



**Hertsmere Borough Council**

**Annual report to those charged with  
governance 2007/08**

September 2008

<b>Contents</b>	<b>Page</b>
<b>1 Introduction</b>	<b>1</b>
<b>2 The accounts opinion</b>	<b>4</b>
<b>3 The VFM conclusion</b>	<b>8</b>
<b>Appendix A Action plan</b>	<b>12</b>
<b>Appendix B Accounts adjustments agreed</b>	<b>13</b>
<b>Appendix C Reports issued</b>	<b>14</b>
<b>Appendix D Audit fees update</b>	<b>15</b>
<b>Appendix E Statement of responsibilities - accounts</b>	<b>16</b>
<b>Appendix F Statement of responsibilities - VFM</b>	<b>17</b>

# 1 Introduction

## Background and purpose of the report

- 1.1 Hertsmere Borough Council ('the Council') is responsible for the preparation of accounts which record its financial position as at 31 March 2008 and its income and expenditure for the year then ended. We are responsible for undertaking an audit and reporting whether, in our opinion, the Council's accounts 'present fairly' the financial position of the Council. Our detailed findings are set out in section two.
- 1.2 Under the Audit Commission's Code of Audit Practice we are also required to reach a conclusion on whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources ('VFM conclusion'). The pieces of work that have informed our VFM conclusion, and our detailed findings, are set out in section three.
- 1.3 The Audit Commission's Statement of Responsibilities, which sets out the respective responsibilities of the Council and the auditor in relation to the accounts and arrangements for securing economy, efficiency and effectiveness in the use of resources, have been re-produced in full in Appendices E and F and reflects the scope of our audit.
- 1.4 This report summarises the principal matters arising from our audit. The issues raised have been discussed with the Director of Resources and the Head of Financial and Information Services and his team and other officers as appropriate. Auditing standards require us, as the Council's external auditors, to report to those charged with governance certain matters before giving an opinion on the accounts and the Code of Audit Practice requires us to report key matters relating to our VFM conclusion. For the Council, this function was carried out by the Audit Committee at its meeting on 24 September 2008.

## The accounts opinion

- 1.5 We have performed our audit of the 2007/08 accounts in accordance with the Audit Commission's Code of Audit Practice and applicable auditing standards. Our approach follows that set out in the Audit and Inspection Plan 2007/08, agreed with the Council.
- 1.6 We issued an **unqualified opinion on the Council's accounts** on the 29 September 2008.
- 1.7 As was the case in 2006/07 the Council continues to prepare good quality accounts that are free from material error and misstatements and are supported by good quality working papers.

- 1.8 We recommended a number of changes to the Annual Governance Statement ('AGS') so that it fully reflects the processes that the Council has in place to help to ensure sound internal control.
- 1.9 We would like to draw to the attention of those charged with governance further significant changes that will happen to the Statement of Accounts in future years. The most significant change is the full implementation of International Financial Reporting Standards ('IFRS') in 2010/11 . Although this may seem a long way off, it is important that councils start planning now, as there will be significant changes to the accounts. Our experience in other sectors shows that audited bodies that are well planned for the transition to IFRS have fewer amendments to their accounts and would not be charged additional audit fees, compared to those that are not well planned. We would be happy to share our experiences of working with CIPFA in this area, as well as involving our Financial Reporting Advisory Group who are specialists in planning for IFRS.

### Value for Money Conclusion

- 1.10 We have completed our work on the Council's arrangements for achieving economy, efficiency and effectiveness in its use of resources and issued an **unqualified VFM conclusion** on the 29 September 2008.
- 1.11 In giving our VFM conclusion, we have also considered emerging findings from our 2008 use of resources key lines of enquiry (KLoE) assessment. Following national submission of our KLoE scores and Audit Commission quality assurance, we will write to the Council confirming 2008 KLoE scores, in November 2008.
- 1.12 Key messages from this year's Use of Resources work are summarised in section three.

### Use of this report

- 1.13 This report has been prepared solely for use by the Council to discharge our responsibilities under the Audit Commission Code of Audit Practice and relevant auditing standards and should not be used for any other purpose. No responsibility is assumed by us to any other person. This report should be read in conjunction with the Council's letter of management representation.
- 1.14 This report includes only those matters that have come to our attention as a result of performance of the audit. An audit of the accounts and Use of Resources is not designed to identify all matters that may be relevant to those charged with governance. Accordingly the audit does not ordinarily identify all such matters.
- 1.15 We would like to take this opportunity to remind the Audit Committee of the need to monitor implementation of the recommendations arising out of this report (see Appendix A) and other reports issued during the year (see Appendix C).

## Independence

- 1.16 We are able to confirm our independence and objectivity as auditors and note the following:
- we are independently appointed by the Audit Commission
  - the firm has been assessed by the Audit Commission as complying with its required quality standards
  - the appointed auditor and client service manager are subject to rotation after a period of no longer than five years
  - we comply with the Auditing Practices Board's Ethical Standards. We have not undertaken any non-audit work for the Council in 2007/08 (Appendix D).

## Acknowledgements

- 1.20 We would like to record our appreciation for the co-operation and assistance provided to us by the Council's officers and members during the course of our audit.

**Grant Thornton UK LLP**  
**September 2008**

## 2 The accounts opinion

### Introduction

- 2.1 We summarise in this section matters arising from our audit of the Council's 2007/08 accounts which we are required, under auditing standards, to report to those charged with governance.

### Approach to the audit

- 2.2 We carry out work to enable us to report to the Council our opinion as to whether the financial statements 'present fairly' the financial position of the Council in accordance with applicable laws and regulations and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2007 ('the SoRP').
- 2.3 Our approach to the audit was set out in our 2007/08 Audit and Inspection plan. We have planned our audit in accordance with auditing standards and the Audit Commission's Code of Audit Practice.
- 2.4 Other key factors to highlight include:
- we consider the materiality of items in the accounts both in determining the audit approach and in determining the impact of any errors
  - we have been able to place appropriate reliance on the key accounting systems operating at the Council for final accounts audit purposes
  - we have been able to place reliance on the work of internal audit in respect of the key accounting systems covered by their review.
  - no significant changes have been made to our audit approach in the year and as outlined in our Audit Strategy Document provided to the Council in April 2008.

### Financial Performance

- 2.5 The Council has reported a deficit on the Income and Expenditure account of £2,297,000; however, following the required statutory adjustments to the Council Fund to take into account amounts that are not chargeable to Council tax, e.g. capital financing costs, the Council added £141,000 to its Council Fund balance in 2007/8, as disclosed in the Statement of Movement on the Council Fund.
- 2.6 The Council has reported a small overspend against the budget of £5,000 in 2007/08. Included within this over spend are a number of positive and negative variances against the budget. The largest of these being an overspend of £174,000

against the Environmental Services budget primarily as a result of additional vehicle and staffing costs following the introduction of two additional weekly rubbish collection rounds and an underspend of £210,000 against the Highways Service budget as a result of a reduction in bus permit costs following renegotiation of the contract.

## Key audit findings

2.7 We summarise our key audit findings below:

Area	Key messages
Accounting policies and practices	<p>The Council has adopted appropriate accounting policies, in accordance with the 2007 SoRP.</p> <p>We reviewed the Annual Governance Statement and identified areas that could be strengthened to fully reflect the processes that the Council has in place to help to ensure sound internal control. Management have agreed to amend the Annual Governance Statement accordingly.</p> <p>We asked the Audit Committee their view as to the Council's accounting treatment for accrued interest on investments held by the Council. The Council has accounted for accrued interest on the cost of investments held in the balance sheet. However, the SoRP can be interpreted to state that this accrued interest should be recorded within debtors instead. Choosing between these accounting treatments would only lead to a re-classification in the balance sheet, i.e. there is no impact on the Income and Expenditure account or Balance Sheet. We are satisfied with the treatment of this issue by the Council.</p> <p>We are satisfied that the relevant financial information disclosed in the Explanatory Foreword is consistent with the accounts.</p>
Material risks and exposures	<p>The Council has confirmed in its letter of representation that it has no material risks and exposures at the date of the audit committee, which should be reflected in the accounts.</p> <p>Our audit procedures did not identify any significant risks and exposures to the Council which should have been reflected in the accounts.</p>
Audit adjustments	<p>We recommended no significant adjustments to the accounts, although we recommended a number of presentational adjustments.</p> <p>The level of proposed adjustments has remained around the same as last year.</p>
Unadjusted errors	<p>Management agreed to process all proposed adjustments, detailed in Appendix B. There are no unadjusted errors to report to the Audit Committee.</p>

Area	Key messages
Other matters	<p>The overall quality of the Council’s working papers to support the 2007/08 accounts remained very good.</p> <p>We were presented with draft accounts on 23 June 2008. The Approval of Statement of Accounts Committee approved the draft accounts on 30 June 2008.</p> <p>The appointed day for electors to ask the auditor questions on the accounts this year was 24 September 2008. We received no questions or objections from the public in relation to the accounts.</p> <p>Having considered the Council’s medium term financial strategy and 2008/09 budgets it is appropriate for the Council to account on a going concern basis.</p> <p>We have not identified any matters, that we have not already reported, that require the attention of the Audit Committee.</p> <p>We have discussed these and other matters arising with the Director of Resources and the Head of Financial and Information Services and his team and have reflected their responses to the matters raised in the Action Plan attached at Appendix A.</p>

## Other Issues

- 22.10 We are required to provide an audit opinion on the consolidation pack that is to be completed as part of Whole of Government Accounts. This work is not covered by our opinion on the Council’s accounts. We issued an **unqualified opinion** in respect of this work on 30 September 2008.
- 2.11 The Audit Committee should monitor implementation of the recommendations arising from this report.

## 3 The VFM conclusion

### Introduction

- 3.1 Under the Audit Commission's Code of Audit Practice we are required to reach a conclusion on whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources ('VFM conclusion'). In meeting this responsibility we review evidence that is relevant to the Council's corporate performance management and financial management arrangements, which are assessed against twelve criteria specified in the Code of Audit Practice.

### Approach to the audit

- 3.2 The following pieces of work have informed our assessment against the Code criteria:
- review of relevant findings from the Council's Direction of Travel Statement issued in March 2008
  - assessment of the Council's data quality management arrangements, using criteria prescribed by the Audit Commission
  - assessment of the Council's arrangements for financial reporting, financial management, financial standing, internal control and value for money, using the Commission's key lines of enquiry (KLoE)
- 3.3 The key findings from each of these pieces of work are summarised in this section of the report.

### VFM conclusion

- 3.4 We have completed our work on the Council's arrangements for achieving economy, efficiency and effectiveness in its use of resources and issued an **unqualified VFM conclusion** on 29 September 2008.

3.5 Our conclusions for each of the 12 Code criteria are set out in the table below:

Code area	Source of evidence	Arrangements adequate?
Setting, reviewing and implementing strategic and operational objectives	Direction of travel statement	Yes
Communication with service users and other stakeholders and partners	Direction of travel statement	Yes
Management of performance against strategic objectives	Direction of travel statement	Yes
Monitoring the quality of published performance information	Data quality audit	Yes
Maintaining a sound system of internal control	Use of Resources audit	Yes
Managing significant business risks objectives	Use of Resources audit	Yes
Managing and improving value for money	Use of Resources audit	Yes
Maintaining a medium-term financial strategy	Use of Resources audit	Yes
Ensuring that spending matches available resources	Use of Resources audit	Yes
Managing performance against budgets	Use of Resources audit	Yes
Managing the asset base	Use of Resources audit	Yes
Promoting and ensuring probity and propriety in the conduct of business	Use of Resources audit	Yes

## Direction of travel statement

- 3.6 We are required to review the Council's latest direction of travel statement in order to satisfactorily conclude on three of the Code criteria (see table above). In completing this work we are not required to re-perform the work of the corporate assessment team and the Relationship Manager rather we are looking to place reliance on this work.
- 3.7 Our assessment is based on the latest direction of travel statement issued in March 2008. Based on this work, we assess the Council as having at least adequate arrangements for objective setting, consultation and performance management.

## Data quality audit

- 3.8 The audit work that we have used to reach our conclusion in respect of Code criterion on published performance information is our audit of the Council's corporate management arrangements for data quality.
- 3.9 Our review of data quality management arrangements has not identified any significant issues and supports our conclusion that the Council's arrangements are adequate for monitoring the quality of published performance information. We will report more fully on data quality at the November Audit Committee.

## Use of resources

- 3.10 The audit work that we have used to reach our conclusion in respect of the remaining Code criteria is our audit of the Council's Use of Resources.
- 3.11 The results of this work confirm that that, for 2007/08, the Council have at least adequate arrangements in place in the areas covered by the Use of Resources assessment
- 3.12 We are not able to formally report scores to the Council until after the Audit Commission's national quality assurance processes are complete. We will report the results of our work and confirm scores with the Council in November 2008.

## KLoE 2009

- 3.13 There have been significant changes to the use of resources assessment criteria for 2009, as part of the new Comprehensive Area Assessment. The Council's management arrangements for the 2008/09 financial year will be assessed against the new criteria that represent a 'harder test.'
- 3.14 Whilst we will not formally assess the Council against the new criteria until Summer 2009, as part of next year's plan, we will continue to carry out our use of resources work with reference to revised requirements to help the Council prepare for future assessments.

## Next steps

- 3.15 The Audit Committee should monitor implementation of the recommendations referred to in this report.

## Appendix A Action plan

Finding	Actions required	Management response	Implementation details
<p><u>Fixed Asset Register</u></p> <p>Our review of the Council's fixed asset register identified a number of assets that had been fully depreciated yet were still in use.</p>	<p>The Council should review the useful economic lives of those assets which have been fully depreciated to consider whether changes to the useful economic lives are required.</p>	<p>Agreed.</p>	<p>31/03/09</p>

## Appendix B Accounts adjustments agreed

Accounting adjustments that affect the reported surplus / deficit on the I&E account	
Finding	Impact
No accounting adjustments have been noted that affect the reported deficit on the I&E account.	

Accounting adjustments that do not affect the reported surplus / deficit on the I&E account	
Finding	Impact
Note 1: Expenditure on Publicity The Council had not included expenditure on recruitment publicity in the Note.	No impact on reported financial results. Note updated to include recruitment publicity costs.
Note 6: Employees Remuneration in Excess of £50,000 One employee had been omitted from this Note.	No impact on reported financial results. Note updated.
Group Accounts A number of adjustments have been made to the Hertsmere BC group accounts following the receipt of final accounts from the auditors of EFS Ltd. This increased the deficit for the year for the Group by £138k from £2,121k to £2,259k and decreased the total net worth of the Group from £107,644k to £107,506k. There was no impact on the Council Fund.	No impact on reported financial results for Hertsmere Borough Council.

Disclosure adjustments
A number of disclosure adjustments have been agreed to improve the clarity and presentation of the accounts that do not affect the reported financial position.

## Appendix C Reports issued

External audit reports issued during the year are listed in the table below.

Report title	Date issued
Audit and inspection plan 2007/08	April 2007
Use of Resources audit report 2006/07	March 2008
Data Quality audit report 2006/07	December 2007
Grants certification report	February 2008
Audit Strategy Document	April 2008
Annual report to those charged with governance (accounts and use of resources)	September 2008

External audit reports - 2008/9 planned output

Report title	Planned issue date
2008-09 Audit plan	May 2008 (Issued)
Review of performance management	March 2009
2008-09 Audit Strategy Document to those charged with governance (which will cover accounts)	June 2009
2008-09 Annual report to those charged with governance ('ISA 260' report which will cover accounts and value for money conclusion)	September 2009
Data quality audit reporting	November 2009
Use of resources – 2008-09 reporting of scores and recommendations	November 2009
Annual audit letter	November 2009
2008-09 Grant Claims Report - if required	January 2010

## Appendix D Audit fees update

Audit area	Planned fee 2007/08	Actual fee 2007/08
Financial Statements	£ 50,533	£ 50,533
Use of Resources, including Data Quality	£ 55,582	£ 55,582
Whole of Government Accounts	£ 2,870	£ 2,870
<b>Total</b>	<b>£108,985</b>	<b>£108,985</b>

### Code of Practice audit

As shown in the table above, the 2007/08 actual fee equalled the planned fee.

### Grant claims certification

Grant claim certification work will be completed between September and December 2008. The certification fee was originally estimated at £15,000.

Our work is charged to the Council based on the cost of certifying each claim and the overall fee normally varies from estimate, depending on the number and complexity of claims to be certified, as well as the quality of claim compilation and supporting documentation.

### Non Code work

We have carried out specific work in respect of considering aspects of a number of employment matters at the Council during 2007/8. We have billed the Council £14,000 in respect of this work.

## Appendix E Statement of responsibilities - accounts

The accounts, which comprise the published accounts of the audited body, are an essential means by which it accounts for its stewardship of the resources at its disposal and its financial performance in the use of those resources.

It is the responsibility of the audited body to:

- put in place systems of internal control to ensure the regularity and lawfulness of transactions
- maintain proper accounting records
- prepare accounts that present fairly the financial position of the body and its expenditure and income.

The audited body is also responsible for preparing and publishing with its accounts a statement on internal control.

Auditors audit the accounts and give their opinion, including:

- whether they present fairly the financial position of the audited body and its expenditure and income for the year in question
- whether they have been prepared properly in accordance with relevant legislation and applicable accounting standards.

Subject to the concept of materiality, auditors provide reasonable assurance that the accounts:

- are free from material misstatement, whether caused by fraud or other irregularity or error
- comply with statutory and other applicable requirements
- comply with all relevant requirements for accounting presentation and disclosure.

Auditors examine selected transactions and balances on a test basis and assess the significant estimates and judgements made by the audited body in preparing the statements.

Auditors evaluate significant financial systems, and the associated internal controls, for the purpose of giving their opinion on the accounts. Where auditors identify any weaknesses in such systems and controls, they will draw them to the attention of the audited body, but they cannot be expected to identify all weaknesses that may exist.

Auditors review whether the Annual Governance Statement has been presented in accordance with relevant requirements and report if it does not meet these requirements or if it is misleading or inconsistent with other information of which the auditor is aware. In doing so auditors take into account the knowledge of the audited body gained through their work in relation to the audit of the accounts and through their work in relation to the body's arrangements for securing economy, efficiency and effectiveness in the use of its resources. Auditors are not required to consider whether the statement on internal control covers all risks and controls, nor are auditors required to form an opinion on the effectiveness of the audited body's corporate governance procedures or risk and control procedures.

## Appendix F Statement of responsibilities - VFM

It is the responsibility of the audited body to put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, and to ensure proper stewardship and governance, and regularly to review the adequacy and effectiveness of them. Such corporate performance management and financial management arrangements form a key part of the system of internal control and comprise the arrangements for:

- establishing strategic and operational objectives
- determining policy and making decisions
- ensuring that services meet the needs of users and taxpayers and for engaging with the wider community
- ensuring compliance with established policies, procedures, laws and regulations
- identifying, evaluating and managing operational and financial risks and opportunities, including those arising from involvement in partnerships and joint working
- ensuring compliance with the general duty of best value, where applicable
- managing its financial and other resources, including arrangements to safeguard the financial standing of the audited body
- monitoring and reviewing performance, including arrangements to ensure data quality
- ensuring that the audited body's affairs are managed in accordance with proper standards of financial conduct, and to prevent and detect fraud and corruption.

The audited body is responsible for reporting on these arrangements as part of its annual statement on internal control.

Auditors have a responsibility to satisfy themselves that the audited body has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

In meeting this responsibility auditors should review and, where appropriate, examine evidence that is relevant to the audited body's corporate performance management and financial management arrangements, as summarised above, and report on these arrangements.

Auditors are responsible for reporting annually their conclusion, having regard to relevant criteria specified by the Audit Commission, as to whether the audited body has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. Auditors report if significant matters have come to their attention that prevent them from concluding that the audited body has put in place proper arrangements. However, auditors are not required to consider whether aspects of the audited body's arrangements for securing economy, efficiency and effectiveness in its use of resources are effective.

In planning their audit work in relation to the arrangements for securing economy, efficiency and effectiveness in the use of resources, auditors consider and assess the relevant significant business risks. These are the significant operational and financial risks to the achievement of the audited body's statutory functions and objectives, which apply to the audited body and are relevant to auditors' responsibilities under the Code, and the arrangements it has put in place to manage these risks. The auditor's assessment of what is significant is a matter of professional judgement and includes consideration of both the quantitative and qualitative aspects of the item or subject matter in question. Auditors discuss their assessment of risk with the audited body.

When assessing risk auditors consider:

- the relevance and significance of the potential business risks faced by all bodies of a particular type
- other risks that apply specifically to individual audited bodies
- the audited body's own assessment of the risks it faces
- the arrangements put in place by the body to manage and address its risks.

In assessing risks auditors have regard to:

- evidence gained from previous audit work, including the response of the audited body to previous audit work
- the results of assessments of performance carried out by the Commission
- the work of other statutory inspectorates
- relevant improvement needs, identified in discussion with the Commission or other statutory inspectorates.

Where auditors rely on the reports of statutory inspectorates as evidence relevant to the audited body's corporate performance management and financial management arrangements, the conclusions and judgements in such reports remain the responsibility of the relevant inspectorate or review agency.

In reviewing the audited body's arrangements for its use of resources, it is not part of auditors' functions to question the merits of the policies of the audited body, but auditors may examine the arrangements by which policy decisions are reached and consider the effects of the implementation of policy. It is the responsibility of the audited body to decide whether and how to implement any recommendations made by auditors and, in making any recommendations, auditors should avoid any perception that they have any role in the decision making arrangements of the audited body.

While auditors may review audited bodies' arrangements for securing economy, efficiency and effectiveness in the use of resources, they cannot be relied on to have identified every weakness or every opportunity for improvement. Audited bodies should consider auditors' conclusions and recommendations in their broader operational or other relevant context.

Auditors are not required to report to audited bodies on the accuracy of performance information that the audited bodies publish. Auditors' work is limited to a review of the systems put in place by the audited body to collect, record and publish the information, in accordance with guidance issued by the Commission.

Audit work in relation to the audited body's arrangements to ensure that its affairs are managed in accordance with proper standards of financial conduct, and to prevent and detect fraud and corruption, does not remove the possibility that breaches of proper standards of financial conduct, or fraud and corruption, have occurred and remained undetected. Nor is it auditors' responsibility to prevent or detect breaches of proper standards of financial conduct, or fraud and corruption, although they will be alert to the possibility and will act promptly if grounds for suspicion come to their notice.



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