

Public Document Pack

NORTH HERTFORDSHIRE DISTRICT COUNCIL

FINANCE, AUDIT AND RISK COMMITTEE

WEDNESDAY, 13TH NOVEMBER, 2024

SUPPLEMENTARY AGENDA

Please find attached supplementary papers relating to the above meeting, as follows:

Agenda No	Item
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- | | |
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| 8. | <u>STATEMENT OF ACCOUNTS 2022/23 AND 2023/24</u> (Pages 3 - 54) |
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REPORT OF THE SERVICE DIRECTOR – RESOURCES

This report supplements the report already published as part of the agenda pack.

To approve the current status of the audited Statement of Accounts for 2022/23.

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FINANCE, AUDIT AND RISK COMMITTEE
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13 NOVEMBER 2024

*PART 1 – PUBLIC DOCUMENT

TITLE OF REPORT: STATEMENT OF ACCOUNTS 2022/23 AND 2023/24 (ADDENDUM)

This report supplements the report already published as part of the agenda pack.

REPORT OF: *SERVICE DIRECTOR: RESOURCES*

EXECUTIVE MEMBER: *NON-EXECUTIVE*

COUNCIL PRIORITY: *SUSTAINABILITY*

1. EXECUTIVE SUMMARY

For the 2022/23 Accounts, Ernst and Young (EY) have now issued their completion report. This details the work that they have carried out on the 2022/23 Accounts. As detailed in the substantive report this is mainly focused on their Value for Money conclusion, as they will issue a disclaimed opinion against the main Statement of Accounts. The completion report has been provided as a late addendum, as this allows the Audit Partner (EY) and the Service Director: Resources to provide an overview of what it contains at the meeting. It also provides an opportunity to respond to any questions that the Committee may have.

2. RECOMMENDATIONS

Additional recommendation to the substantive report:

- 2.6. That the Committee note the process that will be followed for the approval of the 2022/23 Accounts as detailed in paragraph 8.13.

3. REASONS FOR RECOMMENDATIONS

- 3.1 As per the substantive report.

4. ALTERNATIVE OPTIONS CONSIDERED

- 4.1. As per the substantive report.

5. CONSULTATION WITH RELEVANT MEMBERS AND EXTERNAL ORGANISATIONS

- 5.1. As per the substantive report.

6. FORWARD PLAN

- 6.1 This report does not contain a recommendation on a key Executive decision and has therefore not been referred to in the Forward Plan.

7. BACKGROUND

- 7.1. As per the substantive report.

8. RELEVANT CONSIDERATIONS

Paragraphs 8.1 to 8.10: As per the substantive report.

- 8.11 EY have now issued their completion report, an almost final version of this is attached at Appendix C. The completion report details the work that they have carried out on the 2022/23 Accounts. As detailed in the substantive report this is mainly focused on their Value for Money conclusion, as they will issue a disclaimed opinion against the main Statement of Accounts. The Audit Partner (EY) and the Service Director: Resources will provide a verbal update on the key contents within the completion report.
- 8.12 The Committee can decide that they are satisfied with the audit completion report (based on the explanation that they have received at this meeting) and they could add a recommendation that they will note the completion report. That would slightly change the process that is detailed in the following paragraph.
- 8.13 Following this meeting (and subject to approving the delegation to the Chair of the Committee in the substantive report) the following would happen:
- Members of the Committee confirm by e-mail that they have noted the Audit Completion report and have raised any matters (if applicable) with the Chair of the Committee.
 - Authorisation from the Chair of the Committee (as per the delegation) for approval of the Statement of Accounts.
 - Approval by the Service Director: Resources (as the Council's Chief Finance Officer) of the Statement of Accounts.
 - Signing of the Statement of Accounts by the Chair of the Committee and the Chief Finance Officer.
 - A signed (by the Chair of the Committee and Chief Finance Officer) letter of representation confirming the Council has carried out its obligations in relation to the Statement of Accounts.
 - Confirmation by the Chief Finance Officer that there have been no events since the Balance Sheet date that would require a change to the Statement of Accounts.
- 8.14 The actual signing of the Statement of Accounts can not take place until two external events have taken place. Parliament needs to approve the National Audit Office (NAO) Code of Audit Practice, and the NAO need to confirm that their Whole of Government Accounts processes are complete. These are both expected to complete by 21 November 2024. We are therefore planning to complete the above processes early in week commencing 25 November 2024.

9. LEGAL IMPLICATIONS

9.1 As per the substantive report.

10. FINANCIAL IMPLICATIONS

10.1 As per the substantive report.

11. RISK IMPLICATIONS

11.1 As per the substantive report.

12. EQUALITIES IMPLICATIONS

12.1 As per the substantive report.

13. SOCIAL VALUE IMPLICATIONS

13.1 As per the substantive report.

14. ENVIRONMENTAL IMPLICATIONS

14.1 As per the substantive report.

15. HUMAN RESOURCE IMPLICATIONS

15.1 As per the substantive report.

16. APPENDICES

Appendices A and B are as per the substantive report.

16.1 *Appendix C: Completion Report for Those Charged with Governance, Ernst and Young*

17. CONTACT OFFICERS

17.1 *Ian Couper, Service Director: Resources, ian.couper@north-herts.gov.uk, ext: 4243*

18. BACKGROUND PAPERS

18.1 *As per the substantive report.*

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North Hertfordshire District Council Completion Report for Those Charged with Governance

Year ended 31 March 2023

Report issued - 12 November 2024

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Finance, Audit and Risk Committee
North Hertfordshire District Council
Council Offices, Gernon Rd
Letchworth Garden City, SG6 3JF

12 November 2024

Dear Finance, Audit and Risk Committee

Completion Report for Finance, Audit and Risk Committee

Attached is our Completion Report for Those Charged With Governance. The purpose of this report is to provide the Finance, Audit and Risk Committee of North Hertfordshire District Council (the Council) with a detailed complete report covering our approach and outcomes of the 2022/23 audit.

Given that Statutory Instrument (2024) No. 907 - "The Accounts and Audit (Amendment) Regulations 2024" (the SI) imposes a backstop date of 13 December 2024 by which date we are required to issue our opinion on the financial statements, we have considered whether the time constraints imposed by the backstop date mean that we cannot complete all necessary procedures to obtain sufficient, appropriate audit evidence to support the opinion and fulfil all the objectives of all relevant ISAs (UK).

This decision is in line with ISA 200: Failure to Achieve an Objective 24.

If an objective in a relevant ISA (UK) cannot be achieved, the auditor shall evaluate whether this prevents the auditor from achieving the overall objectives of the auditor and thereby requires the auditor, in accordance with the ISAs (UK), to modify the auditor's opinion or withdraw from the engagement (where withdrawal is possible under applicable law or regulation). Failure to achieve an objective represents a significant matter requiring documentation in accordance with ISA (UK) 230 (Revised June 2016).4 (Ref: Para. A77&A78)

Taking the above into account, for the years ended 31 March 2023 we have determined that we cannot meet the objectives of the ISAs(UK) and we anticipate issuing a disclaimed audit report.

In completing our work for this audit year, we have taken into account the SI and Local Authority Reset and Recovery Implementation Guidance. We have also taken into account the requirements of the Local Audit and Accountability Act 2014, the National Audit Office's 2020 Code of Audit Practice, the Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA) Ltd, auditing standards and other professional requirements, against this backdrop we have also considered the Committee's service expectations.

The Finance, Audit and Risk Committee, as the Authority's body charged with governance, has an essential role in ensuring that it has assurance over both the quality of the draft financial statements prepared by management and the Authority's wider arrangements to support the delivery of a timely and efficient audit.

We consider and report on the adequacy of the Authority's external financial reporting arrangements and the effectiveness of the Finance, Audit and Risk Committee in fulfilling its role in those arrangements as part of our assessment of Value for Money arrangements and consider the use of other statutory reporting powers to draw attention to weaknesses in those arrangements where we consider it necessary to do so.

We draw the Finance, Audit and Risk Committee members and officers' attention to the Public Sector Audit Appointment Limited's Statement of Responsibilities (paragraphs 26-28) which clearly set out what is expected of audited bodies in preparing their financial statements (see Appendix E).

This report is intended solely for the information and use of the Finance, Audit and Risk Committee, and management, and is not intended to be and should not be used by anyone other than these specified parties.

Yours faithfully

Debbie Hanson

Partner

For and on behalf of Ernst & Young LLP

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Public Sector Audit Appointments Ltd (PSAA) issued the "Statement of responsibilities of auditors and audited bodies". It is available from the PSAA website. 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 and further guidance (updated July 2021)" issued by the PSAA (<https://www.psaa.co.uk/managing-audit-quality/terms-of-appointment/terms-of-appointment-and-further-guidance-1-july-2021/>) 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 in legislation and covers matters of practice and procedure which are of a recurring nature.

This report is made solely to the **Finance, Audit and Risk Committee and management of North Hertfordshire District Council**. Our work has been undertaken so that we might state to the **Finance, Audit and Risk Committee and management of North Hertfordshire District Council** those matters we are required to state to them in this report and for no other purpose. To the fullest extent permitted by law we do not accept or assume responsibility to anyone other than the **Finance, Audit and Risk Committee and management of North Hertfordshire District Council** for this report or for the opinions we have formed. It should not be provided to any third-party without our prior written consent.



01

Executive Summary

Executive Summary – System wide context

Context for the audit – Department for Levelling-up, Housing and Communities (DLUHC) and Financial Reporting Council (FRC) measures to address local audit delays

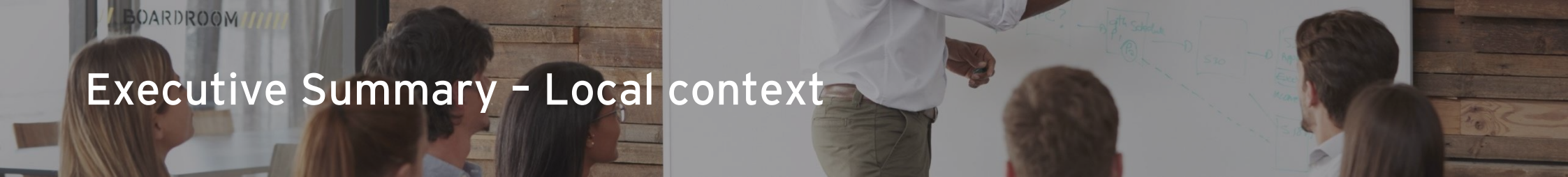
Timely, high-quality financial reporting and audit of local bodies is a vital part of our democratic system. It supports good decision making by local bodies and ensures transparency and accountability to local taxpayers. There is general agreement that the backlog in the publication of audited financial statements by local bodies has grown to an unacceptable level and there is a clear recognition that all stakeholders in the sector need to work together to address this. Reasons for the backlog across the system have been widely reported and include:

- ▶ Lack of capacity within the local authority financial accounting professions
- ▶ Increased complexity of reporting requirements within the sector
- ▶ Lack of capacity within audit firms with public sector experience
- ▶ Increased regulatory pressure on auditors, which in turn has increased the scope and extent of audit procedures performed

DLUHC has worked collaboratively with the FRC, as incoming shadow system leader, and other system partners, to develop and implement measures to clear the backlog. Statutory Instrument (2024) No. 907 - “The Accounts and Audit (Amendment) Regulations 2024” (the SI), together with the updated NAO Code of Audit Practice 2024 and the Local Authority Reset and Recovery Implementation Guidance, which have all been developed to ensure auditor compliance with International Standards on Auditing (UK) (ISAs (UK)), consist of three phases:

- ▶ Phase 1: Reset involving clearing the backlog of historic audit opinions up to and including financial year 2022/23 by 13 December 2024.
- ▶ Phase 2: Recovery from Phase 1 in a way that does not cause a recurrence of the backlog by using backstop dates to allow assurance to be rebuilt over multiple audit cycles.
- ▶ Phase 3: Reform involving addressing systemic challenges in the local audit system and embedding timely financial reporting and audit.

As a result of the system wide implementation of backstop dates we anticipate issuing a disclaimed audit opinion on the Authority’s 2022/23 accounts. The proposed disclaimer of the Authority’s 2022/23 accounts impacts the audit procedures that we have planned and undertaken to gain assurance on the 2022/23 financial statements and the form of the audit report.



Executive Summary – Local context

Local Background and Context

The position at this Authority has developed over recent years resulting in unaudited financial statements for 31 March 2023.

The main reasons for the Authority's financial statements not being prepared, audited and signed to date include:

- ▶ The post pandemic timelines resulted in audit teams trying to move delayed audits on to completion, whilst finance teams were trying to catch up, deal with current priorities and plan for the future. This used a significant amount of our finite audit resource, leading to a lack of capacity to move onto the 2022/23 audit year.
- ▶ In addition, there were a number of new technical issues and challenges to address during this period, including, accounting for infrastructure assets, taking into account the updated pension fund valuations, which led to delays to the prior year 2021/22 audit being completed.
- ▶ The Authority has been in a position to present draft statements of account for audit within the regulatory timeframe in recent years. Due to audit resource constraints, we were unable to schedule the 2021/22 audit in order to meet the reporting timeline of 30 September 2022, and instead completed the audit in September 2023. We then did not have the audit resource necessary to perform the 2022/23 audit for the Authority before the backstop date.

Executive Summary – Report structure and work completed

Report structure and work completed

This report covers the work we have completed to meet the requirements of the International Standards on Auditing (UK&I), (ISAs) and the Local Audit Reset and Recovery Implementation Guidance (LARRIGs) along with the National Audit Office Value for Money Code (NAO VFM Code). It has been split into the following sections.

Section 1 - Executive Summary - this section setting out the national and local context and the structure of our report.

Section 2 - Work Plan - We have completed the following planning tasks:

- ▶ Required independence procedures.
- ▶ Set a level of materiality.
- ▶ Issued letters of inquiry to Management, Those Charged with Governance, the Head of Internal Audit and the Monitoring Officer.
- ▶ Updated our understanding of the business, including through review of responses to inquiry letters, minute review and in discussion in our internal planning meeting,
- ▶ Identified significant, inherent and other areas of higher risk or focus.
- ▶ Considered any other matters that may require reporting to regulators, or which may result in a modification to the audit report e.g. non-compliance with laws and regulations, objections, significant weaknesses in arrangements for value for money, any matters that may result in the use of the auditor's powers.

Section 3 - Results and findings - Work completed to issue the disclaimer, findings and results:

- ▶ Review of the financial statements.
- ▶ Consideration of any matters that came to light during our planning and review procedures in relation to laws and regulations, fraud, related parties, litigation and claims, significant changes to contracts and systems, service organisations, which we report as appropriate.
- ▶ Reporting on any other matters that may require the use of the auditor's powers, formal reporting or a modification to the auditor's report e.g. non-compliance with laws and regulations, objections, significant weaknesses in arrangements for value for money, any matters that may result in the use of the auditor's powers.

Section 4 - Value for money reporting

- ▶ The value for money report covering the year to 31 March 2023.

Section 5 - Appendices



02

Work Plan

Work Plan – Audit Scope

Audit scope

This Completion report covers the work that we performed in relation to:

- ▶ Our audit opinion on whether the financial statements of the Council give a true and fair view of the financial position as at 31 March 2023 and of the income and expenditure for the year then ended; and
- ▶ Our commentary on your arrangements to secure value for money in your use of resources for the relevant period. We include further details on VFM in Section 04.

We will also review and report to the National Audit Office (NAO), to the extent and in the form required by them, on the Council's Whole of Government Accounts return.

Our audit will also include the mandatory procedures that we are required to perform in accordance with applicable laws and auditing standards.

When planning the audit we take into account several key inputs:

- ▶ Strategic, operational and financial risks relevant to the financial statements;
- ▶ Developments in financial reporting and auditing standards;
- ▶ The quality of systems and processes;
- ▶ Changes in the business and regulatory environment; and,
- ▶ Management's views on all of the above.

Given that the SI imposes a backstop date of 13 December 2024 by which date we are required to issue our opinion on the financial statements, we have considered whether the time constraints imposed by the backstop date mean that we cannot complete all necessary procedures to obtain sufficient, appropriate audit evidence to support the opinion and fulfil all the objectives of all relevant ISAs (UK).

This decision is in line with ISA 200: Failure to Achieve an Objective 24.

If an objective in a relevant ISA (UK) cannot be achieved, the auditor shall evaluate whether this prevents the auditor from achieving the overall objectives of the auditor and thereby requires the auditor, in accordance with the ISAs (UK), to modify the auditor's opinion or withdraw from the engagement (where withdrawal is possible under applicable law or regulation). Failure to achieve an objective represents a significant matter requiring documentation in accordance with ISA (UK) 230 (Revised June 2016).⁴ (Ref: Para. A77&A78)

Taking the above into account, for the year ended 31 March 2023 we have determined that we cannot meet the objectives of the ISAs(UK) and we anticipate issuing a disclaimed audit report.

Work Plan - Materiality

Materiality

Planning materiality

£1.26m

Materiality for the year ended 31 March 2023 has been set at £1.26 million, which represents 2% of 2023 gross expenditure on provision of services.

Performance materiality

£0.94m

Performance materiality for the year ended 31 March 2023 has been set at £0.94 million, which represents 75% of planning materiality.

Audit differences

£0.06m

We will report all uncorrected misstatements relating to the primary statements greater than £0.06 million for the year ended 31 March 2023. Other misstatements identified will be communicated to the extent that they merit the attention of the Finance, Audit and Risk Committee

In order to ascertain the significance of issues in the draft financial statements we have set materiality based on the 2022/23 draft financial statements and taken into account findings from the 2021/22 audit year. We have considered updating this materiality for any key changes or known factors from that year. We determined that our audit procedures would be performed using the materiality as set out above. This level of materiality remains appropriate for the actual results for the financial year.

Work Plan – Significant, inherent and other risk areas

The following 'dashboard' summarises the significant accounting and auditing matters identified as part of our planning work. It seeks to provide Those Charged with Governance with an overview of our initial risk identification for the year.

Audit risks and areas of focus

Risk/area of focus	Applicable year	Risk identified	Change from PY	Details
Misstatement due to fraud or error	31 March 2023	Fraud risk	No change in risk or focus	There is a risk that the financial statements as a whole are not free from material misstatement whether caused by fraud or error. We perform mandatory procedures regardless of specifically identified fraud risks.
Inappropriate capitalisation of revenue expenditure	31 March 2023	Fraud risk	No change in risk or focus	Under ISA 240 there is a presumed risk that revenue may be misstated due to improper revenue recognition. In the public sector, this requirement is modified by Practice Note 10 issued by the Financial Reporting Council, which states that auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure recognition. We have assessed the risk is most likely to occur through the inappropriate capitalisation of revenue expenditure.
Valuation of investment properties	31 March 2023	Significant risk	No change in risk or focus	Investment properties represent a significant balance in the Council's accounts and are subject to valuation changes, market volatility and impairment reviews. Material judgmental inputs and estimation techniques are required to calculate the year-end investment property valuations held in the balance sheet. Considering that the level of estimation uncertainty and complexity is higher for assets valued using market information, we retained the significant risk on this account for 2022/23. As of 31 March 2023, the Council's investment properties are valued at £30.531 million.

Work Plan – Significant, inherent and other risk areas

The following 'dashboard' summarises the significant accounting and auditing matters identified as part of our planning work. It seeks to provide Those Charged with Governance with an overview of our initial risk identification for the year.

Audit risks and areas of focus

Risk/area of focus	Applicable year	Risk identified	Change from PY	Details
Valuation of property, plant and equipment (other land and buildings and surplus assets) and assets held for sale	31 March 2023	Inherent risk	No change in risk or focus	The fair value of property, plant and equipment (PPE) and assets held for sale (AHFS) represent significant balances in the Council's accounts and are subject to valuation changes, impairment reviews and depreciation charges. Management is required to make material judgemental inputs and apply estimation techniques to calculate the year-end balances recorded in the balance sheet. As of 31 March 2023, the Council had the following capital asset values valued at fair value (excluding investment properties): ► Land & buildings - £76.387 million ► Surplus assets - £8.425 million ► Assets held for sale - £0.588 million
Pension liability valuation	31 March 2023	Inherent risk	No change in risk or focus	The Local Authority Accounting Code of Practice and IAS19 require the Council to make extensive disclosures within its financial statements regarding the Local Government Pension Scheme (LGPS) in which it is an admitted body. The Council's current pension fund deficit is a material and sensitive item, and the Code requires that this liability be disclosed on the balance sheet. The information disclosed is based on the IAS 19 report issued to the Council by the Actuary. Accounting for this scheme involves significant estimation and judgement. Small changes in assumptions when valuing the assets and liabilities can have a material impact on the financial statements. Pension liability balance as at 31 March 2023 amounts to £2.906 million.

Work Plan - Independence

The FRC Ethical Standard 2019 and ISA (UK) 260 'Communication of audit matters with those charged with governance', requires us to communicate with you on a timely basis on all significant facts and matters that bear upon our integrity, objectivity and independence. The Ethical Standard, as revised in December 2019, requires that we communicate formally both at the planning stage and at the conclusion of the audit, as well as during the course of the audit if appropriate. The aim of these communications is to ensure full and fair disclosure by us to those charged with your governance on matters in which you have an interest.

Required communications

Planning stage

- ▶ The principal threats, if any, to objectivity and independence identified by Ernst & Young (EY) including consideration of all relationships between you, your affiliates and directors and us;
- ▶ The safeguards adopted and the reasons why they are considered to be effective, including any Engagement Quality review;
- ▶ The overall assessment of threats and safeguards;
- ▶ Information about the general policies and process within EY to maintain objectivity and independence

Final stage

- ▶ In order for you to assess the integrity, objectivity and independence of the firm and each covered person, we are required to provide a written disclosure of relationships (including the provision of non-audit services) that may bear on our integrity, objectivity and independence. This is required to have regard to relationships with the entity, its directors and senior management, its affiliates, and its connected parties and the threats to integrity or objectivity, including those that could compromise independence that these create. We are also required to disclose any safeguards that we have put in place and why they address such threats, together with any other information necessary to enable our objectivity and independence to be assessed;
- ▶ Details of non-audit/additional services provided and the fees charged in relation thereto;
- ▶ Written confirmation that the firm and each covered person is independent and, if applicable, that any non-EY firms used in the group audit or external experts used have confirmed their independence to us;
- ▶ Details of any non-audit/additional services to a UK PIE audit client where there are differences of professional opinion concerning the engagement between the Ethics Partner and Engagement Partner and where the final conclusion differs from the professional opinion of the Ethics Partner
- ▶ Details of any inconsistencies between FRC Ethical Standard and your policy for the supply of non-audit services by EY and any apparent breach of that policy;
- ▶ Details of all breaches of the IESBA Code of Ethics, the FRC Ethical Standard and professional standards, and of any safeguards applied and actions taken by EY to address any threats to independence; and
- ▶ An opportunity to discuss auditor independence issues.

In addition, during the course of the audit, we are required to communicate with you whenever any significant judgements are made about threats to objectivity and independence and the appropriateness of safeguards put in place, for example, when accepting an engagement to provide non-audit services.

We ensure that the total amount of fees that EY and our network firms have charged to you and your affiliates for the provision of services during the reporting period, analysed in appropriate categories, are disclosed.

Work Plan - Independence

We highlight the following significant facts and matters that may be reasonably considered to bear upon our objectivity and independence, including the principal threats, if any. We have adopted the safeguards noted below to mitigate these threats along with the reasons why they are considered to be effective. However, we will only perform non-audit services if the service has been pre-approved in accordance with your policy.

Overall Assessment

Overall, we consider that the safeguards that have been adopted appropriately mitigate the principal threats identified and we therefore confirm that EY is independent and the objectivity and independence of Debbie Hanson, your audit engagement partner and the audit engagement team have not been compromised.

Self-interest threats

A self-interest threat arises when EY has financial or other interests in your company. Examples include where we have an investment in your company; where we receive significant fees in respect of non-audit services; where we need to recover long outstanding fees; or where we enter into a business relationship with you. At the time of writing, there are no long outstanding fees.

We believe that it is appropriate for us to undertake those permitted non-audit/additional services set out in Section 5.40 of the FRC Ethical Standard 2019 (FRC ES), and we will comply with the policies that you have approved.

None of the services are prohibited under the FRC's ES and the services have been approved in accordance with your policy on pre-approval.

In addition, when the ratio of non-audit fees to audit fees exceeds 1:1, we are required to discuss this with our Ethics Partner, as set out by the FRC ES, and if necessary, agree additional safeguards or not accept the non-audit engagement. We will also discuss this with you.

At the time of writing, the current ratio of non-audit fees to audit fees is approximately 0.2:1. No additional safeguards are required.

A self-interest threat may also arise if members of our audit engagement team have objectives or are rewarded in relation to sales of non-audit services to you. We confirm that no member of our audit engagement team, including those from other service lines, has objectives or is rewarded in relation to sales to you, in compliance with Ethical Standard part 4. There are no other self-interest threats at the date of this report.

Self-review threats

Self-review threats arise when the results of a non-audit service performed by EY or others within the EY network are reflected in the amounts included or disclosed in the financial statements.

There are no self-review threats at the date of this report.

Management threats

Partners and employees of EY are prohibited from taking decisions on behalf of management of your company. Management threats may also arise during the provision of a non-audit service in relation to which management is required to make judgements or decision based on that work.

There are no management threats at the date of this report.

Other threats

Other threats, such as advocacy, familiarity or intimidation, may arise.

There are no other threats at the date of this report.



03 Results and findings

Results and findings

Status of the audit

Our audit work in respect of the Council's opinion is substantially complete. The following items relating to the completion of our audit procedures were outstanding at the date of this report.

- ▶ Completion of subsequent events procedures;
- ▶ Receipt of a signed management representation letter

Given that the audit process is still ongoing, we will continue to consider existing and new information which could influence our final audit opinion, a current draft of which is included in this report.

Value for Money

Our value for money (VFM) work is complete and reported in Section 04 of this report. We had identified no risks of significant weaknesses in arrangements. Having updated and completed the planned procedures in these areas we did not identify a significant weakness. See Section 4 of the report for further details.

Audit differences

We identified a number of differences as a result of our work on casting the draft financial statements and checking opening balances and comparators to the 2011/22 audited accounts. Management have agreed to amend all the differences noted. For completeness we have noted the key changes below:

- Long term investments: the balance in note 20 (financial instruments) was £0 which does not agree to the balance per balance sheet of £2 million.
- Comprehensive Income and Expenditure Statement: We noted a difference of £190k between the values in the 2021/22 audited accounts and the draft 2022/23 accounts in relation to gross expenditure under the Commercialisation Directorate and the (surplus)/deficit on revaluation of non-current assets.
- These differences also resulted in differences in the relevant figures in the following statements/disclosures:
 - Total (surplus)/deficit on provision of services in the CIES, and Other Comprehensive Income and Expenditure in the CIES; Expenditure and Funding Analysis; Movement in Reserves Statement; Note 28 (unusable reserves); Note 28a (Revaluation Reserve); Note 28b (capital adjustment account); Note 29 (notes to operating cash flows)
- Note 39 (Remeasurement of the net defined liability - Other): the comparator figure of £2.453 million in the 2022/23 draft accounts does not agree to the amount reported in the audited 2021/22 accounts of £7.024 million.

In addition, our value for money work noted that the Churchgate asset had been included in the Council's unaudited draft accounts as an investment property with a value of £4.5 million. However, to be classified as an investment property to asset must be held solely for the purpose of income generation or capital appreciation. As the various reports make significant reference to regeneration the Council has considered whether this asset has been correctly classified and therefore valued on an appropriate basis. As a result, the Council has reclassified this asset to property, plant and equipment. There is no change in the value of the asset or the overall balance sheet as a result of this change.



Results and findings

Other Reporting Issues

We have reviewed the information presented in the Annual Governance Statement for consistency with our knowledge of the Council. We have no matters to report as a result of this work.

The Comptroller and Auditor General has confirmed that he plans to issue his opinion and certificate on the 2022-23 Whole of Government Accounts on 22 November 2024. Given we expect to issue our 2022/23 audit report after that date but before the statutory backstop of 13 December 2024, we therefore expect to be able to certify completion of the audit as part of our final 2022/23 audit report.

We did not receive any questions or objections to the Authority's financial statements from any member of the public following the inspection period.

Other powers and duties

We have a duty under the Local Audit and Accountability Act 2014 to consider whether to report on any matter that comes to our attention in the course of the audit, either for the Council to consider it or to bring it to the attention of the public (i.e. "a report in the public interest").

We did not identify any issues which required us to issue a report in the public interest.

Results and findings

Areas of audit focus

In our Audit Plan we identified a number of key areas of focus for our audit of the financial report of North Hertfordshire District Council. We concluded we would disclaim the audit and therefore have not completed detailed audit testing on these areas but instead have reported any matters that came to light from the work we did complete.

We request that you review these, and other matters set out in this report to ensure:

- ▶ There are no further considerations or matters that could impact these issues
- ▶ You concur with the resolution of the issue
- ▶ There are no further significant issues you are aware of to be considered before the financial report is finalised

There are no matters, other than those reported by management or disclosed in this report, which we believe should be brought to the attention of the Finance, Audit and Risk Committee.

Control observations

During the audit, we did not identify any significant deficiencies in internal control:

Independence

Further to our review of independence in Section 02 of this report we have not identified any issues to bring to your attention..



Results and findings

Other matters

As required by ISA (UK&I) 260 and other ISAs specifying communication requirements, we must tell you significant findings from the audit and other matters if they are significant to your oversight of the Authority's financial reporting process. They include the following:

- ▶ Significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures;
- ▶ Any significant difficulties encountered during the audit;
- ▶ Any significant matters arising from the audit that were discussed with management;
- ▶ Written representations we have requested;
- ▶ Expected modifications to the audit report;
- ▶ Any other matters significant to overseeing the financial reporting process;
- ▶ Findings and issues around the opening balance on initial audits (if applicable);
- ▶ Related parties;
- ▶ External confirmations;
- ▶ Going concern; and
- ▶ Consideration of laws and regulations;.

We have no other matters to report.

Results and findings – Draft Audit Report

Draft audit report

Our draft opinion on the financial statements

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF NORTH HERTFORDSHIRE DISTRICT COUNCIL – Draft Opinion

Disclaimer of opinion

We were engaged to audit the financial statements of North Hertfordshire District Council for the year ended 31 March 2023. The financial statements comprise the:

- Comprehensive Income and Expenditure Statement,
- Movement in Reserves Statement,
- Balance Sheet,
- Cash Flow Statement,
- the related notes 1 to 42 including a summary of significant accounting policies and including the Expenditure and Funding Analysis,
- Collection Fund and the related notes 1 to 4.

The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2022/23 as amended by the Update to the Code and Specifications for Future Codes for Infrastructure Assets (November 2022).

We do not express an opinion on the accompanying financial statements of the Council. Because of the significance of the matter described in the basis for disclaimer of opinion section of our report, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

Basis for disclaimer of opinion

The Accounts and Audit (Amendment) Regulations 2024 (Statutory Instrument 2024/907) which came into force on 30 September 2024 requires the accountability statements for this financial year to be approved not later than 13th December 2024.

We completed the audit of the 2021/22 financial statements in September 2023 and issued our audit opinion on 14 September 2023.

The backstop date and the wider requirements of the local audit system reset, meant we did not have the required resources available to complete the detailed audit procedures that would be needed to obtain sufficient appropriate audit evidence to issue an unmodified audit report on the 2022/23 financial statements. Therefore, we are disclaiming our opinion on the financial statements.

Matters on which we report by exception

Notwithstanding our disclaimer of opinion on the financial statements, performed subject to the pervasive limitation described above, we have nothing to report in respect of whether the annual governance statement is misleading or inconsistent with other information forthcoming from the audit or our knowledge of the Council.

Results and findings – Draft Audit Report

Draft audit report

Our draft opinion on the financial statements

We report to you if:

- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014 (as amended)
- we make written recommendations to the audited body under Section 24 of the Local Audit and Accountability Act 2014 (as amended)
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014 (as amended)
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014 (as amended)
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014 (as amended)
- we are not satisfied that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2023.

We have nothing to report in these respects.

Responsibility of the Service Director – Resources

As explained more fully in the Statement of the Service Director – Resources' Responsibilities set out on page 1, the Service Director – Resources is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2022/23 as amended by the Update to the Code and Specifications for Future Codes for Infrastructure Assets (November 2022), and for being satisfied that they give a true and fair view and for such internal control as the Service Director – Resources determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Service Director – Resources is responsible for assessing the Council's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Council either intends to cease operations, or has no realistic alternative but to do so.

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

Auditor's responsibilities for the audit of the financial statements

Our responsibility is to conduct an audit of the Council's financial statements in accordance with International Standards on Auditing (UK) and to issue an auditor's report.

However, because of the matter described in the basis for disclaimer of opinion section of our report, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

We are independent of the Council in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard and the Code of Audit Practice 2024 and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Results and findings – Draft Audit Report

Draft audit report

Our draft opinion on the financial statements

Scope of the review of arrangements for securing economy, efficiency and effectiveness in the use of resources

We have undertaken our review in accordance with the Code of Audit Practice 2024, having regard to the guidance on the specified reporting criteria issued by the Comptroller and Auditor General in January 2023, as to whether North Hertfordshire District Council had proper arrangements for financial sustainability, governance and improving economy, efficiency and effectiveness. The Comptroller and Auditor General determined these criteria as those necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether North Hertfordshire District Council put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2023.

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

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 (as amended) to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

We are not required to consider, nor have we considered, whether all aspects of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Certificate

We certify that we have completed the audit of the accounts of North Hertfordshire District Council in accordance with the requirements of the Local Audit and Accountability Act 2014 (as amended) and the Code of Audit Practice issued by the National Audit Office.

Use of our report

This report is made solely to the members of North Hertfordshire District Council, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 (as amended) and for no other purpose, as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Council and the Council's members as a body, for our audit work, for this report, or for the opinions we have formed.

Debbie Hanson (Key Audit Partner)
Ernst & Young LLP (Local Auditor)
Luton

The following footnote does not form part of our Auditor's Report.

Additional information related to the disclaimer of opinion is set out in our Completion Report for Those Charged with Governance dated 6 November 2024, available on the Council's website, which includes further explanations about the implementation of the statutory instrument which led to the disclaimer of our opinion on the financial statements.



04 Value for Money



VFM - Executive Summary

Purpose

Auditors are required to be satisfied that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We do not issue a 'conclusion' or 'opinion', but where significant weaknesses are identified we will report by exception in the auditor's opinion on the financial statements. In addition, auditors provide an annual commentary on arrangements published as part of the Auditor's Annual Report. In doing so, we comply with the requirements of the 2020 Code of Audit Practice (the Code) and Auditor Guidance Note 3 (AGN 03).

The purpose of this commentary is to explain the work we have undertaken to assess the Authority's arrangements during the period 1st April 2022 to 31st March 2023 and highlight any significant weaknesses identified along with recommendations for improvement. The commentary covers our findings for audit year 2022/23.

The Department for Levelling Up, Housing and Communities (DLUHC) has worked collaboratively with the Financial Reporting Council (FRC), as incoming shadow system leader, and other system partners, to develop measures to address the delay in local audit. As part of the NAO consultation issued on 8 February 2024, there is a proposal to reduce the scope of the VFM reporting up to and including the 2022/23 financial year. However, the consultation states that where auditors have begun or already undertaken work that no longer falls under the reduced scope (if agreed once the consultation closes), they may still report on it in accordance with Schedule 4. We are continuing to report VFM in line with our existing responsibilities as set out in the 2020 Code to ensure a smooth transition to the 2023/24 audit year when auditors are required to meet the full Code reporting responsibilities.

The report sets out the following areas which have been assessed up to the point of issuing this interim report:

- Any identified risks of significant weakness, having regard to the three specified reporting criteria;
- An explanation of the planned responsive audit procedures to the significant risks identified; and
- Findings from our planned procedures.

We provided a detailed summary of arrangements over the period covered by this report in our Interim Value for Money report presented to the Finance, Audit and Risk Committee in June 2024.

VFM - Executive Summary (continued)

Risks of Significant Weakness

In undertaking our procedures to understand the body's arrangements against the specified reporting criteria, we identify whether there are risks of significant weakness which require us to complete additional risk-based procedures. AGN 03 sets out considerations for auditors in completing and documenting their work and includes consideration of:

- our cumulative audit knowledge and experience as your auditor;
- reports from internal audit which may provide an indication of arrangements that are not operating effectively;
- our review of the Council committee reports;
- meetings with the Service Director: Resources;
- information from external sources; and
- evaluation of associated documentation through our regular engagement with the Council management and the finance team.

We completed our risk assessment procedures and did not identify any significant weaknesses in the Council's VFM arrangements.

As a result, we have no matters to report by exception in our audit report.

VFM - Executive Summary (continued)

Reporting

We presented our Interim Value for Money Report for 2022/23 to the Finance, Audit and Risk Committee in June 2024.

The detailed arrangements and processes underpinning the reporting criteria were reported in our 2021/22 Auditor's Annual Report and have been updated for 2022/23. These updates were reported in our Interim Value for Money Report and are not repeated in this report.

In accordance with the NAO's 2020 Code, we are required to report a commentary against three specified reporting criteria. The table below sets out the three reporting criteria, whether we identified a risk of significant weakness as part of our planning procedures, and whether, at the time of this interim report, we have concluded that there is a significant weakness in the body's arrangements.

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Reporting Criteria	Risks of significant weaknesses in arrangements identified?	Actual significant weaknesses in arrangements identified?
Financial sustainability: How the Council plans and manages its resources to ensure it can continue to deliver its services	No significant risks identified	No significant weakness identified
Governance: How the Council ensures that it makes informed decisions and properly manages its risks	No significant risks identified	No significant weakness identified
Improving economy, efficiency and effectiveness: How the Council uses information about its costs and performance to improve the way it manages and delivers its services	No significant risks identified	No significant weakness identified

Value for Money Commentary

Financial Sustainability: How the Council plans and manages its resources to ensure it can continue to deliver its services

No significant weakness identified

The Council has adhered to its governance processes for setting a balanced budget and regularly updating its Medium Term Financial Strategy (MTFS). The budget and MTFS are underpinned by assumptions that we deemed reasonable and are well supported.

The 2022/23 budget set in February 2022, included overall funding of £20.2 million, which was higher than the £19.6 million total received in 2021/22. The revenue budget for 2022/23 was £18.198 million. At year end, the working budget decreased to £16.738 million and the net outturn of £15.82 million against this represented an underspend of £918k, with £184k of unspent budget to fund specific projects carried forward to 2023/24. For the 2022/23 budget, the Council assumed that spend and income would be back to normal but made a central budget provision of £1.74 million for additional costs that may arise. A similar provision of £0.52 million was included for 2023/24.

The revenue budget for 2022/23 has been prepared in accordance with the Budget Strategy adopted by the Council which included the following key assumptions:

1. increase of 4% in pay award.
2. Inflation estimated of 2%
3. Increase of 2% in the adult social care precept.
4. Increase of 3% in council tax.
5. A vacancy factor of approximately 2.5% of salary budget to yield savings in the region of £300k in the base budget in each year.
6. 97% collection rate for business rates.
7. Investment income based on cashflow projections and a 1.79% return.

The 2023-28 MTFS set target savings for each of the next five years, with a cumulative £2.6 million savings needed to be delivered to ensure the Council can achieve a fully balanced budget by 2027/28. In the shorter-term (between 2023/24 and 2025/26) the MTFS assumed that the budget will be balanced through the use of reserves totalling £3 million. The phasing of the delivery of savings also ensures that the reserves are not reduced significantly, and general fund reserves remain above the minimum level recommended by the Section 151 Officer for 2022/23 of £3.05 million, with reserves for the period 2023/24 to 2025/26 being forecast to be £9.55 million.

The 2022/23 budget included efficiencies of £0.606 million. The 2022/23 revenue budget outturn report noted that savings of £1,164k were actually delivered. The purchase of the leasehold interest in Churchgate Shopping Centre during 2022/23 also resulted in an increase in rental income from this asset of £138k during the year.

The savings strategy developed by the Council has four strands:

1. deliver existing services at a lower cost through use of technology
2. generate additional income from services that the council can charge for, less any costs in providing that additional level of service
3. Be able to generate income from commercial activities in line with its priorities
4. Reduce the level of services the council provides or no longer provide services that the council is not required to provide.

Value for Money Commentary (continued)

Financial Sustainability: How the Council plans and manages its resources to ensure it can continue to deliver its services

No significant weakness identified

For 2023/24, the Council approved a net revenue budget of £18.539 million in February 2023.

The 2024-29 MTFS, set target net savings for each of the next 5 years, with cumulative savings of £3.1 million to be delivered to ensure a fully balanced budget by 2028/29. In the shorter term, the budget will again be balanced through the use of reserves. The phasing of the delivery of savings also ensures that the reserves are not reduced and remain above the minimum recommended level recommended by the Section 151 Officer for 2023/24 of £2.5 million, with a zero net savings target for 2024/25. The projected level of general fund reserves at the end of 2024/25 are £12.649 million, with the level reducing slightly to £11.106 million at the end of 2028/29. These levels are increased from the levels forecast in the 2023-28 MTFS. Reserves are therefore sufficient to maintain financial stability if there are challenges achieving the savings targets, The Section 151 Officer has also made clear in his reports that reserves can only be used once and that the use of reserves in response to Covid-19 and the cost of living crisis is exceptional and must not form part of an ongoing sustainable strategy.

The revenue budget for 2023/24 was prepared in accordance with the Budget Strategy adopted by the Council, which included a set of key assumptions:

1. Increase in pay inflation of 4% for 2023/24 and 2% for each year from 2024/25 onwards
2. Increase of 3% in council tax.
3. A vacancy factor set at approximately 2.5% of salary budget to yield savings in the region of £400k in the base budget in each year.
4. 97% collection rate for business rates.

The Council needs to continue to ensure it mitigates further unplanned use of reserve balances to support the revenue budget, by taking steps to ensure that any in-year overspends are minimised and future budget gaps are identified early with savings/efficiency schemes put in place, without compromising front line service delivery.

Conclusion: Based on the work performed, the Council had proper arrangements in place in 2022/23 to enable it to plan and manage its resources to ensure that it can continue to deliver its services

Value for Money Commentary (continued)

Governance: How the Council ensures that it makes informed decisions and properly manages its risks

No significant weakness identified

The Council's Constitution sets out how the Council operates, how decisions are made and the procedures which are followed to ensure that decisions are efficient, transparent and accountable to local people. Areas of potential change are identified, and the Constitution is amended accordingly. This has been evidenced by the recent updating of the constitution in April 2024.

The implementation of the Council Delivery Plan has resulted in a reorganization of roles among Committees. Notably, the Overview and Scrutiny Committee now monitors strategic risks, while the Finance Audit and Risk Committee has shifted its focus towards ensuring effective risk management processes. This realignment is expected to enhance efficiency and effectiveness in governance practices.

Learning and development for members of the Finance, Audit and Risk (FAR) Committee has improved following recommendations from Internal Audit and a Peer Review of the FAR Committee. The Peer Review was undertaken in 2022/23 and was undertaken to enhance the Council's effectiveness in governance and decision-making. The Peer Review noted areas for improvement including Members' lack of understanding of local government finance, IT issues during virtual meetings and transparency in risk review processes. The recommendations from the Internal Audit and Peer Review have been largely implemented, with the 2023/23 FAR Committee Annual Report, which will be presented in June 2024, providing an update on progress. As part of the response to the recommendations, the Committee has introduced training sessions focused on Finance, risk and fraud prevention as well as the role of Internal Audit. An independent member has also been appointed to the FAR Committee and there is appropriate reporting to the FAR Committee to provide the opportunity for independent consideration and challenge, including the Annual Governance Statement.

The Peer Review also considered the Overview and Scrutiny (O&S) Committee. The review identified areas for improvement including clearer integration with community engagement methods, better understanding of the benefits brought by external groups and panels, and greater interaction with Cabinet panels and made a number of recommendations. An action plan has been developed in response to the Peer review and the O&S Committee receives regular updates on progress.

The Shared Internal Audit Service's (SIAS) have given reasonable assurance for 2022/23 over the adequacy and effectiveness of the Council's framework of governance, risk management and control. Five audits received unqualified opinions and contributed to the overall assurance opinion. These consisted of three grants audits and two audits of charitable trust accounts run through the Council's bank accounts. There were also three audits with an opinion of 'not assessed' that provided consultancy advice on the planned control environment for which an assurance opinion is not provided. Internal Audit asserted that, based on the work completed during the year and observations through their attendance at a variety of management and governance meetings, in their opinion the governance frameworks in place across the Council are robust, fit for purpose and subject to regular review. Internal Audit also found that a robust control framework was operating, and no issues were identified surrounding governance.

Value for Money Commentary (continued)

Governance: How the Council ensures that it makes informed decisions and properly manages its risks

No significant weakness identified

The Council published their draft 2022/23 financial statements for audit on the 28 July 2023, in line with the Audit and Accounts regulations, and advertised and held an inspection period for members of the public in line with these regulations. We confirmed that the 2022/23 draft financial statements were arithmetically correct, agreed to the data in the general ledger, and prepared in line with the content required by the CIPFA Code. The Council has carried out bank reconciliations during the year. Therefore, appropriate arrangements for financial reporting were in place during 2022/23.

We noted from review of the accounts and our review of minutes that the Council purchased the Churchgate shopping centre lease during 2022/23. Council reports related to the Churchgate Project and lease acquisition refer to plans to regenerate the shopping centre and the surrounding areas. The Council already held the freehold ownership of the centre and adjacent sites and is therefore well placed to control and bring forward deliverable regeneration proposals for the area. The asset has been included in the Council's unaudited accounts as an investment property with a value of £4.5 million. However, to be classified as an investment property to asset must be held solely for the purpose of income generation or capital appreciation. As the various reports make significant reference to regeneration the Council has considered whether this asset has been correctly classified and therefore valued on an appropriate basis. As a result, the Council has reclassified this asset to property, plant and equipment.

The project is included in the Council's risk register as a top-rated risk, with the risks relating to the affordability of the regeneration, and the possibility of failing to meet the expectations of stakeholders. The risk register also includes controls to mitigate/manage the risk which include:

- a communications and consultation plan being in place, which is kept updated;
- decisions being explained, including that there will need to be compromises;
- financial and consultancy support (as needed) being in place; and
- cost effectiveness/value for money being a key part of developing options.

The Churchgate shopping centre was purchased at the start of the year, enabling the wider project to progress. As the project is still in planning phase the impact of future impact inflows and outflows are not currently incorporated in financial forecasts and future budgets. A detailed affordability plan will be prepared and approved in the coming months.

Conclusion: Based on the work performed, the Council had proper arrangements in place in 2022/23 to make informed decisions and properly manage its risks.

Value for Money Commentary (continued)

Improving economy, efficiency and effectiveness: How the Council uses information about its costs and performance to improve the way it manages and delivers its services

No significant weakness identified

The Council is required to have arrangements in place to ensure economy, efficiency and effectiveness, and the responsibility for these arrangements and reporting on the design and operation of these arrangements via the Annual Governance Statement, rests with management. The Council's projects and performance are monitored by the Overview and Scrutiny (O&S) Committee. The O&S Committee receives quarterly update reports on projects and an end of year report in June.

The Council has a Delivery Plan Report which includes performance indicators that help to describe the outputs and outcomes achieved. The Council has noted in its 2022/23 Narrative Report that the current number of indicators is relatively low, as a lot of the indicators are at the implementation stage. Many of the previous indicators are still monitored, but as they are operational, they are not reported to O&S Committee on regular basis.

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The Council's procurements are governed by the Council's Contract and Procurement Rules (part of the Council's Constitution). Compliance with these is monitored by Procurement/ Legal and the Contract Procurement Group. Section 20 of Constitution considers the Contract Procurement Rules. Each contract has a contract manager who is responsible for ensuring that the contracted service is delivered. Further, The Council also has a full-time Procurement Officer to provide specialist support.

As part of the Council's arrangements to ensure the efficient delivery of services, the Council works in partnership with other councils in delivering key services across Hertfordshire in areas such as waste, grounds maintenance and CCTV. The Council works to support local, county-wide and wider partnerships that seek to improve the well-being of its local community

Conclusion: Based on the work performed, the Council had proper arrangements in place in 2022/23 to enable it to use information about its costs and performance to improve the way it manages and delivers services.



05 Appendices

Appendix A – Management representation letter

Management representation letter

This is the draft management letter template which Management will tailor and send back signed and dated prior to the opinion being issued.

Management Rep Letter

[To be prepared on the entity's letterhead]

[Date]

Ernst & Young

This letter of representations is provided connection with your audit of the Authority financial statements of North Hertfordshire Council ("the authority") for the year ended 31 March 2023. We recognise that obtaining representations from us concerning the information contained in this letter is a significant procedure in enabling you to form an opinion as to whether the consolidated and parent Authority financial statements give a true and fair view of (or 'present fairly, in all material respects,') the authority financial position of North Hertfordshire Council as of 31 March 2023 and of its financial performance (or operations) and its cash flows for the year then ended in accordance with, for the action Authority, CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2022/23 (as amended by the Update to the Code and Specifications for Future Codes for Infrastructure Assets (November 2022)).

We understand that the purpose of your audit of our Authority financial statements is to express an opinion thereon and that your audit was conducted in accordance with International Standards on Auditing (UK), which involves an examination of the accounting system, internal control and related data to the extent you considered necessary in the circumstances, and is not designed to identify - nor necessarily be expected to disclose - all fraud, shortages, errors and other irregularities, should any exist. Accordingly, we make the following representations, which are true to the best of our knowledge and belief, having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

A. Financial Statements and Financial Records

1. We have fulfilled our responsibilities, under the relevant statutory authorities, for the preparation of the financial statements in accordance with, for the Authority, the Accounts and Audit Regulations 2015 and the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2021/22 (as amended by the Update to the Code and Specifications for Future Codes for Infrastructure Assets (November 2022)).
2. We acknowledge, as members of management of the authority, our responsibility for the fair presentation of the consolidated and parent Authority financial statements. We believe the Authority financial statements referred to above give a true and fair view of the financial position, financial performance (or results of operations) and cash flows of the Authority in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2021/22 (as amended by the Update to the Code and Specifications for Future Codes for Infrastructure Assets (November 2022), and are free of material misstatements, including omissions. We have approved the financial statements.
3. The significant accounting policies adopted in the preparation of the authority financial statements are appropriately described in the authority financial statements.

Appendix A – Management representation letter

Management representation letter

This is the draft management letter template which Management will tailor and send back signed and dated prior to the opinion being issued.

Management Rep Letter

5. As members of management of the authority, we believe that the authority have a system of internal controls adequate to enable the preparation of accurate financial statements in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2021/22 (as amended by the Update to the Code and Specifications for Future Codes for Infrastructure Assets (November 2022)), for the Authority that are free from material misstatement, whether due to fraud or error.
6. We confirm the authority does not have securities (debt or equity) listed on a recognized exchange.
7. We have confirmed to you any changes in service organizations within the authority since the last audited financial year.

B. Non-compliance with laws and regulations, including fraud

1. We acknowledge that we are responsible to determine that the authority's business activities are conducted in accordance with laws and regulations and that we are responsible to identify and address any non-compliance with applicable laws or regulations, including fraud.
2. We acknowledge that we are responsible for the design, implementation and maintenance of a system of internal control to prevent and detect fraud and that we believe we have appropriately fulfilled those responsibilities.
3. We have disclosed to you the results of our assessment of the risk that the Authority financial statements may be materially misstated as a result of fraud.

Appendix A – Management representation letter

Management representation letter

This is the draft management letter template which Management will tailor and send back signed and dated prior to the opinion being issued.

Management Rep Letter

C. Information Provided and Completeness of Information and Transactions

1. We have provided you with:
 - Access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;
 - Additional information that you have requested from us for the purpose of the audit; and
 - Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
2. All material transactions have been recorded in the accounting records and are reflected in the Authority financial statements.
3. We have made available to you all minutes of the meetings of shareholders, directors and committees of directors (or summaries of actions of recent meetings for which minutes have not yet been prepared) held through the year to the most recent meeting on the following date: *[list date]*.
4. We confirm the completeness of information provided regarding the identification of related parties. We have disclosed to you the identity of the authority's related parties and all related party relationships and transactions of which we are aware, including sales, purchases, loans, transfers of assets, liabilities and services, leasing arrangements, guarantees, non-monetary transactions and transactions for no consideration for the period ended, as well as related balances due to or from such parties at the year end.

These transactions have been appropriately accounted for and disclosed in the Authority financial statements.

4. We believe that the methods, significant assumptions and the data we used in making accounting estimates and related disclosures are appropriate and consistently applied to achieve recognition, measurement and disclosure that is in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2021/22 (as amended by the Update to the Code and Specifications for Future Codes for Infrastructure Assets (November 2022)).
5. We have disclosed to you, and the authority has complied with, all aspects of contractual agreements that could have a material effect on the Authority financial statements in the event of non-compliance, including all covenants, conditions or other requirements of all outstanding debt.
7. From the date of our last management representation letter through the date of this letter we have disclosed to you, to the extent that we are aware, any (1) unauthorized access to our information technology systems that either occurred or is reasonably likely to have occurred, including of reports submitted to us by third parties (including regulatory agencies, law enforcement agencies and security consultants), to the extent that such unauthorized access to our information technology systems is reasonably likely to have a material effect on the Authority financial statements, in each case or in the aggregate, and (2) ransomware attacks when we paid or are contemplating paying a ransom, regardless of the amount.

Appendix A – Management representation letter

Management representation letter

This is the draft management letter template which Management will tailor and send back signed and dated prior to the opinion being issued.

Management Rep Letter

8. We have disclosed to you, and provided you full access to information and any internal investigations relating to, unauthorized access to our information technology systems that has a material effect on the Authority financial statements, including disclosures.

D. Liabilities and Contingencies

1. All liabilities and contingencies, including those associated with guarantees, whether written or oral, have been disclosed to you and are appropriately reflected in the Authority financial statements.
2. We have informed you of all outstanding and possible litigation and claims, whether or not they have been discussed with legal counsel.
3. We have recorded and/or disclosed, as appropriate, all liabilities related to litigation and claims, both actual and contingent, and have disclosed in Note [X] to the consolidated and parent Authority financial statements all guarantees that we have given to third parties.

E. Going Concern

1. Note [X] to the consolidated and parent Authority financial statements discloses all the matters of which we are aware that are relevant to the Group and authority's ability to continue as a going concern, including significant conditions and events, our plans for future action, and the feasibility of those plans.

F. Subsequent Events

1. Other than the events described in Note [X] to the Authority financial statements, there have been no events subsequent to period end which require adjustment of or disclosure in the consolidated and parent Authority financial statements or notes thereto.

G. Other information

1. We acknowledge our responsibility for the preparation of the other information. The other information comprises the information contained within the Narrative Statement and also the Annual Governance Statement.
2. We confirm that the content contained within the other information is consistent with the financial statements.

I. Climate-related matters

1. We confirm that to the best of our knowledge all information that is relevant to the recognition, measurement, presentation and disclosure of climate-related matters has been considered and the authority have reflected these in the consolidated and parent financial statements.

Yours faithfully,

(Chief Financial Officer/Finance Director)

(Chairman of the Audit Committee)

Appendix B – Fees

The duty to prescribe fees is a statutory function delegated to Public Sector Audit Appointments Ltd (PSAA) by the Secretary of State for Housing, Communities and Local Government.

This is defined as the fee required by auditors to meet statutory responsibilities under the Local Audit and Accountability Act 2014 in accordance with the requirements of the Code of Audit Practice and supporting guidance published by the National Audit Office, the financial reporting requirements set out in the Code of Practice on Local Authority Accounting published by CIPFA/LASAAC, and the professional standards applicable to auditors' work.

The original fees for these years were based on the following assumptions:

- ▶ Officers meeting the agreed timetable of deliverables;
- ▶ Our accounts opinion and value for money conclusion being unqualified;
- ▶ Appropriate quality of documentation is provided by the Council; and
- ▶ The Council has an effective control environment
- ▶ The Council complies with PSAA's Statement of Responsibilities of auditors and audited bodies. See <https://www.psaa.co.uk/managing-audit-quality/statement-of-responsibilities-of-auditors-and-audited-bodies/statement-of-responsibilities-of-auditors-and-audited-bodies-from-2023-24-audits/>. In particular the Council should have regard to paragraphs 26 - 28 of the Statement of Responsibilities which clearly sets out what is expected of audited bodies in preparing their financial statements. These are set out in full on the previous page.

	Current Year (2022/23) Note 1	Prior Year (2021/22) Note 1
	£	£
Total Fee - Code Work	40,068	40,068
Other- scale fee variation	TBD	41,066
Total audit	TBD	81,134
Other non-audit services not covered above (Housing benefits) - estimate	12,100	27,450
Total other non-audit services - estimate	12,100	27,450
Total fees	TBD	0

All fees exclude VAT

Note 1: As set out in the joint statement issued by DLUHC on update to proposals to clear the backlog and embed timely audit, PSAA will use its fee variation process to determine the final fee the Council have to pay in respect of the 2022/23 audit.

In doing so, PSAA Ltd will apply the principles that where auditors have worked in good faith to meet the requirements of the Code of Audit Practice in place at the time the work was conducted (and have reported on work that is no longer required), then they are due the appropriate fee for the work done, including where their procedures were necessary to conclude the audit by the legislatively imposed backstop date by way of a modified or disclaimed opinion and the body is due to pay the applicable fee.

Appendix C – Required communications with the Audit Committee

We have detailed the communications that we must provide to the audit committee.

Our Reporting to you		
Required communications	What is reported?	When and where
Terms of engagement	Confirmation by the audit committee of acceptance of terms of engagement as written in the engagement letter signed by both parties.	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies.
Our responsibilities	Reminder of our responsibilities as set out in the engagement letter	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies.
Planning and audit approach	Communication of: ▶ The planned scope and timing of the audit ▶ Any limitations on the planned work to be undertaken ▶ The planned use of internal audit ▶ The significant risks identified When communicating key audit matters this includes the most significant risks of material misstatement (whether or not due to fraud) including those that have the greatest effect on the overall audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team	This Completion report for Those Charged with Governance
Significant findings from the audit	▶ Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures ▶ Significant difficulties, if any, encountered during the audit ▶ Significant matters, if any, arising from the audit that were discussed with management ▶ Written representations that we are seeking ▶ Expected modifications to the audit report ▶ Other matters if any, significant to the oversight of the financial reporting process ▶ Findings and issues regarding the opening balance on initial audits (delete if not an initial audit)	This Completion report for Those Charged with Governance

Appendix C – Required communications with the Audit Committee (cont'd)

Our Reporting to you

Required communications	What is reported?	When and where
Misstatements	▶ Uncorrected misstatements and their effect on our audit opinion, unless prohibited by law or regulation ▶ The effect of uncorrected misstatements related to prior periods ▶ A request that any uncorrected misstatement be corrected ▶ Material misstatements corrected by management	This Completion report for Those Charged with Governance
Fraud	▶ Enquiries of the audit committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity ▶ Any fraud that we have identified or information we have obtained that indicates that a fraud may exist ▶ Unless all of those charged with governance are involved in managing the entity, any identified or suspected fraud involving: a. Management; b. Employees who have significant roles in internal control; or c. Others where the fraud results in a material misstatement in the financial statements ▶ The nature, timing and extent of audit procedures necessary to complete the audit when fraud involving management is suspected ▶ Matters, if any, to communicate regarding management's process for identifying and responding to the risks of fraud in the entity and our assessment of the risks of material misstatement due to fraud ▶ Any other matters related to fraud, relevant to Audit Committee responsibility	This Completion report for Those Charged with Governance

Appendix C – Required communications with the Audit Committee (cont'd)

Our Reporting to you

Required communications	What is reported?	When and where
Related parties	Significant matters arising during the audit in connection with the entity's related parties including, when applicable: ▶ Non-disclosure by management ▶ Inappropriate authorisation and approval of transactions ▶ Disagreement over disclosures ▶ Non-compliance with laws and regulations ▶ Difficulty in identifying the party that ultimately controls the entity	This Completion report for Those Charged with Governance
Independence	Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, integrity, objectivity and independence ▶ Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as: ▶ The principal threats ▶ Safeguards adopted and their effectiveness ▶ An overall assessment of threats and safeguards ▶ Information about the general policies and process within the firm to maintain objectivity and independence Communication whenever significant judgements are made about threats to integrity, objectivity and independence and the appropriateness of safeguards put in place.	This Completion report for Those Charged with Governance

Appendix C – Required communications with the Audit Committee (cont'd)

Our Reporting to you

Required communications	What is reported?	When and where
External confirmations	▶ Management's refusal for us to request confirmations ▶ Inability to obtain relevant and reliable audit evidence from other procedures	This Completion report for Those Charged with Governance
Consideration of laws and regulations	▶ Subject to compliance with applicable regulations, matters involving identified or suspected non-compliance with laws and regulations, other than those which are clearly inconsequential and the implications thereof. Instances of suspected non-compliance may also include those that are brought to our attention that are expected to occur imminently or for which there is reason to believe that they may occur ▶ Enquiry of the audit committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the audit committee may be aware of	This Completion report for Those Charged with Governance
Internal controls	▶ Significant deficiencies in internal controls identified during the audit	This Completion report for Those Charged with Governance
Representations	Written representations we are requesting from management and/or those charged with governance	This Completion report for Those Charged with Governance
System of quality management	How the system of quality management (SQM) supports the consistent performance of a quality audit	This Completion report for Those Charged with Governance
Material inconsistencies and misstatements	Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	This Completion report for Those Charged with Governance
Auditors report	▶ Key audit matters that we will include in our auditor's report ▶ Any circumstances identified that affect the form and content of our auditor's report	This Completion report for Those Charged with Governance

Appendix D - Non-Compliance with Laws and Regulations (NOCLAR)

Non-Compliance with Laws and Regulations includes:

Any act or suspected act of omission or commission (intentional or otherwise) by the entity (including any third parties under the control of the entity such as subsidiaries, those charged with governance or management or an employee acting on behalf of the company), either intentional or unintentional, which are contrary to the prevailing laws or regulations

Management Responsibilities:

"It is the responsibility of management, with the oversight of those charged with governance, to ensure that the entity's operations are conducted in accordance with the provisions of laws and regulations, including compliance with the provisions of laws and regulations that determine the reported amounts and disclosures in an entity's financial statements."

ISA 250A, para 3

"The directors' report must contain a statement to the effect that... so far as the director is aware, there is no relevant audit information of which the company's auditor is unaware, and he has taken all the steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the company's auditor is aware of that information."

ISA 250A, para 3

"Management is responsible for communicating to us on a timely basis, to the extent that management or those charged with governance are aware, all instances of identified or suspected non-compliance with laws and regulations ..."

Audit Engagement Letter

Management's responsibilities are also set out in the International Ethics Standard Board of Accountants' International Code of Ethics (IESBA Code) Para 360.08

Auditor Responsibilities

[The International Ethics Standard Board of Accountants' International Code of Ethics](#) (IESBA Code) section 360 sets out the scope and procedures in relation to responding to actual or suspected non-compliance with laws and regulations.

Professional accountancy organisations who are members of the International Federation of Accountants (IFAC), such as the Institute of Chartered Accountants in England and Wales (ICAEW) are required to adopt the IESBA Code of Ethics.

We as your auditor are required to comply with the Code by virtue of our registration with ICAEW.

"If the auditor becomes aware of information concerning an instance of non-compliance or suspected non-compliance with laws and regulations, the auditor shall obtain:

An understanding of the nature of the act and the circumstances in which it has occurred; and Further information to evaluate the possible effect on the financial statements

The auditor shall evaluate the implications of the identified or suspected non-compliance in relation to other aspects of the audit, including the auditor's risk assessment and the reliability of written representations, and take appropriate action."

ISA 250A, paras 19 and 22

Examples of Non-Compliance with Laws and Regulations (NOCLAR)

Matter

- ▶ Suspected or known fraud or bribery
- ▶ Health and Safety incident
- ▶ Payment of an unlawful dividend
- ▶ Loss of personal data
- ▶ Allegation of discrimination in dismissal
- ▶ HMRC or other regulatory investigation
- ▶ Deliberate journal mis-posting or allegations of financial impropriety
- ▶ Transacting business with sanctioned individuals

Implication

- ▶ Potential fraud/breach of anti-bribery legislation
- ▶ Potential breach of section 2 of the Health and Safety at Work Act 1974
- ▶ Potential breach of Companies Act 2006
- ▶ Potential GDPR breach
- ▶ Potential non-compliance with employment laws
- ▶ Suspicion of non-compliance with laws/regulations
- ▶ Potential fraud / breach of Companies Act 2006
- ▶ Potential breach of sanctions regulations

Appendix D - Non-Compliance with Laws and Regulations (NOCLAR) (cont'd)

What are the implications of NOCLAR matters arising?

Depending on the nature and significance of the NOCLAR matter the following steps are likely to be required, involving additional input from both management and audit.

This can have an impact on overall achievability of audit timeline and fees.

Across our portfolio of audits we have seen a steady increase in NOCLAR matters that need to be addressed as part of the audit over the past 3 years



Management response:

Timely communication of the matter to auditors (within a couple of days)

Determine who will carry out any investigation into the matter - in-house or external specialists or mix of both

Scope the investigation, in discussion with the auditors

Evaluate findings and agree next steps

Determine effect on financial statements including disclosures

Prepare a paper, summarising the outcome of the investigation and management's conclusions

Communicate the outcome to Those Charged With Governance (TCWG) and to us as your auditors. Report to regulators where required.

Key Reminders:

- ▶ Make sure that all areas of the business are aware of what constitutes actual or potential non-compliance and associated requirements
- ▶ Communicate with us as your auditors on a timely basis - do not wait for scheduled audit catch-ups
- ▶ Engage external specialists where needed
- ▶ Ensure that your investigation assesses any wider potential impacts arising from the matter, not just the matter itself.
- ▶ Plan upfront and consider any impact on overall accounts preparation and audit timeline - discuss the implications with us as your auditor

Audit response:

Initial assessment of the NOCLAR matter and its potential impact

Initial consultation with risk team to determine responsive procedures and the involvement of specialists

Understand and agree scope of management's investigation with support from specialists as needed

Evaluate findings and undertake appropriate audit procedures

Determine audit related impact including accounting and disclosure and audit opinion implications

Document and consult on the outcome of our procedures

Communicate the outcome with management, TCWG and where necessary other auditors within the group or regulators

Appendix E – PSAA Statement of Responsibilities

As set out on the next page our fee is based on the assumption that the Council complies with PSAA's Statement of Responsibilities of auditors and audited bodies. In particular the Council should have regard to paragraphs 26-28 of the Statement of Responsibilities which clearly set out what is expected of audited bodies in preparing their financial statements. We set out these paragraphs in full below:

Preparation of the statement of accounts

26. Audited bodies are expected to follow Good Industry Practice and applicable recommendations and guidance from CIPFA and, as applicable, other relevant organisations as to proper accounting procedures and controls, including in the preparation and review of working papers and financial statements.

27. In preparing their statement of accounts, audited bodies are expected to:

- prepare realistic plans that include clear targets and achievable timetables for the production of the financial statements;
- ensure that finance staff have access to appropriate resources to enable compliance with the requirements of the applicable financial framework, including having access to the current copy of the CIPFA/LASAAC Code, applicable disclosure checklists, and any other relevant CIPFA Codes.
- assign responsibilities clearly to staff with the appropriate expertise and experience;

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provide necessary resources to enable delivery of the plan;

maintain adequate documentation in support of the financial statements and, at the start of the audit, providing a complete set of working papers that provide an adequate explanation of the entries in those financial statements including the appropriateness of the accounting policies used and the judgements and estimates made by management;

- ensure that senior management monitors, supervises and reviews work to meet agreed standards and deadlines;
- ensure that a senior individual at top management level personally reviews and approves the financial statements before presentation to the auditor; and
- during the course of the audit provide responses to auditor queries on a timely basis.

28. If draft financial statements and supporting working papers of appropriate quality are not available at the agreed start date of the audit, the auditor may be unable to meet the planned audit timetable and the start date of the audit will be delayed.

Appendix F – Other Communications

EY Transparency Report 2024

EY has policies and procedures that instil professional values as part of firm culture and ensure that the highest standards of objectivity, independence and integrity are maintained. Details of the key policies and processes in place within EY for maintaining objectivity and independence can be found in our annual Transparency Report which the firm is required to publish by law. The most recent version of this Report is for the period ended 28 June 2024 and can be found here: [EY UK 2024 Transparency Report](#).

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