarising the certification work we have undertaken.

We would like to take this opportunity to thank the Council's staff for their assistance during the course of our work.

Suresh Patel  
Associate Partner  
For and on behalf of Ernst & Young LLP

Purpose and responsibilities



## The Purpose of this Letter

The purpose of this annual audit letter is to communicate to Members and external stakeholders, including members of the public, the key issues arising from our work, which we consider should be brought to the attention of the Council. We have already reported the detailed findings from our audit work in our 2016/17 Audit Results Report to the Finance Audit and Risk Committee, representing those charged with governance. We do not repeat those detailed findings in this letter. The matters reported here are the most significant for the Council.

## Responsibilities of the Appointed Auditor

Our 2016/17 audit work has been undertaken in accordance with the Audit Plan that we issued on 23 January 2017 and is conducted in accordance with the National Audit Office's 2015 Code of Audit Practice, International Standards on Auditing (UK and Ireland), and other guidance issued by the National Audit Office. As auditors we are responsible for:

- ▶ Expressing an opinion on the 2016/17 financial statements; and on the consistency of other information published with the financial statements.
- ▶ Forming a conclusion on the arrangements the Council has to secure economy, efficiency and effectiveness in its use of resources.
- ▶ Reporting by exception:
  - ▶ If the annual governance statement is misleading or not consistent with our understanding of the Council;
  - ▶ Any significant matters that are in the public interest;
  - ▶ Any written recommendations to the Council, which should be copied to the Secretary of State; and
  - ▶ If we have discharged our duties and responsibilities as established by the Local Audit and Accountability Act 2014 and Code of Audit Practice.

Alongside our work on the financial statements, we also review and report to the National Audit Office (NAO) on your Whole of Government Accounts return. The Council is below the specified audit threshold of £350 million. Therefore, we did not perform any audit procedures on the return.

## Responsibilities of the Council

The Council is responsible for preparing and publishing its statement of accounts accompanied by an Annual Governance Statement. In the AGS, the Council reports publicly each year on how far it complies with its own code of governance, including how it has monitored and evaluated the effectiveness of its governance arrangements in year, and any changes planned in the coming period.

The Council is also responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.



A blurred office desk with a laptop, glasses of water, and financial documents. The scene is brightly lit, likely from a window with blinds in the background. A yellow rectangular box is overlaid on the left side of the image, containing the text 'Financial Statement Audit'.

# Financial Statement Audit



## Financial Statement Audit

### Key Issues

The Council's Statement of Accounts is an important tool for the Council to show how it has used public money and how it can demonstrate its financial management and financial health. We audited the Council's Statement of Accounts in line with the National Audit Office's 2015 Code of Audit Practice, International Standards on Auditing (UK and Ireland), and other guidance issued by the National Audit Office and issued an unqualified audit report on 22 September 2017. Our detailed findings were reported to the 21 September 2017 Finance Audit and Risk Committee and the key issues we identified were as follows:

Significant Risk	Conclusion
<p><b>Management override of controls</b></p> <p>A risk present on all audits is that management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly, and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.</p> <p>Auditing standards require us to respond to this risk by testing the appropriateness of journals, testing accounting estimates for possible management bias and obtaining an understanding of the business rationale for any significant unusual transactions.</p>	<ul style="list-style-type: none"> <li>• We tested the appropriateness of journal entries recorded in the general ledger and other adjustments made in preparing the financial statements.</li> <li>• We reviewed the following accounting estimates for evidence of management bias: pension valuations, property valuations, provisions and creditor accruals.</li> <li>• We evaluated the business rationale for any significant unusual transactions.</li> <li>• We tested a sample of accruals, prepayments and provisions to check whether they had been recorded at an appropriate value.</li> <li>• We undertook cut off testing for income and expenditure to ensure that material 2016/17 amounts had not been omitted from the financial statements.</li> </ul> <p>We have not identified any material weaknesses in controls or evidence of material management override or any instances of inappropriate judgements being applied.</p> <p>We did not identify any other transactions during our audit which appeared unusual or outside the Council's normal course of business.</p>
<p><b>Revenue and expenditure recognition</b></p> <p>Auditing standards require us to presume that there is a risk that revenue and expenditure may be misstated due to improper recognition or manipulation. For councils the potential for the incorrect classification of revenue as capital is a particular area where there is a risk of management override. We therefore review capital expenditure on property, plant and equipment to ensure it meets the relevant requirements to be capitalised.</p>	<p>We assessed that we were able to rebut the presumed fraud risk of revenue income/expenditure not being appropriately recognised with one exception: the risk that revenue expenditure could be charged against capital resources rather than to the general fund.</p> <p>We tested a sample of asset additions to ensure that these met the definition of being capital rather than revenue expenditure.</p> <p>Our testing did not identify any expenditure which had been inappropriately capitalised.</p>

The Council's Statement of Accounts is an important tool for the Council to show how it has used public money and how it can demonstrate its financial management and financial health.

## Our application of materiality

When establishing our overall audit strategy, we determined a magnitude of uncorrected misstatements that we judged would be material for the financial statements as a whole.

Item	Thresholds applied
Planning materiality	<p>We determined planning materiality to be £1.4 million (2016: £1.4 million), which is 2% of gross expenditure on services reported in the accounts, plus operating expenditure and interest payable, being a total of £71.509 million.</p> <p>We consider gross expenditure to be one of the principal considerations for stakeholders in assessing the financial performance of the Council.</p>
Reporting threshold	<p>We agreed with the Finance Audit and Risk Committee that we would report to the Committee all audit differences in excess of £71,509 (2016: £71,705)</p>

We also identified the following areas where misstatement at a level lower than our overall materiality level might influence the reader. For these areas we developed an audit strategy specific to these areas. The areas identified and audit strategy applied include:

- Remuneration disclosures including any severance payments, exit packages and termination benefits. We applied a lower threshold for errors (£10,000) and any error that would affect the banding (where applicable to the note).
- Related party transactions, the accounting standard requires us to consider the disclosure from the point of materiality to either side of the transaction we therefore considered this on a case by case basis.
- Members' allowances, we would expect an error of over £1,000 which is the rounding point used in the accounts

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations.

A close-up, shallow depth-of-field photograph of a stack of coins. The coins are stacked vertically, with the edges of several coins visible. The lighting is warm, highlighting the metallic texture and the ridges on the edges. A bright yellow rectangular box is overlaid on the left side of the image, containing the text "Value for Money".

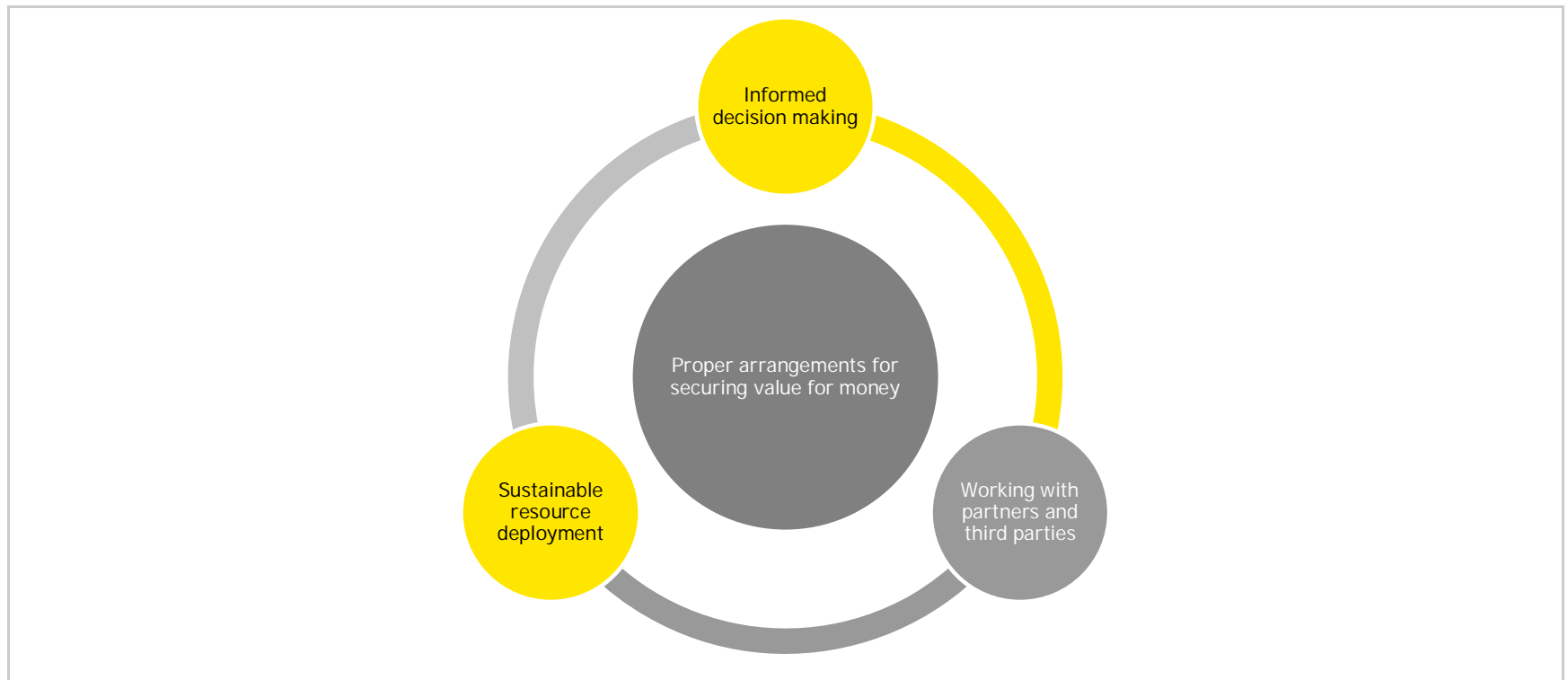
Value for Money

## Value for Money

We are required to consider whether the Council has put in place 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources. This is known as our value for money conclusion.

Proper arrangements are defined by statutory guidance issued by the National Audit Office. They comprise your arrangements to:

- Take informed decisions;
- Deploy resources in a sustainable manner; and
- Work with partners and other third parties.



We identified one significant risk in relation to these arrangements. The tables below present the findings of our work in response to the risk identified and any other significant weaknesses or issues to bring to your attention. We have performed the procedures outlined in our audit plan. We did not identify any significant weaknesses in the Council's arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

We therefore issued an unqualified value for money conclusion on 22 September 2017.

Significant Risk	Conclusion
<p>The need to find significant savings of £2.75 million over the life of the medium term financial strategy 2017 to 2022 is considered to be a significant risk. The Council has built in funding from the New Homes Bonus of between £1.1m and £1.9m over the years 2017/18 to 2020/21 into its budget. The details of this scheme are subject to changes that could adversely affect the Council's planning.</p> <p>This risk is primarily focused on the arrangements for deploying resources in a sustainable manner</p>	<p>Review the adequacy of the Council's budget monitoring process, comparing budget to outturn</p> <p>There are established processes for reporting to Cabinet on both revenue and capital spend in year. The Council has a track record of achieving its budget and in 2016/17 was able to add £1.1 million to its general fund balance. The paper to the Cabinet meeting held on 13 June 2017 showed that the underspend was spread across numerous budgets and that one of the most significant contributors to the underspend was the number of posts being held vacant as managers consider the possibility of alternative service provision.</p> <p>Review of the robustness of any assumptions used in medium term financial planning</p> <p>We reviewed the various assumptions made at the time of the 2017/18 budget setting. Obviously there is a risk that further changes will be made to future revenue streams from government and this needs to be kept under review. Payroll costs represent a significant proportion of the Council's costs and provision is made for increments and for a 1% pay award which is in line with current expectations. Non pay inflation is allowed for in line with contractual terms. We conclude that the assumptions being used are appropriate.</p> <p>Review the Council's approach to prioritising resources whilst maintaining services</p> <p>The Council took up the offer of a 4 year settlement and in response has published its sustainability plan. This recognises the need to deliver services that residents need on a 'business as usual' basis despite the reduction in available funding, by ongoing review of how services are provided for example waste/cleansing service, use of assets e.g. letting space in newly refurbished assets, and review of parking to ensure in line with corporate objectives.</p> <p>Review of a sample of savings and efficiency targets</p> <p>We reviewed three projects and there is clear monitoring and reporting of progress on each project. There is evidence of involvement of third parties in providing relevant information to inform assumptions, in addition the Finance team have been involved in developing the financial scale of efficiencies. We conclude that the arrangements are adequate overall.</p>





Other Reporting  
Issues



## Other Reporting Issues

### Whole of Government Accounts

The Council is below the specified audit threshold of £350 million. Therefore, we did not perform any audit procedures on the consolidation pack.

### Annual Governance Statement

We are required to consider the completeness of disclosures in the Council's annual governance statement, identify any inconsistencies with the other information of which we are aware from our work, and consider whether it is misleading. We had no matters to report.

### Report in the Public Interest

We have a duty under the Local Audit and Accountability Act 2014 to consider whether, in the public interest, to report on any matter that comes to our attention in the course of the audit in order for it to be considered by the Council or brought to the attention of the public. We did not identify any issues which required us to issue a report in the public interest.

### Written recommendations, objections and other powers

We have a duty under the Local Audit and Accountability Act 2014 to designate any audit recommendation as one that requires the Council to consider it at a public meeting and to decide what action to take in response. We did not identify any issues which required us to issue a written recommendation. We did not receive any objections to the 2016/17 financial statements from member of the public. We identified no issues during our audit that required us to use our additional powers under the Local Audit and Accountability Act 2014.

### Independence

We communicated our assessment of independence in our Audit Results Report to the Finance Audit and Risk Committee on 21 September 2017. In our professional judgement the firm is independent and the objectivity of the audit engagement partner and audit staff has not been compromised within the meaning regulatory and professional requirements.

### Control Themes and Observations

We have adopted a fully substantive approach and have therefore not tested the operation of controls.

Our audit did not identify any controls issues to bring to the attention of the Finance Audit and Risk Committee.

A close-up photograph of a person's face as they look through a pair of black binoculars. The person's eyes are focused on the lenses, and their hands are visible holding the device. The background is a soft, out-of-focus white. A bright yellow rectangular box is overlaid on the left side of the image, containing the text "Focused on your future".

Focused on your  
future

## Focused on your future

Area	Issue	Impact
<p><i>Earlier deadline for production and audit of the financial statements from 2017/18</i></p>	<p>The Accounts and Audit Regulations 2015 introduced a significant change in statutory deadlines from the 2017/18 financial year. From that year the timetable for the preparation and approval of accounts will be brought forward with draft accounts needing to be prepared by 31 May and the publication of the audited accounts by 31 July.</p>	<p>These changes provide challenges for both the preparers and the auditors of the financial statements, as the Council will need to bring forward its timetable for the delivery of the statement of accounts. The draft statement was available to us for audit slightly ahead of the end of June this year but officers will need to advance this further for 2017/18.</p> <p>We recognise that the working papers prepared for the audit are of a good standard although we will have some suggestions for how they could be further improved for next year. We received prompt response to our audit queries for this year’s audit. Given the pressure on auditors to complete audits within a more compressed timescale the co-operation from authorities in preparing clear working papers and prompt responses to queries will be vital.</p> <p>As auditors, nationally we have:</p> <ul style="list-style-type: none"> <li>• Issued a thought piece on early closedown</li> <li>• As part of the strategic Alliance with CIPFA jointly presented accounts closedown workshops across England, Scotland and Wales</li> <li>• Presented at CIPFA early closedown events and on the subject at the Local Government Accounting Conferences in July 2017</li> </ul> <p>Locally we have:</p> <ul style="list-style-type: none"> <li>• Agreed areas for early testing with the Council.</li> <li>• Set up a forum in October for chief accountants to meet with us to share ideas on how procedures can be streamlined.</li> </ul> <p>We look forward to continuing this productive working relation in 2017/18.</p>

EY | Assurance | Tax | Transactions | Advisory

Ernst & Young LLP

© Ernst & Young LLP. Published in the UK.  
All Rights Reserved.

ED None

The UK firm Ernst & Young LLP is a limited liability partnership registered in England and Wales with registered number OC300001 and is a member firm of Ernst & Young Global Limited.

Ernst & Young LLP, 1 More London Place, London, SE1 2AF.

[ey.com](http://ey.com)