





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

Dear Finance, Audit and Risk Committee Members

We are pleased to attach our Provisional Audit Results Report for the forthcoming meeting of the Finance, Audit and Risk Committee on 16 March 2022. This report summarises our preliminary audit conclusion in relation to the audit of North Hertfordshire District Council (the Council) for 2020/21.

We have substantially completed our audit for the year ended 31 March 2021. Please refer to the "Executive Summary" for further details on status of the work. Subject to satisfactorily concluding the outstanding matters listed in our report and Associate Partner review, we expect to issue an unqualified audit opinion on the financial statements in the form at Section 3. We also have no matters to report on your arrangements to secure economy, efficiency and effectiveness in your use of resources. Whilst we have significantly completed our audit procedures, our work is still in progress at the date of drafting this report. We aim to finalise our audit before the end of March 2022. We will circulate a further update on our audit results if anything significant arises during finalisation of our audit procedures, including final reviews.

This report is intended solely for the use of the Finance, Audit and Risk Committee, other members of the Council, 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.

We welcome the opportunity to discuss the contents of this report with you at the Finance, Audit and Risk Committee meeting on 16 March 2022. Yours sincerely

Debbie Hanson For and on behalf of Ernst & Young LLP

# **Contents**



Public Sector Audit Appointments Ltd (PSAA) issued the "Statement of responsibilities of auditors and audited bodies". It is available from the PSAA website (<a href="https://www.psaa.co.uk/audit-quality/statement-of-responsibilities/">https://www.psaa.co.uk/audit-quality/statement-of-responsibilities/</a>). 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 April 2018)" issued by the 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 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 in accordance with the statement of responsibilities. Our work has been undertaken so that we might state to the 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 the 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.





#### Scope update

In our Outline Audit Planning Report dated 23 February 2021 to the Finance, Audit and Risk Committee, followed by an Update Report dated 3 December 2021, 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 highlights.

Update on our materiality: In our Outline Audit Planning Report, we communicated that our audit procedures would be performed using a planning materiality calculated at 2% of the Council's gross expenditure on provision of services as per the 2019/20 financial statements. We have recalculated our materiality based on the draft financial statements for 2020/21. The basis for our materiality remains same (i.e. 2% of gross expenditures). The table below shows our materiality amounts for planning and final audit procedures.

	Planning Materiality (PM) (2% of gross expenditures)	Performance Materiality/ Tolerable Error (TE) (75% of PM)	Significant Audit Differences (5% of PM)
Planning	£1.29 million	£0.97 million	£64,000
Final audit	£1.43 million	£1.07 million	£71,000

Information Produced by the Entity (IPE): As a result of the continuing impact of Covid and increased remote working, this is an increased risk around the completeness, accuracy, and appropriateness of information produced by the entity due to the inability of the audit team to verify original documents. 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;
- Agree IPE to scanned documents or other system screenshots; and
- gained our own access to the accounting software to enable us re-run reports ourselves.

#### Status of audit

We have substantially completed our audit of North Hertfordshire District Council's financial statements for the year ended 31 March 2021 and have performed the procedures outlined in our Outline Audit Planning Report. The main pending area is assets valuation, where we have not yet received the report from our EY Real Estate specialists and hence have not concluded our work in this area. A full list of outstanding items can be seen at Appendix D.

Subject to satisfactory completion of the outstanding items, we expect to issue an unqualified opinion on the Council's financial statements. As the audit is ongoing and many areas are subject to Manager and Engagement Partner review, further amendments and issues may arise.

We expect to issue the audit certificate after we issue the audit opinion, once the requirements of the Whole of Government Accounts (WGA) submission has been notified to us and subsequently completed.

# Executive Summary

#### **Audit differences**

At the date of this report, we have not identified any audit differences (corrected or uncorrected)

We have identified a small number of minor disclosure differences in notes to the financial statements (casting, referencing, classification etc) which management have agreed to amend in the final set of accounts.

Until we complete all of our audit procedures, as noted in the status of audit above and on subsequent slides, along with our final Manager and Engagement Partner review, further differences may be identified.

### Auditor responsibilities under the new Code of Audit Practice 2020

Under the Code of Audit Practice 2020, we are still required to consider whether the Council has put in place 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources. The 2020 Code requires the auditor to design their work to provide them with sufficient assurance to enable them to report to North Hertfordshire District Council a commentary against specified reporting criteria (see below) on the arrangements the North Hertfordshire District Council has in place to secure value for money through economic, efficient and effective use of its resources for the relevant period.

The specified reporting criteria are:

- Financial sustainability:

  How the North Hertfordshire District Council plans and manages its resources to ensure it can continue to deliver its services;
- Governance: How the North Hertfordshire District Council ensures that it makes informed decisions and properly manages its risks; and
- Improving economy, efficiency and effectiveness:

  How the North Hertfordshire District Council uses information about its costs and performance to improve the way it manages and delivers its services.

#### Value for money - progress update

At the time of our Outline Audit Plan, we were yet to commence with our value for money (VFM) risk assessment. We have now completed this work and did not identify any risk of significant weakness against the three reporting criteria we are required to consider under the NAO's 2020 Code. However the work remains subject to final Engagement Partner review.

As a result, we currently have no matters to report by exception in the auditor's report (see Section 03). We will include our detailed VFM commentary in our Auditor's Annual Report which will be issued to the Council within three months of the date of the final 2020/21 audit opinion.



#### Independence

Please refer to Section 09 for our update on Independence.

### **Control observations**

During the audit, and to date, 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 and which is unknown to you.

### 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.

We have not yet been able to perform the procedures required by the National Audit Office (NAO) on the Whole of Government Accounts (WGA) submission. This is because HM Treasury (HMT) are continuing to review the online 2020/21 WGA Data Collection Tool (DCT) and update the guidance that is available for preparers. Based on the last available update the DCT and guidance is not expected to be available until mid 2022. Therefore the 2020/21 WGA component instructions will not be available for auditors to consider until after this date. Group Audit Instructions and the timetable for 2020/21 will necessarily follow any changes HMT make to the DCT and process. Although, as in previous years we expect the Council to be below the threshold that required us to undertaken any detailed procedures, we are not able to issue our certificate until the Group Audit Instructions are issued.

We have no other matters to report.



### Areas of audit focus

In our Outline Audit Planning Report, we identified a number of key areas of focus for our audit of the financial statements of North Hertfordshire District Council. This report sets out our observations and the status of our work in relation to these areas, including our views on areas which might be conservative and areas where there is potential risk and exposure. Our consideration of these matters and others identified during the period is summarised within the "Areas of Audit Focus" section of this report.

Fraud Risk	Findings & Conclusions		
Misstatements due to fraud or error	We have not identified any evidence that management has overridden controls in order to prepare fraudulent financial statement balances or postings within the financial statements from the work completed to date.		
Incorrect capitalisation of revenue expenditure	We have not identified any evidence of manipulation of expenditure through incorrect capitalisation of revenue expenditure.		
Valuation of investment properties	We sample tested investment properties to gain assurance that the key assumptions and inputs into valuations were supportable and that the resulting valuations were materially accurate. We also engaged our EY Real Estate (EYRE) specialists to review a sample of investment properties to verify the reasonableness of the valuation methodology applied and key assumptions used, including the potential impact of Covid-19 on valuation uncertainties. We are currently waiting for our EYRE report to conclude our work.		
Area of audit focus	Findings & Conclusions		
Valuation of property, plant & equipment (PPE)	We sample tested a number of assets which form part of the PPE balance to gain assurance that the key assumptions and inputs into valuations were supportable and that the resulting valuations were materially accurate. We also engaged our EY Real Estate (EYRE) specialists to review a sample of these assets to verify the reasonableness of the valuation methodology applied and key assumptions used, including the potential impact of Covid-19 on valuation uncertainties. We are currently waiting for our EYRE report to conclude our work in this area.		
Pension liability valuation and disclosures	We have reviewed the accounting entries and disclosures in the draft financial statements related to pension liabilities and assessed the work of the actuary. We have substantially completed our planned procedures, including the receipt and consideration of the report from EY Pensions specialist to provide a parallel actuarial model to confirm the material accuracy of the actuary's IAS19 estimation procedures. We have nothing to report as of the date of this report. The work is subject to Engagement Partner review.		
Going concern disclosures	We will conclude our going concern work close to sign off date (which we expect to be up to March/April 2023). Management have agreed to update the going concern disclosure in the financial statements to capture the latest position covering at least 12 months from expected sign off date, once this is confirmed. The work will be subject to Engagement partner's review, and if required, our internal consultation.		
Recognition of grant income associated with Covid-19	We have substantially completed our procedures in this area and have not identified any issue as of the date of this report. However the work remains subject to Engagement Partner review.		





# Significant risk

Misstatements due to fraud or error (Fraud risk)

### What is the risk?

The financial statements as a whole are not free of material misstatements whether caused by fraud or error.

As identified in ISA (UK) 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. We identify and respond to this fraud risk on every audit engagement.

#### Vhat judgements are we focused on?

We focused our testing on accounting estimates which include pension liability, property valuation, and bad debts provision including NNDR appeals provision. Also performing mandatory procedures including testing of journal entries.

### What did we do?

This is a risk that we recognise on all engagements. Our overall response to this for North Hertfordshire District Council was:

- Assessment to identify fraud risks during the planning stages.
- Inquired management about risks of fraud and the controls put in place to address those risks.
- Understood the oversight given by those charged with governance of management's processes over fraud.
- Considered the effectiveness of management's controls designed to address the risk of fraud.
- Determined an appropriate strategy to address those identified risks of fraud.
- Performed mandatory procedures regardless of specifically identified fraud risks, including testing of journal entries and other adjustments in the preparation of the financial statements, assessing accounting estimates for evidence of management bias and evaluating the business rationale for significant and unusual transactions.
- We have utilised our data analytics capabilities to assist with our work.

#### What are our conclusions?

We have not identified any material weaknesses in controls or evidence of material management override.

We have not identified any instances of inappropriate judgements being applied.

We did not identify any other transactions during our audit which appeared unusual or outside the Council's normal course of business.

The work remains subject to Engagement Manager and Partner review.





# Significant risk

Incorrect capitalisation of revenue expenditure (fraud risk)

### What is the risk?

Linking to our risk of misstatements due to fraud and error above, we have considered the capitalisation of revenue expenditure on property, plant and equipment as a specific area of risk given the extent of the Council's capital programme.

#### at iudgements are we focused on?

Whether management have appropriately classified expenditure as capital in nature

### What did we do?

We have undertaken additional procedures to address the specific risk we have identified, which included:

- > For significant additions to property, plant and equipment, we have examined invoices, capital expenditure authorisations, leases and other data that support these additions. We have ensure that they have been correctly classified as capital in line with accounting standards and included at the correct value in order to identify any revenue items that have been inappropriately capitalised.
- > If material we planned to review Revenue Expenditure Funded from Capital Under Statute (REFCUS), to verify that revenue costs have not been inappropriately funded from capital. However, as the balance was only £496k and therefore immaterial we have not undertaken any testing on this balance.
- > We have extended our testing of items capitalised in the year by lowering our testing threshold. We have also review a random sample of capital additions below our testing threshold.
- > Journal testing we have used our testing of journals to identify high risk transactions, such as items originally recorded as revenue expenditure and subsequently capitalised.

## What are our conclusions?

We have not identified any revenue items that have been inappropriately capitalised from our substantive testing to date.

The work remains subject to Engagement Manager and Partner review.





# Significant risk

## Valuation of investment properties

### What is the risk?

The fair value investment properties represent a significant balance in the Council's accounts and is subject to valuation changes, market volatility, 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 per draft accounts for 2020/21, investment properties amount to £23.8 million (2019/20: £18.4 million)

#### judgements are we focused on?

As this is a material accounting estimates and one dependent on a high degree of subjectivity, we associated a significant risk to the valuation of investment properties in the 2020/21 audit.

### What did we do?

We have undertaken following procedures to address the specific risk we have identified, which included:

- > Considered the work performed by the Council'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 4 investment properties valuations to verify the reasonableness of the valuation methodology applied and key assumptions used.
- > Challenged the assumptions used by the valuer and sample testing key information used by the valuer in performing their valuation.
- > Reviewed the list of investment properties to ensure that all properties were revalued in 2020/21.
- We have reviewed the report from the Council's valuer Reynolds Butler, and confirmed there is no material uncertainly in their report for 2020/21.

### What are our conclusions?

We have completed our procedures (as noted in "What did we do?") except for review of the EYRE report as we are currently waiting for the report from our specialists and hence have not concluded our work in this area.

Overall our audit work did not identify any material issues at the time of writing this report. However our work on valuations is still in progress and needs to be concluded.

The work remains subject to Engagement Manager and Partner review once completed.





## Inherent risks and other areas of audit focus

### What is the risk/area of focus?

### We have:

What have we done and our conclusions?

#### Valuation of property, plant and equipment (PPE) assets

The valuation of assets included in the PPE balance represent significant balances in the Council's accounts and are subject to valuation changes. Management is required to make material judgements and apply estimation techniques to calculate the year-end balances recorded in the balance sheet. There is therefore a risk fixed assets may be under/overstated or the associated accounting entries incorrectly posted.

Property, plant and equipment (PPE) (of which land and buildings and surplus assets represent the vast majority) are significant balances in the Council's accounts. As at 31 March 2021, PPE totals £95.6 million (2019/20: £95 million).

Considered the work performed by the Council's valuers, 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 asset valuations to verify the reasonableness of the valuation methodology applied and key assumptions used, including the potential impact of Covid-19 on valuation uncertainties. Our sample included total 4 properties - out of this sample 3 assets are from land and buildings and one from surplus assets category;
- Sample tested key asset information used by the valuers in performing their valuation;
- Considered the annual cycle of valuations to ensure that assets have been valued within an appropriate timescale.
- Considered any specific changes to assets that have occurred and whether these have been communicated to the valuer;
- Reviewed assets not subject to valuation in 2020/21 to confirm that the remaining asset base is not materially misstated;
- Considered changes to useful economic lives as a result of the most recent valuation;
- Tested accounting entries have been correctly processed in the financial statements.

We have substantially completed our work on the above procedures.

We are currently waiting for the report from our EYRE specialists on the selected sample and hence have not concluded our work in this area.

This work will be subject to Engagement Manager and Partner review once completed.



## Inherent risks and other areas of audit focus

### What is the risk/area of focus?

#### Pension liability valuation and disclosures

The Council's pension fund deficit is a material estimated balance and the Code requires that this liability be disclosed on the Council's balance sheet. As per the draft accounts, this liability amounts to £46.6 million as at 31 March 2021 (2019/20: £30.7 million).

The information disclosed is based on the IAS 19 report issued to the Council by the actuary to the County Council.

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.

#### What have we done and our conclusions?

To address this risk, we have carried out a range of procedures including:

- liaised with the auditors of Hertfordshire Pension Fund to obtain assurances over the information supplied to the actuary in relation to the Council;
- assessed the work of the Pension Fund actuary including the assumptions they have used by relying on the work of PwC, as the Consulting Actuaries commissioned by the National Audit Office for all local government sector auditors, and considering the review of this work by the EY Pensions actuarial team;
- Considered the nature and value of level 3 investments held by the Pension Fund and the proportion of the overall Fund relating to North Hertfordshire District Council in and confirmed no additional procedures are required to support the estimates of the valuation of these asset as at 31 March 2021:
- Considered the movement in fund asset values between the actuary's estimate and year end; and
- ► Reviewed and tested the accounting entries and disclosures made within the Council's financial statements in relation to IAS19.

ISA540 (revised) requires auditors to test the method of measurement of accounting estimates to determine whether the model is appropriately designed, consistently applied and mathematically accurate, and that the integrity of the assumptions and the data has been maintained in applying the model. Neither we, nor PWC as consulting actuaries, are able to access the detailed models of the actuaries in order to evidence these requirements. Therefore, we modified our planned approach and undertook alternate procedures to create an auditor's estimate, to gain the necessary assurance. We employed the services of an EY Pensions specialist to review the Council's IAS19 reports and run a parallel actuarial model which was compared to that produced by the Council's actuary. Our specialists have completed their procedures and have not reported any significant difference.

We have completed our procedures and have not identified any issue. The work remains subject to Engagement Manager and Partner's review.



# Inherent risks and other areas of audit focus

### What is the risk/area of focus?

#### Going concern disclosures

Covid has created a number of financial pressures throughout Local Government. It is creating financial stress through a combination of increasing service demand leading to increased expenditure in specific services, and reductions in income sources. There is currently not a clear statement of financial support from MHCLG that covers all financial consequences of Covid-19.

In addition, the auditing standard, International Auditing Standard 570 Going Concern, has been revised in response to enforcement cases and well-publicised corporate failures where the auditor's report failed to highlight concerns about the prospects of entities which collapsed shortly after.

The revised standard is effective for audits of financial statements for periods commencing on or after 15 December 2019, which for the Council will be the audit of the 2020/21 financial statements.

CIPFA's Code of Practice on Local Authority Accounting in the United Kingdom 2020/21 states that an Council's financial statements shall be prepared on a going concern basis; the accounts should be prepared on the assumption that the functions of the Council will continue in operational existence for the foreseeable future and can only be discontinued under statutory prescription.

However, ISA 570, as applied by Practice Note 10: Audit of financial statements of public sector bodies in the United Kingdom, still requires auditors to undertake sufficient and appropriate audit procedures to consider whether there is a material uncertainty on going concern that requires reporting by management within the financial statements, and within the auditor's report.

To do this, the auditor must review management's assessment of the going concern basis applying IAS1 Presentation of Financial Statements.

#### What have we done and our conclusions?

The revised standard requires:

- auditor's challenge of management's identification of events or conditions impacting going concern, more specific requirements to test management's resulting assessment of going concern, an evaluation of the supporting evidence obtained which includes consideration of the risk of management bias;
- greater work for us to challenge management's assessment of going concern, thoroughly test the adequacy of the supporting evidence we obtained and evaluate the risk of management bias. Our challenge will be made based on our knowledge of the Council obtained through our audit, which will include additional specific risk assessment considerations which go beyond the current requirements;
- ensuring compliance with any updated reporting requirements;
- a stand back requirement to consider all of the evidence obtained, whether corroborative or contradictory, when we draw our conclusions on going concern; and
- necessary consideration regarding the appropriateness of financial statement disclosures around going concern.

We have agreed with management that they will provide a documented and detailed consideration to support their assertion regarding the going concern basis, particularly with a view whether there are any material uncertainties for disclosure and the impact of the ongoing impact of Covid on future financial planning.

We will review the going concern disclosures within the financial statements under IAS1, and associated financial viability disclosures within the Narrative Statement. We will consider whether you have included necessary disclosures regarding any material uncertainties that do exist.

As set out in Appendix D, we will conclude our going concern work close to sign off date (which we expect to be up to March/April 2023). Management have agreed to update the going concern disclosure in the financial statements to capture the latest position covering at least 12 months from expected sign off date, once this is confirmed. The work will be subject to Engagement partner's review, and if required, our internal consultation.



## Inherent risks and other areas of audit focus

### What is the risk/area of focus?

#### National Non-Domestic Rates (NNDR) Appeals Provision

In common with other billing authorities, the Council is proposing a significant increase in its appeals provision due to more businesses seeking rates reductions as a result of Covid-19 and a decrease in rental prices on which rateable values are based. In light of this we consider there to be a higher inherent risk of misstatement of the Council's NNDR appeals provision.

The NNDR provision amount as per the draft statement of accounts for 2020/21 is £2.74 million (2019/20: £0.84 million).

#### What have we done and our conclusions?

We have considered the Council's estimation of the NNDR appeals provision by performing the following:

- Reviewed the assumptions made by the Council in determining the NNDR appeals provision and challenged these assumptions to ensure their adequacy.
- Assess the reasonableness of any local adjustments made by the Council on the NNDR appeals provision.

We have substantially completed our work on above procedures and have not identified any issue as of the date of this report. The work remains subject to Engagement Manager and Partner review.



## Inherent risks and other areas of audit focus

### What is the risk/area of focus?

## Recognition of grant income associated with Covid

Central Government has provided a number of new and different Covid related grants to local authorities during the year. There are also funds that have been provided for the Council to distribute to other bodies.

The Council needs to review each of these grants to establish how they should be accounted for. The Council needs to assess whether it is acting as a principal or agent, with the accounting to follow that decision. Where the decision is that the Council is a principal, it must also assess whether there are any initial conditions that may also affect the recognition of the grants as revenue during 2020/21.

#### What have we done and our conclusions?

#### We have:

- Considered the revenue and capital grants received by the Council;
- Responsive to the risk, carried out testing to ensure the accounting treatment and recognition applied to grant income is appropriate.
- ► For a sample of the grants we have:
  - Reviewed the Council's assessment of whether it is acting as principal or
  - Reviewed whether any initial conditions are attached to grants which would impact on their recognition;
  - Assessed whether the accounting appropriately follows those judgements.

We have also checked that the Council has adequately disclosed grant income received in the year, under both principal and agent arrangements.

We have substantially completed our work on above procedures and have not identified any issue as of the date of this report. The work remains subject to Engagement Manager and Partner review.





# Draft audit report

### Our draft 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 2021 under the Local Audit and Accountability Act 2014. The financial statements comprise the:

- · Comprehensive Income and Expenditure Statement,
- Balance Sheet.
- Movement in Reserves Statement,
- Cash Flow Statement.
- the related notes 1 to xxx, and the Expenditure and Funding Analysis on page xxx,
- Collection Fund and the related notes 1 to xxx

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 2020/21.

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 2021 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 2020/21.

#### 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.

#### Conclusions relating to going concern

In auditing the financial statements, we have concluded that the Service Director - Resources 's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Authority's ability to continue as a going concern for a period of 12 months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the Service Director - Resources with respect to going concern are described in the relevant sections of this report. However, because not all future events or conditions can be predicted, this statement is not a quarantee as to the authority's ability to continue as a going concern.

#### Other information

The other information comprises the information included in the Statement of Accounts 2020/2021, other than the financial statements and our auditor's report thereon. The Service Director - Resources is responsible for the other information contained within the Narrative Report 2020/2021.

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.

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 course of 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 themselves. 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.



## **Audit Report**

#### Our opinion on the financial statements

#### 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;
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014;
- we are not satisfied that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2021.

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 xxx, the Service Director - Resources is responsible for the preparation of the Annual Financial Report 2020/2021, 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 2020/21, and for being satisfied that they give a true and fair view and for such internal control as the directors determine 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 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.

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.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect irregularities, including fraud. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below. However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and management.

We obtained an understanding of the legal and regulatory frameworks that are applicable to the Authority and determined that the most significant are:

- Local Government Act 1972.
- Local Government Finance Act 1988 (as amended by the Local Government Finance Act 1992,
- Local Government Act 2003,
- The Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 as amended in 2018 and 2020,
- The Local Government Finance Act 2012,
- o The Local Audit and Accountability Act 2014, and
- The Accounts and Audit Regulations 2015.

In addition, the Authority has to comply with laws and regulations in the areas of antibribery and corruption, data protection, employment Legislation, tax Legislation, general power of competence, procurement and health & safety.



## **Audit Report**

#### Our opinion on the financial statements

- We understood how North Hertfordshire District Council is complying with those frameworks by understanding the incentive, opportunities and motives for non-compliance, including inquiring of management, head of internal audit and those charged with governance and obtaining and reading documentation relating to the procedures in place to identify, evaluate and comply with laws and regulations, and whether they are aware of instances of non-compliance. We corroborated this through our reading of the Authority's committee minutes, through enquiry of employees to confirm Authority policies, and through the inspection of other information. Based on this understanding we designed our audit procedures to identify non-compliance with such laws and regulations. Our procedures had a focus on compliance with the accounting framework through obtaining sufficient audit evidence in line with the level of risk identified and with relevant legislation.
- We assessed the susceptibility of the Authority's financial statements to material
  misstatement, including how fraud might occur by understanding the potential
  incentives and pressures for management to manipulate the financial statements,
  and performed procedures to understand the areas in which this would most likely
  arise. Based on our risk assessment procedures, we identified inappropriate
  capitalisation of revenue expenditure and management override of controls to be
  our fraud risks.
- To address our fraud risk of inappropriate capitalisation of revenue expenditure we tested the Authority's capitalised expenditure to ensure the capitalisation criteria were properly met and the expenditure was genuine.
- To address our fraud risk of management override of controls, we tested specific
  journal entries identified by applying risk criteria to the entire population of
  journals. For each journal selected, we tested specific transactions back to source
  documentation to confirm that the journals were authorised and accounted for
  appropriately.

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 reporting criteria issued by the Comptroller and Auditor General (C&AG) in April 2021, 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 the 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 2021.

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.

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

#### Delay in certification of completion of the audit

We cannot formally conclude the audit and issue an audit certificate until we have completed the work necessary to issue our assurance statement in respect of the Authority's Whole of Government Accounts consolidation pack. We are satisfied that this work does not have a material effect on the financial statements or our work on value for money arrangements.



## **Audit Report**

### Our opinion on the financial statements

#### 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.

Debbie Hanson Ernst & Young LLP (Local Auditor) Luton:

Date: xxxxxxxxxx





## Audit Differences

In the normal course of any audit, we identify misstatements between amounts we believe should be recorded in the financial statements and the disclosures and amounts actually recorded. These differences are classified as "known" or "judgemental". Known differences represent items that can be accurately quantified and relate to a definite set of facts or circumstances. Judgemental differences generally involve estimation and relate to facts or circumstances that are uncertain or open to interpretation.

## Summary of Audit differences as at the date of this report

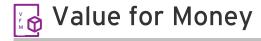
The draft statement of accounts prepared by management was again of a good quality with only minor disclosure amendments required.

At the date of this report, we have not identified any corrected or uncorrected audit differences.

We have identified a small number of minor disclosure differences in notes to the financial statements (casting, referencing, classification etc) which management have agreed to amend in the final set of accounts.

Until we complete all of our audit procedures, as noted in the status of opinion audit section of this report and in previous slides, along with our final Manager and Engagement Partner review, further adjustments may be identified.





#### The Council's responsibilities for value for money

The Council is required to maintain an effective system of internal control that supports the achievement of its policies, aims and objectives while safeguarding and securing value for money from the public funds and other resources at its disposal.

As part of the material published with its financial statements, the Council is required to bring together commentary on its governance framework and how this has operated during the period in a governance statement. In preparing its governance statement, the Council tailors the content to reflect its own individual circumstances, consistent with the requirements of the relevant accounting and reporting framework and having regard to any guidance issued in support of that framework. This includes a requirement to provide commentary on its arrangements for securing value for money from their use of resources.

### Risk assessment

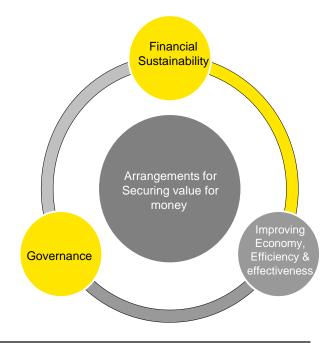
Throughout our audit we have performed a risk assessment in relation to the arrangements in place. This risk assessment looked at whether there was any risk of significant weaknesses in the VFM arrangements.

No significant risks were identified through our risk assessment.

### The Council's responsibilities for value for money

We have substantially completed our work on VFM arrangements and did not identify any risk of significant weakness against the three reporting criteria we are required to consider under the NAO's 2020 Code.

We currently have no matters to report by exception in the audit opinion. Our work remains subject to final review by the Engagement Partner.



### Reporting on VFM

In addition to the commentary on arrangements, where we are not satisfied that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources the 2020 Code has the same requirement as the 2015 Code in that we should refer to this by exception in the audit report on the financial statements.

However, a new requirement under the 2020 Code is for us to include the commentary on arrangements in a new Auditor's Annual Report. The 2020 Code states that the commentary should be clear, readily understandable and highlight any issues we wish to draw to the Council's attention or the wider public. This should include details of any recommendations arising from the audit and follow-up of recommendations issued previously, along with our view as to whether they have been implemented satisfactorily. We will issue our Auditor's Annual Report following the issue of our audit opinion.



# 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 for the year ended 2020/21 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 for the year ended 2020/21 and published with the financial statements was consistent with the audited financial statements.

We have reviewed 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**

Alongside our work on the financial statements, we also review and report to the National Audit Office (NAO) on your Whole of Government Accounts (WGA) return. The extent of our review, and the nature of our report, is specified by the NAO.

We have not yet been able to perform the procedures required by the NAO on the WGA submission. This is because HM Treasury (HMT) are continuing to review the online 2020/21 WGA Data Collection Tool (DCT) and update the guidance that is available for preparers. Based on the last available update the DCT and guidance was not expected to be available until mid 2022. Therefore the 2020/21 WGA component instructions will not be available for auditors to consider until after this date. Group Audit Instructions and the timetable for 2020/21 will necessarily follow any changes HMT make to the DCT and process. Although, as in previous years we expect the Council to be below the threshold that required us to undertaken any detailed procedures, we are not able to issue our certificate until the Group Audit Instructions are issued.

# **Other reporting issues**

# Other reporting issues

#### 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.

We also have a duty to make written recommendations to the Council, copied to the Secretary of State, and take action in accordance with our responsibilities under the Local Audit and Accountability Act 2014. We did not identify any issues.

#### 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 Council'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;
- Consideration of laws and regulations; and
- Group audits

We have no matters to report as of the date of this report.





## Assessment of Control Environment

### Financial controls

It is the responsibility of the Council 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 Council 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, as of the date of this report, that might result in a material misstatement in your financial statements of which you are not aware.





## Use of Data Analytics in the Audit

## Data analytics

**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 2020/21, our use of these analysers in the audit included testing journal entries and payroll, 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 performed 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 Outline 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 general ledger. 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.



# Journal Entry Testing

## What is the risk?

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 financial statements.

### What judgements are we focused on?

Using our analysers we are able to take a risk based approach to identify journals with a higher risk of management override, as outlined in our audit planning report.

### What did we do?

We obtained general ledger journal data for the period and have used our analysers to identify characteristics typically associated with inappropriate journal entries or adjustments, and journals entries that are subject to a higher risk of management override.

We then performed tests on the journals identified to determine if they were appropriate and reasonable.

### What are our conclusions?

We have substantially completed our work on journal entries and have found no exceptions to report as of the date of this report. The work remains subject to review by the Engagement Partner.





## Relationships, services and related threats and safeguards

The FRC Ethical Standard requires that we provide details of all relationships between Ernst & Young (EY) and the Council, and its members and senior management and its affiliates, including all services provided by us and our network to the Council, its members and 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 1st April 2020 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 next page includes a summary of the fees that are due to us in relation to the year ended 31 March 2021 in line with the disclosures set out in FRC Ethical Standard and in statute. Full details of the services that we have provided are in the next page. Further detail of all fees has been provided to the Finance, Audit and Risk Committee.

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.

We confirm that we have not undertaken non-audit work, other than the certification of the Council's housing benefit subsidy claim.

## Other communications

### EY Transparency Report 2021

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 2021:

EY UK 2021 Transparency Report | EY UK



# Confirmation of independence and analysis of audit fees

The duty to prescribe fees is a statutory function delegated to Public Sector Audit Appointments Ltd (PSAA) by the Secretary of State for Communities and Local Government. PSAA has published a scale fee for all relevant bodies. 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.

Description	Proposed Fee (£) 2019/20	Final Fee (£) 2019/20	Planned Fee (£) 2020/21
Scale fee - Code work	40,068	40,068	40,068
Changes in work required to address professional and regulatory requirements & scope changes associated with risk - Note 1	19,752	12,962	19,752
Additional work required in 2019/20 - Note 2	14,877	7,000	-
Additional work required in 2020/21 - <b>Note 3</b>	-	-	TBC
Additional work required due to changes in auditing standards for estimates - Note 4	-	-	2.500
Additional work required due to change in scope of VFM work - Note 4	-	-	6,000 to 11,000
Non-audit Fee - Housing subsidy claim	7,340*	9,140	7,340*
Total audit fees	82,037	69,170	ТВС

### All above fees are excluding VAT

Note 1: For 2019/20 and 2020/21, we have proposed an increase to the scale fee to reflect the increased level of audit work required which has been impacted by a range of factors including changes in risk profile of the audit and increases in regulatory standards. Further detail on this proposed increased was included in our previous reports to the Committee. We have proposed an increase of £19,752 to the scale fee to reflect these additional requirements and have shared details of the breakdown with management. For 2019/20, PSAA approved £12,962 against this proposed fee.

Note 2: For 2019/20, we proposed an additional fee of £14,877, as detailed in our 2020/21 Outline Audit Plan. This reflected the increased audit work required in regard to: valuations of PPE and investment properties; the impact of Covid-19 on a number of areas including going concern disclosures, EY internal consultation with our PPD on audit report. For 2019/20, PSAA approved £7,000 against this proposed fee.

Note 3: For 2020/21, the additional fee will be quantified after completion of audit and will be discussed with the management before submission to PSAA. PSAA will determine the final fee.

**Note 4**: PSAA published additional information for 2020/21 audit fees in August 2021, whereby PSAA provided guidance about the range of minimum additional fee in certain areas of audit. The figures above are the ranges or minimum fee set by PSAA. PSAA also revised its hourly rates for calculating the additional fee variations.

<sup>\*</sup> This amount doesn't include any fee for extended ("40+") testing





## Audit approach update

We summarise below our approach to the audit of the balance sheet and any changes to this approach from the prior year audit.

Our audit procedures are designed to be responsive to our assessed risk of material misstatement at the relevant assertion level. Assertions relevant to the balance sheet include:

- Existence: An asset, liability and equity interest exists at a given date
- Rights and Obligations: An asset, liability and equity interest pertains to the entity at a given date
- ► Completeness: There are no unrecorded assets, liabilities, and equity interests, transactions or events, or undisclosed items
- Valuation: An asset, liability and equity interest is recorded at an appropriate amount and any resulting valuation or allocation adjustments are appropriately recorded
- Presentation and Disclosure: Assets, liabilities and equity interests are appropriately aggregated or disaggregated, and classified, described and disclosed in accordance with the applicable financial reporting framework. Disclosures are relevant and understandable in the context of the applicable financial reporting framework

Balance sheet category	Audit Approach in current year	Audit Approach in prior year	Explanation for change
Trade receivables	Substantively tested all relevant assertions	Substantively tested all relevant Assertions	No change
Property, plant and equipment	Fully substantive approach. Engaged with EY Real Estate	Fully substantive approach. Engaged with EY Real Estate	No change
Trade payables	Fully substantive approach	Fully substantive approach	No change
Cash, investments and borrowings	Substantively tested all relevant assertions	Substantively tested all relevant assertions	No change
Grants	Fully substantive approach	Fully substantive approach	No change
Pensions	Substantively tested all relevant assertions. We engaged EY Pensions to assist with reviewing actuary model.	Substantively tested all relevant assertions	We engaged our pensions specialists due to the requirements of ISA540 (revised)



# Appendix B

# Summary of communications

Date	Nature	Summary
23 February 2021	Audit Plan	The EY audit team submitted the Outline Audit Planning Report for 2020/21
8 March 2021	Finance, Audit and Risk Committee	The partner in charge of the engagement attended the Finance, Audit and Risk Committee meeting
8 March 2021	Report	The Outline Audit Planning Report, including confirmation of independence, was presented to the Finance, Audit and Risk Committee.
5 November 2021	Meeting	The EY engagement partner, manager and senior held meeting with Service Director - Resources and NHDC's finance team.
3 December 2021	Update on audit	The EY audit team submitted the update on Audit Update Report for 2020/21.
15 December 2021	Finance, Audit and Risk Committee	The partner in charge and manager of the engagement attended the Finance, Audit and Risk Committee meeting and presented the Audit Update Report.
2 March 2022	Audit Results Report	The Provisional Audit Results Report, including confirmation of independence is issued to the Finance, Audit and Risk Committee.
16 March 2022	Finance, Audit and Risk Committee	The partner in charge and manager of the engagement will attend the Finance, Audit and Risk Committee meeting.
Weekly meetings throughout November- December 2021	Meeting	The EY audit team met regularly to discuss the progress of the audit with Council's Finance team



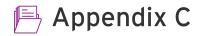
# Required communications with the Finance, Audit and Risk Committee

There are certain communications that we must provide to the Finance, Audit and Risk 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.	Outline Audit Planning Report - 23 February 2021
Planning and audit approach	Communication of the planned scope and timing of the audit, any limitations and the significant risks identified.	Outline Audit Planning Report - 23 February 2021
Significant findings from the audit	<ul> <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>	Provisional Audit Results Report - 2 March 2022



		Our Reporting to you
Required communications	What is reported?	When and where
Going concern	Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including:  ► Whether the events or conditions constitute a material uncertainty  ► Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements  ► The adequacy of related disclosures in the financial statements	Provisional Audit Results Report - 2 March 2022
Misstatements	<ul> <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>	Provisional Audit Results Report - 2 March 2022
Subsequent events	► Enquiry of the Finance, Audit and Risk Committee where appropriate regarding whether any subsequent events have occurred that might affect the financial statements.	Provisional Audit Results Report - 2 March 2022
Fraud	<ul> <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> <li>Ananagement;</li> <li>Employees who have significant roles in internal control; or</li> <li>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>	Provisional Audit Results Report - 2 March 2022



		Our Reporting to you
Required communications	What is reported?	When and where
Related parties	Significant matters arising during the audit in connection with the Authority'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 Authority	Provisional Audit Results Report - 2 March 2022
Independence	Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, 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  Communications whenever significant judgments are made about threats to objectivity and independence and the appropriateness of safeguards put in place.	Outline Audit Planning Report - 23 February 2021  Provisional Audit Results Report - 2 March 2022
External confirmations	<ul> <li>Management's refusal for us to request confirmations</li> <li>Inability to obtain relevant and reliable audit evidence from other procedures.</li> </ul>	Outline Audit Planning Report - 23 February 2021 Provisional Audit Results Report - 2 March 2022
Significant deficiencies in internal controls identified during the audit	► Significant deficiencies in internal controls identified during the audit.	Provisional Audit Results Report - 2 March 2022



		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	Written representations we are requesting from management and/or those charged with governance	Provisional Audit Results Report - 2 March 2022
Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	► Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	Provisional Audit Results Report - 2 March 2022
Auditors report	► Any circumstances identified that affect the form and content of our auditor's report	Provisional Audit Results Report - 2 March 2022
Fee Reporting	<ul> <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>	Outline Audit Planning Report - 23 February 2021 Provisional Audit Results Report - 2 March 2022
Value for money commentary	A commentary on the arrangements in place during 2020/21 to achieve value for money, and any recommendations we may make to improve those arrangements.	Auditor's Annual Report - April/May 2022
Consideration of laws and regulations	<ul> <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 noncompliance with laws and regulations.



# **Outstanding matters**

The following items relating to the completion of our audit procedures are outstanding at the date of the release of this report:

Item	Actions to resolve	Responsibility	
Valuation of land and buildings and investment properties	Receipt and audit team's review of report from EYRE, resolving any further queries and conclusion from this and completion of our documentation in audit file		
Payroll	Completion of work in our file in relation to address some minor documentation issues	EY	
Going concern disclosures	We will conclude our going concern work close to sign off date (which we expect to be up to March/April 2023). Management have agreed to update the going concern disclosure in the financial statements to capture the latest position covering at least 12 months from expected sign off date, once this is confirmed. The work will be subject to Engagement partner's review, and if required, our internal consultation.	EY and management	
Completion procedures	Our finalisation procedures, including receipt of final version of financial statements and signed representation from management (refer Appendix E for draft representation letter), subsequent events review, final checks on financial statements and other sign off procedures.	EY and management	
Final review from Engagement manager and Partner	Ongoing review process	EY	
Clearance of queries arising from review by Engagement Partner and Manager	Ongoing review process	EY with the help from management if required	
Completion of procedures required for whole of government accounts	Submission of assurance statement to be undertaken upon receipt of instructions	EY	



### Management Representation Letter - DRAFT

[To be prepared on the entity's letterhead] [Date]

Ernst & Young 400 Capability Green Luton Bedfordshire LU1 3LU

This letter of representations is provided in connection with your audit of the consolidated and council financial statements of North Hertfordshire District Council ("the Council") for the year ended 31 March 2021. 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 Council financial statements give a true and fair view of the Council financial position of North Hertfordshire District Council as of 31 March 2021 and of its financial performance (or operations) and its cash flows for the year then ended in accordance with, for the Council, CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21.

We understand that the purpose of your audit of our consolidated and council financial statements is to express an opinion thereon and that your audit was conducted in accordance with International Standards on Auditing, 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 Council the Accounts and Audit Regulations 2015 and CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21.
- 2. We acknowledge, as members of management of the Council, our responsibility for the fair presentation of the consolidated and council financial statements. We believe the consolidated and Council 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 2020/21 and are free of material misstatements, including omissions. We have approved the consolidated and council financial statements.



## Management Representation Letter - DRAFT

- 3. The significant accounting policies adopted in the preparation of the Council financial statements are appropriately described in the Council financial statements.
- 4. As members of management of the Council, we believe that the Council 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 2020/21 for the for the Council 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.
- 5. There are no unadjusted audit differences identified during the current audit and pertaining to the latest period presented.
- 6. We confirm the Council does not have securities (debt or equity) listed on a recognized exchange.

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

- 1. We acknowledge that we are responsible for determining that the Council's activities are conducted in accordance with laws and regulations and that we are responsible for identifying and addressing 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 consolidated and Council 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 consolidated or 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.



### **Management Representation Letter - DRAFT**

### 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 consolidated and council 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 committees (the Executive, Audit Committee and Review Committee) (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 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 year 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 consolidated and council financial statements.
- 5. 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 applicable financial reporting framework.
- 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 consolidated and Council 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 (17 November 2020) 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.



### Management Representation Letter - DRAFT

### 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 consolidated and Council 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 xxxx to the consolidated and council financial statements all guarantees that we have given to third parties.

### E. Going Concern

1. Note [xxxxxxx] to the consolidated and parent entity 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.

#### F. Subsequent Events

1. Other than xxxxxxx described in Note xxxxxxx] to the consolidated and Council financial statements, there have been no events, including events related to the COVID-19 pandemic, subsequent to year end which require adjustment of or disclosure in the consolidated and council financial statements or notes thereto.

#### H. Other information

- 1. We acknowledge our responsibility for the preparation of the other information. The other information comprises the Annual Financial Report 2020/2021, including the Narrative Report and the Annual Governance Statement.
- 2. We confirm that the content contained within the other information is consistent with the financial statements.

### I. Ownership of Assets

- 1. The Council has satisfactory title to all assets appearing in the balance sheet(s), and there are no liens or encumbrances on the Council's assets, nor has any asset been pledged as collateral. All assets to which the Council has satisfactory title appear in the balance sheet(s).
- 2. There are no formal or informal compensating balance arrangements with any of our cash and investment accounts.

### J. Reserves

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

### K. Use of the Work of a Specialist

1. We agree with the findings of the specialists that we engaged to evaluate the valuation of property and the defined benefit pension scheme liability and have adequately considered the qualifications of the specialists in determining the amounts and disclosures included in the consolidated and Council 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.



## Management Representation Letter - DRAFT

#### L. Estimates

- 1. We confirm that the significant judgments made in making the valuation of property and defined benefit pension liability have taken into account all relevant information and the effects of the COVID-19 pandemic of which we are aware.
- 2. We believe that the selection or application of the methods, assumptions and data used by us have been consistently and appropriately applied or used in making the valuation of property and defined benefit pension liability.
- 3. We confirm that the significant assumptions used in making the valuation of property and defined benefit pension liability estimates appropriately reflect our intent and ability to carry out on behalf of the entity.
- 4. We confirm that the disclosures made in the consolidated and parent entity financial statements with respect to the accounting estimate(s), including those describing estimation uncertainty and the effects of the COVID-19 pandemic, are complete and are reasonable in the context of the applicable financial reporting framework.
- 5. We confirm that appropriate specialized skills or expertise has been applied in making the valuation of property and defined benefit pension liability.
- 6. We confirm that no adjustments are required to the accounting estimate(s) and disclosures in the consolidated and parent entity financial statements, including due to the COVID-19 pandemic.

#### M. 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)
Chairman of the Finance, Audit and Risk Committee



## Appendix F

## Implementation of IFRS 16 Leases

In previous reports to the Finance, Audit and Risk Committee, we have highlighted the issue of new accounting standards and regulatory developments. IFRS 16 introduces a number of significant changes which go beyond accounting technicalities. For example, the changes have the potential to impact on procurement processes as more information becomes available on the real cost of leases. The key accounting impact is that assets and liabilities in relation to significant lease arrangements previously accounted for as operating leases will need to be recognised on the balance sheet. IFRS 16 requires all substantial leases to be accounted for using the acquisition approach, recognising the rights acquired to use an asset.

Currently, the adoption of IFRS 16 by CIPFA/LASAAC as the basis for preparation of Local Authority Financial Statements has been deferred until 1 April 2022. However, CIPFA is currently consulting on deferring the implementation of IFRS 16 for a further year and reversing the planned changes to the 2022-23 Code. In either case, officers should be acting now to assess the Council's leasing positions and secure the required information to ensure the Council will be fully compliant with the CIPFA Code. The following table summarises some key areas officers should be progressing.

IFRS 16 theme	Summary of key measures
Data collection	<ul> <li>Management should:</li> <li>Put in place a robust process to identify all arrangements that convey the right to control the use of an identified asset for a period of time. The adequacy of this process should be discussed with auditors.</li> <li>Classify all such leases into low value; short-term; peppercorn; portfolio and individual leases</li> <li>Identify, collect, log and check all significant data points that affect lease accounting including: the term of the lease; reasonably certain judgements on extension or termination; dates of rent reviews; variable payments; grandfathered decisions; non-lease components; and discount rate to be applied.</li> </ul>
Policy choices	<ul> <li>The Council needs to agree on certain policy choices. In particular:</li> <li>Whether to adopt a portfolio approach</li> <li>What low value threshold to set and agree with auditors</li> <li>Which asset classes, if any, are management adopting the practical expedient in relation to non-lease components</li> <li>What is managements policy in relation to discount rates to be used?</li> </ul>
Code adaptations for the public sector	Finance teams should understand the Code adaptations for the public sector. The Code contains general adaptations, (e.g. the definition of a lease); transitional interpretations (e.g. no restatement of prior periods) and adaptations that apply post transition (e.g. use of short-term lease exemption).
Transitional accounting arrangements	Finance teams should understand the accounting required on first implementation of IFRS 16. The main impact is on former operating leases where the authority is lessee. However, there can be implications for some finance leases where the council is lessee; and potentially for sub-leases, where the council is a lessor, that were operating leases under the old standard.
Ongoing accounting arrangements	Finance teams need to develop models to be able to properly account for initial recognition and subsequent measurement of right of use assets and associated liabilities. This is more complex than the previous standard due to more regular remeasurements and possible modifications after certain trigger events.
Remeasurements and modifications	Finance teams need to familiarise themselves with when the 'remeasurement' or 'modification' of a lease is required and what to do under each circumstance. A modification can lead to an additional lease being recognised. It is also important to know when remeasurements require a new discount rate is to be applied to the lease.

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#### ED None

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