



# **North Hertfordshire District Council Final Audit results report**

Year ended 31 March 2020  
23 November 2020



North Hertfordshire District Council  
Council Offices  
Gernon Road  
Letchworth  
SG6 3JF

23 November 2020

Dear Finance, Audit and Risk Committee Members

We are pleased to attach our Final Audit Results Report for the forthcoming meeting of the Finance, Audit and Risk Committee. This report follows on from the Initial report we presented to the 7 September 2020 meeting. At that stage our audit was substantially complete but with three key aspects of the audit in progress.

We anticipate that by 27 November, we will issue an unqualified audit opinion on the North Hertfordshire District Council (the Authority) statement of accounts for 2019/20. We have agreed the content of the report with the Service Director - Resources.

As set out on pages 5 to 7, as per our update to the Committee in June 2020, the Covid-19 pandemic has impacted the statements and our audit opinion. In the audit report at Section 03, we have included an emphasis of matter paragraph on the Authority's disclosures relating to the valuation of its property, plant and equipment. We have no matters to report on your arrangements to secure economy, efficiency and effectiveness in your use of resources.

This report is intended solely for the use of the Finance, Audit and Risk Committee, other members of the Authority, and senior management. It should not be used for any other purpose or given to any other party without obtaining our written consent. We would like to thank your staff for their help during the engagement given the additional pressures they have faced responding to the pandemic and working remotely.

We welcome the opportunity to present this report at the Finance, Audit and Risk Committee meeting on 3 December 2020.

Yours faithfully

Suresh Patel

Associate Partner

For and on behalf of Ernst & Young LLP

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Public Sector Audit Appointments Ltd (PSAA) have issued a 'Statement of responsibilities of auditors and audited bodies'. It is available from the Chief Executive of each audited body and via the PSAA website ([www.psaa.co.uk](http://www.psaa.co.uk)). This Statement of responsibilities serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas.

The 'Terms of Appointment (updated April 2018)' issued by PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and statute, and covers matters of practice and procedure which are of a recurring nature.

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

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





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# Executive Summary

## Executive Summary

### Scope update

In our audit planning report tabled at the January 2020 Finance, Audit and Risk Committee meeting, we provided you with an overview of our audit scope and approach for the audit of the financial statements. We carried out our audit in accordance with this plan, with the following exceptions which we reported to the Committee in June 2020.

### Changes to reporting timescales

As a result of COVID-19, new regulations, the Accounts and Audit (Coronavirus) (Amendment) Regulations 2020 No. 404, have been published and came into force on 30 April 2020. This announced a change to publication date for final, audited accounts from 31 July to 30 November 2020 for all relevant authorities.

### Changes to our risk assessment as a result of Covid-19

- ▶ **Valuation of Property Plant and Equipment** - The Royal Institute of Chartered Surveyors (RICS), the body setting the standards for property valuations, issued guidance to valuers highlighting that the uncertain impact of Covid-19 on markets might cause a valuer to conclude that there is a material uncertainty. Caveats around this material uncertainty were included in the year-end valuation report produced by the Authority's external valuer. We considered that the material uncertainties disclosed by the valuer gave rise to an additional risk relating to disclosures on the valuation of property, plant and equipment. This is particularly relevant for assets valued at fair value (such as investment properties) or some valued at existing use value (EUV) because of the paucity of reliable market information available at 31 March 2020 upon which to give those valuations. We have recognised the valuation of investment properties and other land and buildings valued using market data as a significant risk.
- ▶ **Disclosures on Going Concern** - The pandemic has had a significant impact on the Authority's finances and as a result there was a need for the Authority to revisit and update financial plans for 2020/21 and the medium term financial plan. We determined that the unpredictability of the current environment gave rise to a risk that the Authority would not appropriately disclose the key factors relating to going concern, underpinned by management's assessment with particular reference to Covid-19 and the Authority's actual year end financial position and performance.
- ▶ **Events after the balance sheet date** - We identified an increased risk that further events after the balance sheet date concerning the Covid-19 pandemic would need to be disclosed. The amount of detail required in the disclosure needs to reflect the specific circumstances of the Authority.
- ▶ **Adoption of IFRS16** - The adoption of IFRS 16 has been deferred until 1 April 2021. We therefore no longer considered this to be an area of audit focus for 2019/20.
- ▶ **Impairment of receivables** - We identified impairment of receivables as a new area of focus. The Authority holds material third party receivable balances as at 31 March 2020. There is a risk of increasing amounts written off as irrecoverable and impairment of year-end balances due to the potentially increasing number of businesses and residents unable to meet their financial obligations. We have reviewed significant judgements made by management.

## Executive Summary

### Scope update

**New significant risks not identified at planning stage** - In the January Audit Plan, we identified no significant risks. However, as outlined in the previous page we have identified new risks arising as a result of Covid-19.

#### **Changes to the scope of our audit as a result of Covid-19**

- ▶ As the Authority holds material land and buildings, which are valued at market value, we have engaged our own experts to support our audit procedures.

**Changes in materiality** - We updated our planning materiality assessment using the draft financial statements and have also reconsidered our risk assessment. Based on our materiality measure of 2% of gross expenditure on provision of services, we have updated our overall materiality assessment to £1.28m (Audit Planning Report – £1.32m). This results in updated performance materiality, at 75% of overall materiality, of £0.966m, and an updated threshold for reporting misstatements of £0.064m.

**Information Produced by the Entity (IPE):** We identified an increased risk around the completeness, accuracy, and appropriateness of information produced by the Authority due to the inability of the audit team to verify original documents or re-run reports on-site from the Authority's systems. We undertook the following to address this risk:

- Used the screen sharing function of Microsoft Teams to evidence re-running of reports used to generate the IPE we audited; and
- Agree IPE to scanned documents or other system screenshots.

#### **Additional EY consultation requirements concerning the impact on auditor reports because of Covid-19.**

The continued impact of the Covid-19 pandemic increases the risks to the material accuracy of financial statements and disclosures. To ensure we are providing the right assurances to the Authority and its stakeholders the firm has introduced a rigorous consultation process for all auditor reports to ensure that they include the appropriate narrative.

The changes to audit risks, audit approach and auditor reporting requirements changed the level of work we needed to perform. We will determine the impact on our audit fee and discuss with the Service Director - Resources at the conclusion of the audit.



## Executive Summary

### Status of the audit

Since the 2 September 2020 meeting, we have obtained the IAS19 assurances from the auditor of the Hertfordshire Pension Fund and obtained the findings from our EY Real Estates team on their work testing a sample of the Authority's asset valuations. We have therefore substantially completed our audit of North Hertfordshire District Council financial statements for the year 31 March 2020 and have performed the procedures outlined in our Audit planning report. We are currently concluding our internal consultation process on the format of the audit report at Section 03. The focus of the consultation has been on the impact on the audit opinion of the Authority's disclosures in respect going concern and property, plant and equipment valuations. Since the 2 September meeting, we have worked collaboratively with officers to revise the two disclosures to ensure that they adequately disclose the Authority's position.

In respect of going concern, we have determined whilst the disclosure appropriately highlights the financial impact of Covid-19 on the Authority, the disclosure is not fundamental to the reader's understanding of the accounts to require us to emphasis the disclosure in the audit opinion. However, we have determined that because the value of the Authority's property, plant and equipment is so significant and the fact that the Authority has a relatively significant investment property portfolio, we will emphasise the Authority's disclosure of a material uncertainty as a result of Covid-19 to the valuation of its property, plant and equipment and investment properties.

We are currently concluding:

- ▶ The audit report consultation processes
- ▶ Our review of the final version of the financial statements.
- ▶ Our final review processes.
- ▶ Subsequent events review.

We will also review the signed management representation letter when received.

### Audit differences

There are no unadjusted or adjusted audit differences arising from our audit which we need to report.

## Executive Summary

### Areas of audit focus

Our audit plan and the June 2020 update, identified one significant risk and three areas of focus for our audit of the Authority's financial statements. We summarise below our latest findings.

Significant risk	Findings & conclusions
Valuation of investment property & other land and buildings valued using market data Arising from the impact of the Covid-19 pandemic on the valuation at 31 March 2020	We obtained the output of the work of our valuation experts, EY Real Estates, in mid-November. Their work found a sample of valuations to be reasonably based. We are including an emphasis of matter paragraph in our audit report about the material uncertainty reported by the Authority's valuer. This is not a modification to the audit report but highlighting to the reader an important disclosure.
Other area of audit focus	Findings & conclusions
Pension liability	In October we obtained assurances from the auditor of the Hertfordshire County Council Pension Funds. The Authority has updated its pension disclosures following an updated IAS19 report from the actuary with a reduction in the net liability of £206k.
Going concern	The Service Director - Resources, reported the forecast financial impact of the Covid-19 pandemic to the July meeting of the Committee. The Authority has included a going concern disclosure in the statement of accounts which is informative and consistent with the detailed assessment that we have reviewed.
Impairment of receivables Arising from the impact of the Covid-19 pandemic	We have completed our audit procedures and found that the impairment of receivables is materially stated.

We ask you to review these and any other matters in this report to ensure:

- There are no other considerations or matters that could have an impact on these issues
- You agree with the resolution of the issue
- There are no other significant issues to be considered.

There are no matters, apart from those reported by management or disclosed in this report, which we believe should be brought to your attention.





## Executive Summary

### Control observations

We have adopted a fully substantive approach, so have not tested the operation of controls. However, from the results of substantive procedures performed we have not identified any significant deficiencies in the design or operation of an internal control that might result in a material misstatement in your financial statement.

### Value for money

We have considered your arrangements to take informed decisions; deploy resources in a sustainable manner; and work with partners and other third parties. In our Audit Planning Report we identified the property acquisition and development strategy and associated investment strategy as significant risk. We have completed our procedures and found that the Authority has the expected arrangements in place to manage the property acquisition and development strategy as they relate to the value for money conclusion.

### Other reporting issues

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

### Independence

We have no matters relating to our Independence to bring to your attention. Please refer to Section 8 for our update on Independence.



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## Areas of Audit Focus



## Areas of Audit Focus

### Significant risk

#### Valuation of investment properties and other land & buildings valued using market data

##### What is the risk?

Covid-19 has impacted the valuation of the Authority's investment properties and other assets valued using market data as outlined by the Authority's valuer. This is because of the paucity of reliable market information available at 31 March 2020 upon which to give those valuations. The Authority has included in Note 3 of the accounts reference to the valuers material uncertainty. There is a risk that the valuation of these assets could be materially misstated.

##### What judgements are we focused on?

The reasonableness of the methodologies adopted by the valuer in undertaking their valuations in 2019/20 and of the key assumptions input into these valuations. In particular assets with reference to fair value/market value. Additionally, we considered assets not revalued in the current year for the potential of material misstatement in valuation as of 31 March 2020.

##### What did we do?

- Considered the work performed by the Authority's valuer, including the adequacy of the scope of the work performed, their professional capabilities and the results of their work.
- Engaged our valuations specialist (EY Real Estates) to review a sample of other land & buildings & investment properties asset valuations to verify the reasonableness of the valuation methodology applied and key assumptions used.
- Challenged the assumptions used by the valuer. We sample tested key asset information used by the valuer in performing their valuation (e.g. floor plans to support valuations based on price per square meter).
- Reviewed assets not subject to valuation in 2019/20 to confirm that the valuation of remaining asset base was not materially misstated.
- Checked that the material uncertainty reported by the Authority's valuer was appropriately disclosed in the financial statements.

##### What are our conclusions?

- We have completed our work in response to this risk, including the work carried out by our valuations specialist (EY Real Estates). They found that for the sample of valuations they reviewed, all were within an acceptable range.
- The draft accounts did not include a material valuation uncertainty paragraph reported by the valuer in their valuation report. This was subsequently updated. We have reviewed the disclosure in the financial statements, and consider the disclosure appropriate.
- Overall our audit work did not identify any material issues.



## Areas of Audit Focus



### Pension Liability Valuation

The Local Authority Accounting Code of Practice and IAS19 require the Authority to make extensive disclosures within its financial statements regarding its membership of the Local Government Pension Scheme administered by Hertfordshire County Council. The Authority's pension fund deficit is a material estimated balance and the Code requires that this liability be disclosed on the Authority's balance sheet. At 31 March 2020 this totalled £30.8 million (£50.4 million at 31 March 2019).

The information disclosed is based on the IAS 19 report issued to the Authority by the actuary to the Pension Fund.

Accounting for this scheme involves significant estimation and judgement and therefore management engages an actuary to undertake the calculations on their behalf. ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.

Our approach has focused on:

- ▶ Liaising with the auditors of Hertfordshire Pension Fund to obtain assurances over the information supplied to the actuary in relation to North Hertfordshire District Council;
- ▶ Assessing the work of the Pension Fund actuary (Hymans Robertson) including the assumptions they have used by relying on the work of PWC - Consulting Actuaries commissioned by the NAO for all Local Government sector auditors, and considering any relevant reviews by the EY actuarial team; and
- ▶ Reviewing and testing the accounting entries and disclosures made within the Authority's financial statements in relation to IAS19.

#### Findings and conclusions

In October 2020, we obtained the IAS19 assurance letter from the auditor of the Pension Fund which has enabled us to complete our procedures. In late October the Authority obtained revised IAS19 report from the actuary and decided to amend the draft accounts to reflect a reduction in the net liability of £206k



## Areas of Audit Focus



### Going concern disclosure

There is presumption that the Authority will continue as a going concern. However, the current and future uncertainty over government funding and other sources of Authority revenue as a result of Covid-19 increases the need for the Authority to undertake a detailed going concern assessment to support its assertion. In light of the unprecedented nature of Covid-19, its impact on the funding of public sector entities and uncertainty over the form and extent of government support, we requested that management provide a documented consideration to support their assertion regarding the going concern basis. We also reviewed the Authority's subsequent new disclosure note.

Our approach has focused on:

- Assessing the adequacy of disclosures required in 2019/20;
- Discussing with management the going concern assessment and challenging management's underlying assumptions;
- Considering the impact on our audit report, including completing the EY consultation requirements.

### Findings and conclusions

The draft accounts did not include a going concern disclosure but the Service Director - Resources, had carried out an assessment of the impact of the Covid-19 pandemic on the Authority's income, expenditure, balances and reserves for the July Finance, Audit and Risk Committee. We reviewed the assessment, focusing on the reasonableness of the financial impact assessment, cashflow and liquidity forecasts, known outcomes, sensitivities, mitigating actions and key assumptions, particular around reductions in fees and charges. We also discussed with management the need to make specific disclosures in the 2019/20 statements.

The Authority is forecasting that the net General Fund impact in 2020/21 of the Covid-19 pandemic will be around £1.3m. In common with similar authorities, the biggest impact is forecast to be lost income and additional expenditure to support the provision of leisure centre services and the loss of car parking income. The net impact of £1.3m compares to a General Fund balance as at 31st March 2020 of £9.4m and a minimum General Fund balance of £3.5m (based on the 2020/21 original assessment with an additional risk-based allowance of £1m). We therefore note that the Authority has headroom within the General Fund to absorb the estimated financial impact of the Covid-19 pandemic in the short to medium-term.

We have now reviewed the new going concern disclosure included in the statement of accounts, and are satisfied that it adequately reflects the Authority's assessment and informs the reader of the impact of the pandemic on the Authority's finances.

We are completing our internal consultation to agree the final audit opinion and our determination that we do not need to include an emphasis of matter paragraph in the audit report.





## Areas of Audit Focus



### Impairment of receivables

At 31 March 2020 the Authority had £8.2m of total debtors. This included £3.2m of receivables from central government bodies and other local authorities. For the remaining balance, there may be risk to collection due to the impact of the Covid-19 pandemic. To address the risk, we have performed the following procedures:

- ▶ Evaluated the reasonableness of the methods and assumptions used by management to estimate the allowances for doubtful debts.
- ▶ Tested the accuracy and completeness of the data used by management to compute the bad debts provision.
- ▶ For a sample of 15 debtors, representing just over £2m of total debtor balance, reviewed the debt position as at July 2020 to evaluate reasonableness of collection as at 31 March 2020.

### Findings and conclusions

In preparing the draft accounts the Authority based its calculation of the provision for bad debts on the consideration that there was little evidence to suggest an increased risk to collectability. Through our audit procedures, we determined that the Authority had considered the impact of Covid-19 through evidence that some debtors had agreed with the Authority temporary deferment of payment. Our sample testing confirmed that that the impairment of receivables in the accounts was fairly stated.



## 03 Audit Report



# Audit Report

## Our opinion on the financial statements

### INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF NORTH HERTFORDSHIRE DISTRICT COUNCIL

#### Opinion

We have audited the financial statements of North Hertfordshire District Council for the year ended 31 March 2020 under the Local Audit and Accountability Act 2014. The financial statements comprise the:

- Movement in Reserves Statement,
- Comprehensive Income and Expenditure Statement,
- Balance Sheet,
- Cash Flow Statement and the related notes 1 to [x].
- Collection Fund and the related notes 1 to [x]

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 2019/20.

In our opinion the financial statements:

- give a true and fair view of the financial position of North Hertfordshire District Council as at 31 March 2020 and of its expenditure and income for the year then ended; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20.

#### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the authority 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 Comptroller and Auditor General's (C&AG) AGN01, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### Emphasis of matter - Property, Plant and Equipment and Investment Property valuation

We draw attention to Note 3 - Assumptions made about the future and other major sources of estimation uncertainty and Note 16 - Property, Plant and Equipment which describe the valuation uncertainty the Council is facing as a result of COVID-19 in relation to the valuation of its land and buildings and investment properties. Our opinion is not modified in respect of this matter.



# Audit Report

## Our opinion on the financial statements

### Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- ▶ the Service Director - Resource's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- ▶ the Service Director - Resource's has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Authority's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

### Other information

The other information comprises the information included in the Statement of Accounts 2019/20, other than the financial statements and our auditor's report thereon. The Service Director - Resource is responsible for the other information. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon. In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

### Opinion on other matters prescribed by the Local Audit and Accountability Act 2014

#### Arrangements to secure economy, efficiency and effectiveness in the use of resources

In our opinion, based on the work undertaken in the course of the audit, having regard to the guidance issued by the Comptroller and Auditor General (C&AG) in April 2020, we are satisfied that, in all significant respects,

North Hertfordshire District Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2020.

### Matters on which we report by exception

We report to you if:

- ▶ in our opinion the annual governance statement is misleading or inconsistent with other information forthcoming from the audit or our knowledge of the Council;
- ▶ we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014;
- ▶ we make written recommendations to the audited body under Section 24 of the Local Audit and Accountability Act 2014;
- ▶ 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;
- ▶ we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014; or
- ▶ we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014.

We have nothing to report in these respects .

### Responsibility of the Service Director - Resources

As explained more fully in the Statement of the Responsibilities set out on page 1, the Service Director - Resource's 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 2019/20, and for being satisfied that they give a true and fair view.

In preparing the financial statements, the Service Director - Resources is responsible for assessing the Authority'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 Authority either intends to cease operations, or have no realistic alternative but to do so.



# Audit Report

## Our opinion on the financial statements

The Authority 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 objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at <https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

### 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, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General (C&AG) in April 2020, as to whether North Hertfordshire District Council had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined this criterion as that 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 2020.

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 to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the National Audit Office (NAO) requires us to report to you our conclusion relating to proper arrangements.

We report if significant matters have come to our attention which prevent us from concluding that the Authority has put in place 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 Authority'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 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 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 Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

Suresh Patel (Key Audit Partner)  
Ernst & Young LLP (Local Auditor)  
Luton Date





## 04 Value for Money



# Value for Money

## Background

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

For 2019/20 this is based on the overall evaluation criterion:

"In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people"

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

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

In considering your proper arrangements, we will draw on the requirements of the CIPFA/SOLACE framework for local government to ensure that our assessment is made against a framework that you are already required to have in place and to report on through documents such as your annual governance statement.

## Impact of covid-19 on our VFM assessment

On 16 April 2020 the NAO published an update to auditor guidance in relation to the 2019/20 VFM assessment in the light of Covid-19. This clarified that in undertaking the 2019/20 VFM assessment auditors should consider local authorities responses to Covid-19 only as far as it relates to the 2019-20 financial year and only where clear evidence comes to the auditor's attention of a significant failure in arrangements as a result of Covid-19 during the financial year, would it be appropriate to recognise a significant risk in relation to the 2019-20 VFM arrangements conclusion.

We identified no such evidence for the Authority and therefore identified no significant VFM risk associated to Covid-19.

## Overall conclusion

We identified one significant risk around these arrangements in respect of the Authority's property acquisition, development strategy and associated investment strategy. The tables overleaf present our findings in response to the risk and concludes that we found that the Authority had appropriate arrangements in place to manage the risks associated to the new strategy as it relates to our VFM responsibilities.

As a result we have no matters to include in the auditor's report about your arrangements to secure economy, efficiency and effectiveness in your use of resources.



# Value for Money Risks

We are only required to determine whether there are any risks that we consider significant within the Code of Audit Practice, where risk is defined as:

*"A matter is significant if, in the auditor's professional view, it is reasonable to conclude that the matter would be of interest to the audited body or the wider public"*

Our risk assessment supports the planning of enough work to deliver a safe conclusion on your arrangements to secure value for money, and enables us to determine the nature and extent of any further work needed. If we do not identify a significant risk we do not need to carry out further work.

The table below presents the findings of our work in response to the risks areas in our Audit Planning Report.

### What is the significant value for money risk?

#### Property acquisition and development strategy and associated investment strategy.

The Authority has put in place a property acquisition and development strategy and an associated investment strategy, aimed at making £20 million of investments in the five years commencing 2020/21.

This represents a new and ambitious activity for the Authority. It will need to ensure that it puts into place appropriate arrangements to enable it make informed decisions and deploy its resources in a sustainable manner.

### What arrangements did the risk affect?

Taking informed decisions  
Deploying resources in a sustainable manner

### What did we do?

We have assessed the arrangements in place supporting this strategy, focusing on the:

- A. Relationship with the Authority's strategy and objectives;
- B. Legal and other third party advice obtained;
- C. Impact on the Authority's compliance with the Prudential Code as a result of strategy ;
- D. Financial impact on the budget and MTFS including assessments of downside risks associated to falling capital values and increasing borrowing costs;
- E. Process in place for investment decisions; and
- F. Impact of the Covid-19 pandemic on this strategy.

We also reviewed the Authority's financial resilience by completing a quantitative and qualitative assessment of the Authority's budget, medium term financial strategy and capital, treasury management strategies produced in the period to 31 March 2020.



# Value for Money risks (continued)

### What are our findings?

- A. Relationship with the Authority's strategy and objectives  
The Property Acquisition and Development Strategy (the Strategy) was agreed by Council in February 2020. There is clear evidence that it contributes to the Authority's Commercial Strategy which was approved by Cabinet in January 2019. The Commercial Strategy feeds directly in to the objective of "Enable an enterprising and co-operative economy". It is also intended to generate returns that help support spend in other areas of the Council Plan (or reduce for service changes that would otherwise be necessary to balance the budget).
- B. Legal and other third party advice obtained  
To date the Authority has relied on internal advice, using in-house expertise in estates, legal and finance. The Authority has made it clear that it will obtain relevant external advice tailored to individual investments and developments. This is a reasonable arrangement.
- C. Impact on compliance with the Prudential Code  
As detailed in the Strategy, the Authority will only use powers under s120 of the Local Government Act (1972) to acquire property. This would therefore be where the purposes of that acquisition is for:
  - any of its functions under this or any other enactment, or
  - the benefit, improvement or development of its area.Using this power for the investment is consistent with being able to borrow, when needed, under the Prudential Code. The Authority will consider its prudential borrowing indicators as part of evaluating any need for borrowing.
- D. Financial impact on the budget and MTFS  
This will be assessed when opportunities are identified and taken forward to the next stage. Currently the provision for the spend is included in the capital programme and no revenue impact has been accounted. The Strategy is clear that investments will not be undertaken unless the initial return is greater than the cost of capital (assuming external borrowing, although internal borrowing may be used), plus a margin for risk. A full appraisal of return and risk will be carried out on each investment. This will consider capital value and borrowing cost changes. The Authority may use fixed rate borrowing to eliminate some of that risk.
- E. Process in place for investment decisions  
The Authority has established a Property Scrutiny Group comprising a directors and officers. Their core responsibilities will be to conduct appraisals of property acquisition and development opportunities based on the principles, core goal and objectives of the Strategy. The Group will make recommendations as to which opportunities to pursue and reject. This is a reasonable arrangement.
- F. Impact of the Covid-19 pandemic  
As a result of the Covid-19 pandemic the Authority has halted any property acquisition, which is a reasonable course of action.





## 05 Other reporting issues



## Other reporting issues

### Consistency of other information published with the financial statements, including the Annual Governance Statement

We must give an opinion on the consistency of the financial and non-financial information in the Statement of Accounts 2019/20 with the audited financial statements.

We must also review the Annual Governance Statement for completeness of disclosures, consistency with other information from our work, and whether it complies with relevant guidance.

Financial information in the Statement of Accounts 2019/20 and published with the financial statements was consistent with the audited financial statements.

We have reviewed the latest version of the Annual Governance Statement and can confirm it is consistent with other information from our audit of the financial statements and we have no other matters to report.

### Whole of Government Accounts

The Authority is below the threshold for requiring audit procedures on its WGA submission however as the WGA timetable has been moved to later in the year we have yet to review the Authority's consolidation pack for consistency with the audited statements.

### 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 Authority to consider it or to bring it to the attention of the public (i.e. "a report in the public interest"). We also have a duty to make written recommendations to the Authority, copied to the Secretary of State, and take action in accordance with our responsibilities under the Local Audit and Accountability Act 2014. We have had no reason to exercise these duties.



06

## Assessment of Control Environment



# Assessment of Control Environment

## Financial controls

It is the responsibility of the Authority to develop and implement systems of internal financial control and to put in place proper arrangements to monitor their adequacy and effectiveness in practice. Our responsibility as your auditor is to consider whether the Authority has put adequate arrangements in place to satisfy itself that the systems of internal financial control are both adequate and effective in practice.

As part of our audit of the financial statements, we obtained an understanding of internal control sufficient to plan our audit and determine the nature, timing and extent of testing performed. As we have adopted a fully substantive approach, we have therefore not tested the operation of controls. Although our audit was not designed to express an opinion on the effectiveness of internal control we are required to communicate to you significant deficiencies in internal control.

We have not identified any significant deficiencies in the design or operation of an internal control that might result in a material misstatement in your financial statements of which you are not aware.

We considered whether circumstances arising from Covid-19 resulted in a change to the overall control environment of effectiveness of internal controls, for example due to significant staff absence or limitations as a result of working remotely. We identified no issues which we wish to bring to your attention.





07

## Data Analytics





# Use of Data Analytics in the Audit

## ► Data analytics – Journal Entry Analysis and Payroll Analysis

### Analytics Driven Audit

#### Data analytics

We used our data analysers to enable us to capture entire populations of your financial data. These analysers:

- Help identify specific exceptions and anomalies which can then be the focus of our substantive audit tests; and
- Give greater likelihood of identifying errors than traditional, random sampling techniques.

In 2019/20, our use of these analysers in the Authority's audit included testing journal entries and employee expenses, to identify and focus our testing on those entries we deem to have the highest inherent risk to the audit.

We capture the data through our formal data requests and the data transfer takes place on a secured EY website. These are in line with our EY data protection policies which are designed to protect the confidentiality, integrity and availability of business and personal information.

#### Journal Entry Analysis

We obtain downloads of all financial ledger transactions posted in the year. We perform completeness analysis over the data, reconciling the sum of transactions to the movement in the trial balances and financial statements to ensure we have captured all data. Our analysers then review and sort transactions, allowing us to more effectively identify and test journals that we consider to be higher risk, as identified in our audit planning report.

#### Payroll Analysis

We also use our analysers in our payroll testing. We obtain all payroll transactions posted in the year from the payroll system and perform completeness analysis over the data, including reconciling the total amount to the General Ledger trial balance. We then analyse the data against a number of specifically designed procedures. These include analysis of payroll costs by month to identify any variances from established expectations, as well as more detailed transactional interrogation.



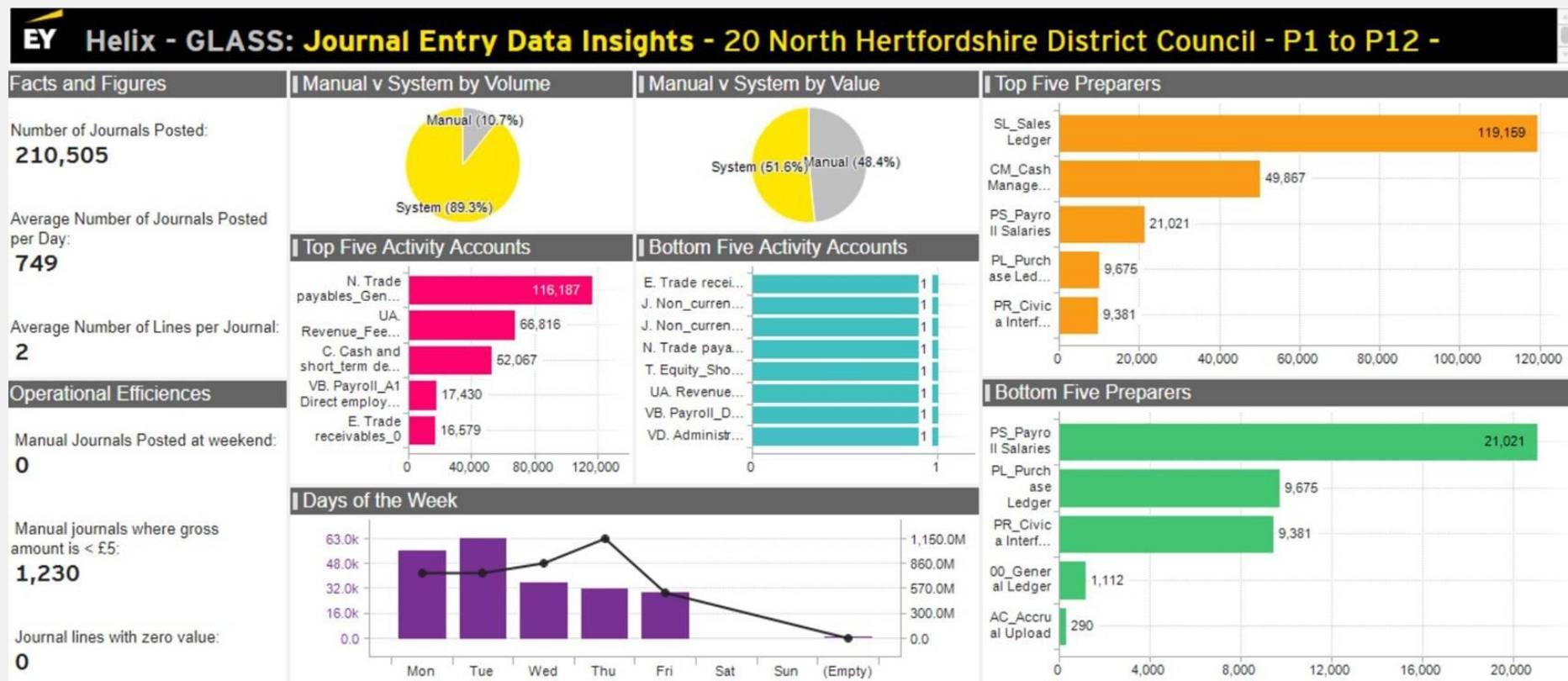


# Use of Data Analytics in the Audit

## ► Data analytics – Journal Entry Analysis and Payroll Analysis

### Journal Entry Data Insights

In line with ISA 240 we are required to test the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the statement of accounts. The graphic outlined below summarises the journal population for 2019/20. We review journals by certain risk based criteria to focus on higher risk transactions, such as journals posted manually by management, those posted around the year-end, those with unusual debit and credit relationships, and those posted by individuals we would not expect to be entering transactions. The purpose of this approach is to provide a more effective and risk focused approach to auditing journal entries.





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## Independence

## Independence

### Confirmation

We confirm there are no changes in our assessment of independence since our confirmation in our audit planning report dated January 2020. We complied with the APB Ethical Standards. In our professional judgement the firm is independent and the objectivity of the audit engagement partner and audit staff has not been compromised within the meaning of regulatory and professional requirements.

We consider that our independence in this context is a matter which you should review, as well as us. It is important that you and your Finance, Audit and Risk committee consider the facts known to you and come to a view. If you would like to discuss any matters concerning our independence, we will be pleased to do this at the meeting of the Finance, Audit and Risk Committee on 7 September 2020.

We confirm we have not undertaken any non-audit work outside the NAO Code requirements in relation to our work.

### Relationships, services and related threats and safeguards

The FRC Ethical Standard requires that we provide details of all relationships between Ernst & Young (EY) and your Authority, senior management and its affiliates, including all services provided by us and our network to your Authority, senior management and its affiliates, and other services provided to other known connected parties that we consider may reasonably be thought to bear on the our integrity or objectivity, including those that could compromise independence and the related safeguards that are in place and why they address the threats.

There are no relationships from 1 April 2019 to the date of this report, which we consider may reasonably be thought to bear on our independence and objectivity.

#### Services provided by Ernst & Young

The table overleaf includes a summary of the fees that you have paid to us in the year ended 31 March 2020 in line with the disclosures set out in FRC Ethical Standard and in statute.

As at the date of this report, there are no future services which have been contracted and no written proposal to provide non-audit services has been submitted.

## Fee analysis

As part of our reporting on our independence, we set out below a summary of the fees paid for the year ended 31 March 2020.

We have included the fees paid by the Authority in engaging us as a reporting accountant on DWP's the housing benefits assurance programme. We have adopted the necessary safeguards in completing this work and complied with Auditor Guidance Note 1 issued by the NAO.

In our Outline Audit Plan and subsequent reporting to the Finance, Audit and Risk Committee, we have communicated our proposal to increase the scale fee for 2019/20. This proposal is currently being considered by PSAA as part of their national consideration of EY's fee proposals. The table below does not reflect those proposals.

All fees exclude VAT	Final fee 2019/20	Planned fee 2019/20	Scale fee 2019/20	Final Fee 2018/19
	£	£	£	£
Code work - scale fee	40,068	40,068	40,068	44,068
Additional code work:				
• VFM conclusion significant risk (Note 1)	4,000	TBC	N/A	N/A
• Going concern disclosure (Note 2)	2,000-3,000	-	-	-
• Asset valuations impacted by Covid-19 (Note 3)	6,000-9,000			
• EY consultations on auditor report (Note 4)	1,750-3000	-	-	-
<b>Total audit</b>	<b>TBC</b>	<b>40,068</b>	<b>40,068</b>	<b>44,068</b>
Other non-audit services not covered above (Housing Benefits)	TBC	9,140	N/A	9,140
<b>Total other non-audit services</b>	<b>TBC</b>	<b>9,140</b>	<b>N/A</b>	<b>9,140</b>
<b>Total fees</b>	<b>TBC</b>	<b>TBC</b>	<b>40,068</b>	<b>53,208</b>

*Notes: These items are outside of the PSAA scale fee and will be subject to agreement with the Service Director - Resources and then PSAA.*

- We reported in the Outline Audit Plan that the VFMC significant risk would necessitate an additional fee.*
- We have carried out additional work to review, assess and challenge the Authority's going concern assessment and associated disclosure.*
- We have carried out additional work in response to the material uncertainty reported by the Authority's valuer on investment property valuations. This has led to an emphasis of matter paragraph in the audit report.*
- To ensure that we are giving the right assurance to the Authority, EY have instigated a consultation process involving the Firm's Professional Practice Directorate.*



# Independence

## New UK Independence Standards

The Financial Reporting Council (FRC) published the Revised Ethical Standard 2019 in December and it will apply to accounting periods starting on or after 15 March 2020. A key change in the new Ethical Standard will be a general prohibition on the provision of non-audit services by the auditor (and its network) which will apply to UK Public Interest Entities (PIEs). A narrow list of permitted services will continue to be allowed.

### Summary of key changes

- Extraterritorial application of the FRC Ethical Standard to UK PIE and its worldwide affiliates
- A general prohibition on the provision of non-audit services by the auditor (or its network) to a UK PIE, its UK parent and worldwide subsidiaries
- A narrow list of permitted services where closely related to the audit and/or required by law or regulation
- Absolute prohibition on the following relationships applicable to UK PIE and its affiliates including material significant investees/investors:
  - Tax advocacy services
  - Remuneration advisory services
  - Internal audit services
  - Secondment/loan staff arrangements
- An absolute prohibition on contingent fees.
- Requirement to meet the higher standard for business relationships i.e. business relationships between the audit firm and the audit client will only be permitted if it is inconsequential.
- Permitted services required by law or regulation will not be subject to the 70% fee cap.
- Grandfathering will apply for otherwise prohibited non-audit services that are open at 15 March 2020 such that the engagement may continue until completed in accordance with the original engagement terms.
- A requirement for the auditor to notify the Audit Committee where the audit fee might compromise perceived independence and the appropriate safeguards.
- A requirement to report to the audit committee details of any breaches of the Ethical Standard and any actions taken by the firm to address any threats to independence. A requirement for non-network component firm whose work is used in the group audit engagement to comply with the same independence standard as the group auditor. Our current understanding is that the requirement to follow UK independence rules is limited to the component firm issuing the audit report and not to its network. This is subject to clarification with the FRC.

### Next Steps

We do not provide any non-audit services which would be prohibited under the new standard.

## Other communications

### EY Transparency Report 2019

Ernst & Young (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 year end 30 June 2019: [https://assets.ey.com/content/dam/ey-sites/ey-com/en\\_uk/about-us/transparency-report-2019/ey-uk-2019-transparency-report.pdf](https://assets.ey.com/content/dam/ey-sites/ey-com/en_uk/about-us/transparency-report-2019/ey-uk-2019-transparency-report.pdf)








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## Appendices





## Appendix A

# Required communications with the Finance, Audit and Risk Committee





There are certain communications that we must provide to the Audit Committees of UK clients. We have detailed these here together with a reference of when and where they were covered:

		Our Reporting to you
Required communications	 What is reported?	  When and where
Terms of engagement	Confirmation by the Finance, Audit and Risk 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.	Audit Plan - January 2020
Planning and audit approach	Communication of the planned scope and timing of the audit, any limitations and the significant risks identified.	Audit Plan - January 2020
Significant findings from the audit	<ul style="list-style-type: none"> <li>▶ Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures</li> <li>▶ Significant difficulties, if any, encountered during the audit</li> <li>▶ Significant matters, if any, arising from the audit that were discussed with management</li> <li>▶ Written representations that we are seeking</li> <li>▶ Expected modifications to the audit report</li> <li>▶ Other matters if any, significant to the oversight of the financial reporting process</li> </ul>	Initial Audit Results Report - 2 Sept 2020 Final Audit Results Report - 3 Dec 2020

## Appendix A

		 Our Reporting to you
Required communications	 What is reported?	  When and where
Going concern	<p>Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including:</p> <ul style="list-style-type: none"> <li>▶ Whether the events or conditions constitute a material uncertainty</li> <li>▶ Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements</li> <li>▶ The adequacy of related disclosures in the financial statements</li> </ul>	No conditions or events were identified, either individually or together to raise any doubt about North Hertfordshire District Council's ability to continue for the 12 months from the date of our report
Misstatements	<ul style="list-style-type: none"> <li>▶ Uncorrected misstatements and their effect on our audit opinion</li> <li>▶ The effect of uncorrected misstatements related to prior periods</li> <li>▶ A request that any uncorrected misstatement be corrected</li> <li>▶ Material misstatements corrected by management</li> </ul>	Initial Audit Results Report - Sept 2020. Final Audit Results Report - 3 Dec 2020
Subsequent events	<ul style="list-style-type: none"> <li>▶ Enquiry of the Finance, Audit and Risk committee where appropriate regarding whether any subsequent events have occurred that might affect the financial statements.</li> </ul>	
Fraud	<ul style="list-style-type: none"> <li>▶ Enquiries of the Finance, Audit and Risk Committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the Authority</li> <li>▶ Any fraud that we have identified or information we have obtained that indicates that a fraud may exist</li> <li>▶ Unless all of those charged with governance are involved in managing the Authority, any identified or suspected fraud involving: <ul style="list-style-type: none"> <li>a. Management;</li> <li>b. Employees who have significant roles in internal control; or</li> <li>c. Others where the fraud results in a material misstatement in the financial statements.</li> </ul> </li> <li>▶ The nature, timing and extent of audit procedures necessary to complete the audit when fraud involving management is suspected</li> <li>▶ Any other matters related to fraud, relevant to Finance, Audit and Risk Committee responsibility.</li> </ul>	Initial Audit Results Report - Sept 2020. Final Audit Results Report - 3 Dec 2020

## Appendix A




		 Our Reporting to you
Required communications	 What is reported?	  When and where
Related parties	<p>Significant matters arising during the audit in connection with the Authority's related parties including, when applicable:</p> <ul style="list-style-type: none"> <li>▶ Non-disclosure by management</li> <li>▶ Inappropriate authorisation and approval of transactions</li> <li>▶ Disagreement over disclosures</li> <li>▶ Non-compliance with laws and regulations</li> <li>▶ Difficulty in identifying the party that ultimately controls the Authority</li> </ul>	Initial Audit Results Report - Sept 2020. Final Audit Results Report - 3 Dec 2020
Independence	<p>Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, objectivity and independence.</p> <p>Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as:</p> <ul style="list-style-type: none"> <li>▶ The principal threats</li> <li>▶ Safeguards adopted and their effectiveness</li> <li>▶ An overall assessment of threats and safeguards</li> <li>▶ Information about the general policies and process within the firm to maintain objectivity and independence</li> </ul> <p>Communications whenever significant judgments are made about threats to objectivity and independence and the appropriateness of safeguards put in place.</p> <p>For public interest entities and listed companies, communication of minimum requirements as detailed in the FRC Revised Ethical Standard 2019:</p> <ul style="list-style-type: none"> <li>▶ Relationships between EY, the company and senior management, its affiliates and its connected parties</li> <li>▶ Services provided by EY that may reasonably bear on the auditors' objectivity and independence</li> <li>▶ Related safeguards</li> <li>▶ Fees charged by EY analysed into appropriate categories such as statutory audit fees, tax advisory fees, other non-audit service fees</li> <li>▶ A statement of compliance with the Ethical Standard, including any non-EY firms or external experts used in the audit</li> </ul>	Audit Plan - January 2020 and Initial Audit Results Report - Sept 2020. Final Audit Results Report - 3 Dec 2020

## Appendix A

		Our Reporting to you
Required communications	What is reported?	When and where
	<ul style="list-style-type: none"> <li>▶ Details of any inconsistencies between the Ethical Standard and Group's policy for the provision of non-audit services, and any apparent breach of that policy</li> <li>▶ Details of any contingent fee arrangements for non-audit services</li> <li>▶ Where EY has determined it is appropriate to apply more restrictive rules than permitted under the Ethical Standard</li> <li>▶ The Finance, Audit and Risk committee should also be provided an opportunity to discuss matters affecting auditor independence</li> </ul>	
External confirmations	<ul style="list-style-type: none"> <li>▶ Management's refusal for us to request confirmations</li> <li>▶ Inability to obtain relevant and reliable audit evidence from other procedures.</li> </ul>	We have received all requested confirmations
Consideration of laws and regulations	<ul style="list-style-type: none"> <li>▶ 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</li> <li>▶ Enquiry of the Finance, Audit and Risk committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the Finance, Audit and Risk committee may be aware of.</li> </ul>	We have asked management and those charged with governance. We have not identified any material instances or non-compliance with laws and regulations
Significant deficiencies in internal controls identified during the audit	<ul style="list-style-type: none"> <li>▶ Significant deficiencies in internal controls identified during the audit.</li> </ul>	Initial Audit Results Report - Sept 2020. Final Audit Results Report - 3 Dec 2020



## Appendix A

		 Our Reporting to you
Required communications	 What is reported?	 When and where
Written representations we are requesting from management and/or those charged with governance	<ul style="list-style-type: none"> <li>▶ Written representations we are requesting from management and/or those charged with governance</li> </ul>	Initial Audit Results Report - Sept 2020. Final Audit Results Report - 3 Dec 2020
Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	<ul style="list-style-type: none"> <li>▶ Material inconsistencies or misstatements of fact identified in other information which management has refused to revise</li> </ul>	Initial Audit Results Report - Sept 2020. Final Audit Results Report - 3 Dec 2020
Auditors report	<ul style="list-style-type: none"> <li>▶ Any circumstances identified that affect the form and content of our auditor's report</li> </ul>	Initial Audit Results Report - Sept 2020. Final Audit Results Report - 3 Dec 2020
Fee Reporting	<ul style="list-style-type: none"> <li>▶ Breakdown of fee information when the audit planning report is agreed</li> <li>▶ Breakdown of fee information at the completion of the audit</li> <li>▶ Any non-audit work</li> </ul>	Audit Plan - January 2020 and Initial Audit Results Report - Sept 2020. Final Audit Results Report - 3 Dec 2020



## Appendix B

# Management representation letter

### Management Rep Letter

[To be prepared on the entity's letterhead]

Xx November 2020

Suresh Patel  
Associate Partner  
Ernst & Young LLP  
400 Capability Green  
Luton  
LU1 3LU

This letter of representations is provided in connection with your audit of the financial statements of North Hertfordshire District Council ("the Council") for the year ended 31 March 2020. 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 financial statements give a true and fair view of the Council financial position of North Hertfordshire District Council as of 31 March 2020 and of its income and expenditure for the year then ended in accordance with CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20.

We understand that the purpose of your audit of our 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 the Accounts and Audit Regulations 2015 and CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20.
2. We acknowledge, as members of management of the Council, our responsibility for the fair presentation of the financial statements. We believe the 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 Council in accordance with [the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20, 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 financial statements are appropriately described in the financial statements.

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4. As members of management of the Council, we believe that the Council has 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 2019/20, that are free from material misstatement, whether due to fraud or error. We have disclosed to you any significant changes in our processes, controls, policies and procedures that we have made to address the effects of the COVID-19 pandemic on our system of internal controls.

There are no unadjusted audit differences identified during the current audit and pertaining to the latest period presented.

#### B. Non-compliance with law and regulations, including fraud

1. We acknowledge that we are responsible to determine that the Council's activities are conducted in accordance with laws and regulations and that we are responsible to identify and address any non-compliance with applicable laws and regulations, including fraud.
2. We acknowledge that we are responsible for the design, implementation and maintenance of internal controls to prevent and detect fraud.
3. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
4. We have no knowledge of any identified or suspected non-compliance with laws or regulations, including fraud that may have affected the Council (regardless of the source or form and including without limitation, any allegations by "whistleblowers"), including non-compliance matters:
  - involving financial statements;
  - related to laws and regulations that have a direct effect on the determination of material amounts and disclosures in the Council's financial statements;
  - related to laws and regulations that have an indirect effect on amounts and disclosures in the financial statements, but compliance with which may be fundamental to the operations of the Council's activities, its ability to continue to operate, or to avoid material penalties;
  - involving management, or employees who have significant roles in internal controls, or others; or
  - in relation to any allegations of fraud, suspected fraud or other non-compliance with laws and regulations communicated by employees, former employees, analysts, regulators or others.

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# Management representation letter (continued)

## 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 all material transactions, events and conditions are reflected in the financial statements, including those related to the COVID-19 pandemic.
3. We have made available to you all minutes of the meetings of the Council and audit committees 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 Council'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 financial statements.
5. We believe that the significant assumptions we used in making accounting estimates, including those measured at fair value, are reasonable.
6. We have disclosed to you, and the Council has complied with, all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance, including all covenants, conditions or other requirements of all outstanding debt.
7. From 1 April 2019 through the date of this letter we have disclosed to you any unauthorized access to our information technology systems that either occurred or to the best of our knowledge is reasonably likely to have occurred based on our investigation, 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 impact to the financial statements, in each case or in the aggregate.

### 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 financial statements.
2. We have informed you of all outstanding and possible litigation and claims,

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~~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 in Note X and have disclosed confirm that we have not given any guarantees to third parties.

### E. Subsequent Events

1. As outlined in Note 6 to the financial statements, there have been no events, including events related to the COVID-19 pandemic, subsequent to period end which require adjustment of or disclosure in the financial statements or notes thereto.

### F. Other information

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

### Going Concern

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

### Ownership of Assets

1. Except for assets capitalised under finance leases, the Council has satisfactory title to all assets appearing in the balance sheet, and there are no liens or encumbrances on the Council's assets, nor has any asset been pledged as collaterals. All assets to which the Council has satisfactory title appear in the balance sheet.
2. All agreements and options to buy back assets previously sold have been properly recorded and adequately disclosed in the financial statements.
3. We have no plans to abandon lines of product or other plans or intentions that will result in any excess or obsolete inventory, and no inventory is stated at an amount in excess of net realisable value.
4. There are no formal or informal compensating balance arrangements with any of our cash and investment accounts.

### Reserves

1. We have properly recorded or disclosed in the financial statements the useable and unusable reserves.

### Use of the Work of a Specialist

1. We agree with the findings of the specialists that we engaged to evaluate the valuation of land and building assets and investment property and the IAS19

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# Management representation letter (continued)

## Management Rep Letter

actuarial valuations of pension liabilities /and have adequately considered the qualifications of the specialists in determining the amounts and disclosures included in the financial statements and the underlying accounting records. We did not give or cause any instructions to be given to the specialists with respect to the values or amounts derived in an attempt to bias their work, and we are not otherwise aware of any matters that have had an effect on the independence or objectivity of the specialists.

### Estimates

- i. Pension Liability
  - ii. Property, Plant & Equipment / Investment Properties – Valuation and Impairment
  - iii. Provision for impairment of receivables
  - iv. NDR Appeals Provision
1. We believe that the measurement processes, including related assumptions and models, used to determine the accounting estimate(s) have been consistently applied and are appropriate in the context of CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom.
  2. We confirm that the significant assumptions used in making the valuation of land, buildings and investment properties estimate appropriately reflect our intent and ability to continue to provide services on behalf of the entity.
  3. We confirm that the disclosures made in the financial statements with respect to the accounting estimates are complete, including the effects of the COVID-19 pandemic and made in accordance with provide a valuation for these assets in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20.
  4. We confirm that no adjustments are required to the accounting estimates and disclosures in the financial statements due to subsequent events, including due to the COVID-19 pandemic.

### Retirement benefits

1. On the basis of the process established by us and having made appropriate enquiries, we are satisfied that the actuarial assumptions underlying the scheme liabilities are consistent with our knowledge of the business. All significant retirement benefits and all settlements and curtailments have been identified and properly accounted for.

Yours faithfully,

\_\_\_\_\_  
Service Director – Resources (Chief Financial Officer)

\_\_\_\_\_  
Chair of the Finance, Audit and Risk Committee

## EY | Assurance | Tax | Transactions | Consultancy

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