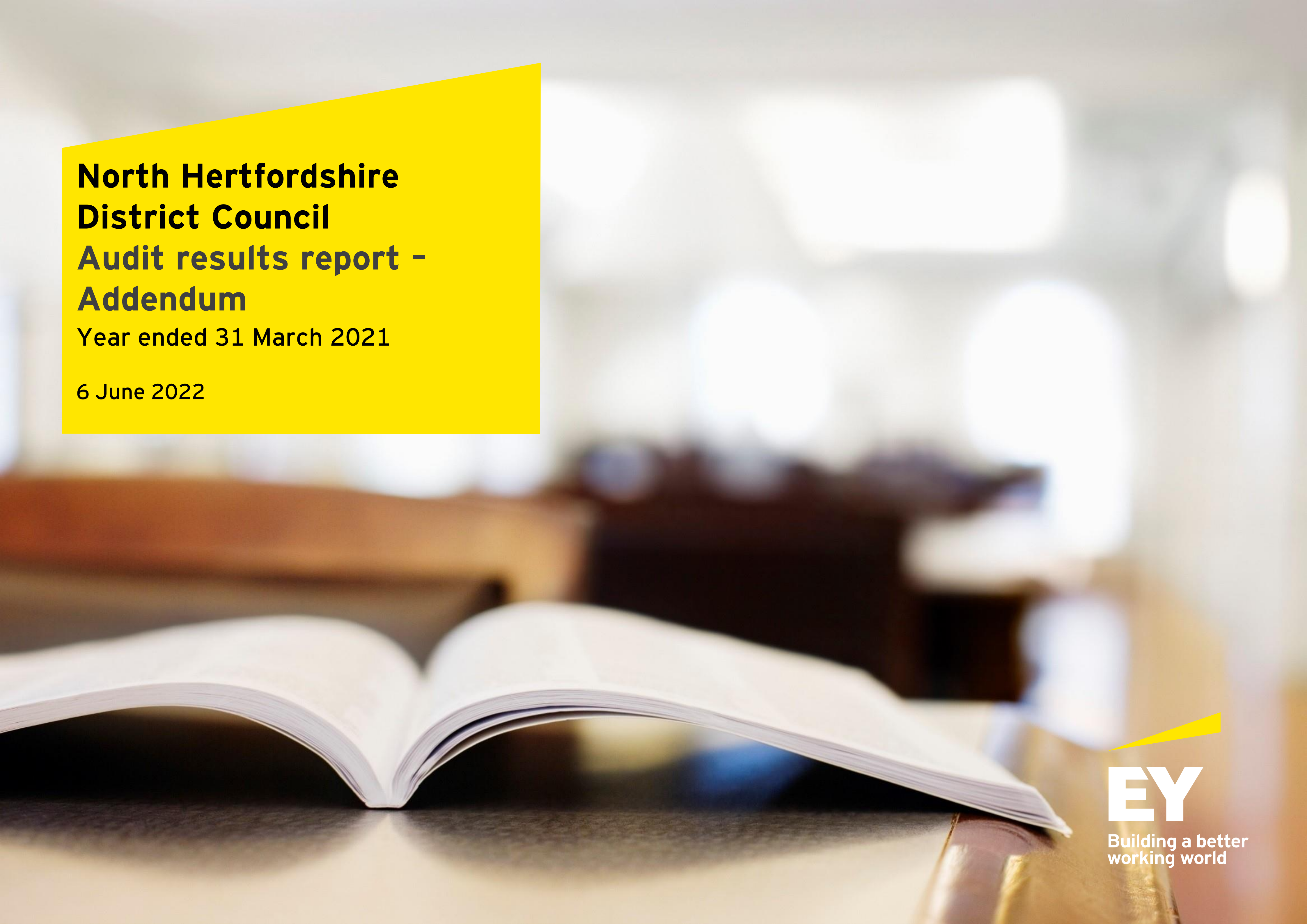
North Hertfordshire District Council

Audit results report - Addendum

Year ended 31 March 2021

6 June 2022



EY
Building a better working world

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

6 June 2022

Dear Finance, Audit and Risk Committee Members

We are pleased to attach our Audit Results Report – Addendum which provides an update on our Provisional Audit Results Report dated 2 March 2022 and presented to the Finance, Audit and Risk Committee on the 16 March 2022 and the position following the conclusion of the outstanding audit procedures stated within that report.

We have now 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 Audit Planning Report.

Subject to satisfactory completion of the final conclusion procedures set out below we expect to issue an 'unqualified opinion' on the Council's financial statements.

The final conclusion procedures are:

- Review of the final version of the financial statements;
- Receipt of response from Hertfordshire Pension Fund actuary with respect to how they have calculated the impact of errors in relation to the Hertfordshire building control service and our EY Pensions advisory team review of this response.
- Completion of subsequent events review to the date of the audit report; and
- Receipt of the signed management representation letter and financial statements

Yours faithfully

Debbie Hanson

Associate Partner
For and on behalf of Ernst & Young LLP

Enc.

Contents

Public Sector Audit Appointments Ltd (PSAA) issued the "Statement of responsibilities of auditors and audited bodies". It is available from the PSAA website (https://www.psaa.co.uk/audit-quality/statement-of-responsibilities/).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 Audit 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 Audit 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 Audit Committee and management of North Hertfordshire District Council for this report or for the opinions we have formed. It should not be provided to any third-party without our prior written consent.

01 Executive Summary

Executive Summary

Status of the audit

This Addendum provides a bridge between our Provisional Audit Results Report dated 2 March 2022 and presented to the Finance, Audit and Risk Committee on the 16 March 2022 and the position following the conclusion of the outstanding audit procedures stated within that report. This report includes an update on the areas of focus report in our Audit Plan as well as an update on the final audit differences identified and our independence.

We have now completed our audit of North Hertfordshire Council's financial statements for the year ended 31 March 2021 and have performed the procedures outlined in our Audit Plan. We updated our materiality calculation on the conclusion of our work and can confirm that we have worked to an overall materiality level of £1.427 million. We have performed our audit procedures using a performance materiality of £1.07 million and reported all uncorrected differences above £71k.

Subject to satisfactory completion of the outstanding matters set out below we expect to issue an unqualified opinion in the form presented in section 03 of our Provisional Audit Results Report dated 2 March 2022.

The following items are outstanding at the date of this report:

- Review of the final version of the financial statements;
- Receipt of response from Hertfordshire Pension Fund actuary with respect to how they have calculated the impact of errors in relation to the Hertfordshire building control service and our EY Pensions advisory team review of this response.
- Completion of subsequent events review to the date of the audit report; and
- Receipt of the signed management representation letter and financial statements

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. We note that however we expect the Council to be below the threshold requiring us to undertake any detailed procedures, but until the instructions are issued we are not able to confirm this.

Value for money

We have completed our planned VFM procedures and have no matters to report 'by exception' in our Auditor's Report.

We will formally issue our VFM commentary within our Auditor's Annual Report, which we plan to issue by the end of June 2022.

Executive Summary

Areas of audit focus

Our Audit Plan dated February 2021 followed by an update dated December 2021, identified key areas of focus for our audit of North Hertfordshire District Council's financial statements. In our Provisional Audit Results Report dated 2 March 2022 which was presented to the Finance, Audit and Risk Committee on the 16 March 2022, we provided our observations and conclusions on the areas we had completed at that time. We have summarised our consideration of all areas of focus below and have provided further details on those areas where we had not previously fully concluded our work as noted in our Provisional Audit Results Report.

Risk	Findings & Conclusions
Misstatements due to fraud or error (management override)	***No change from Provisional Audit Results Report – 2 March 2022*** We have completed our audit work in respect of journal entries, estimates and unusual transactions. We have not identified any indications of management override of controls.
Incorrect capitalisation of revenue expenditure	***No change from Provisional Audit Results Report – 2 March 2022*** We have completed our audit work on capital additions (including REFCUS considerations) and have not identified any misstatements.
Valuation of Investment Properties	***Update from Provisional Audit Results Report – 2 March 2022*** We have now completed our audit work in this area, including receipt and review of our internal valuation specialists report. We engaged our valuations specialist (EY Real Estates - EYRE) to review a sample of four investment property valuations to verify the reasonableness of the valuation methodology applied and key assumptions used. We have not identified any significant difference in valuation of Investment Properties and have sufficient assurance that they are materially accurate.

Executive Summary

Areas of audit focus	
Our Audit Plan dated February 2021 followed by an update dated December 2021, identified key areas of focus for our audit of North Hertfordshire District Council's financial statements. In our Provisional Audit Results Report dated 2 March 2022 which was presented to the Finance, Audit and Risk Committee on the 16 March 2022, we provided our observations and conclusions on the areas we had completed at that time. We have summarised our consideration of all areas of focus below and have provided further details on those areas where we had not previously fully concluded our work as noted in our Provisional Audit Results Report.	
Risk	**Findings & Conclusions**
Valuation of Property, Plant & Equipment assets	*Update from Provisional Audit Results Report – 2 March 2022* We have now completed our audit work in this area, including receipt and review of EYRE report. We engaged our valuations specialists to verify the reasonableness of the valuation methodology applied and key assumptions used, including the potential ongoing impact of Covid on valuations. Our sample included total four properties, including three from other land and buildings and one surplus asset. Our valuers concluded that for all four properties reviewed the values were supportable. Our valuer's also noted that the Council's valuers use of Depreciated Replacement Cost (DRC) method is reasonable and consistent with the valuation practice, with the land value element assessed using the market approach. They did however note that the Council's valuers have used land values of £9,500 per acre, which in our specialists opinion are lower than the land values that should have been adopted (with EYRE expected range being from £150,000 to £200,000 per acre). Although this did not have an impact on the overall values for the assets sampled by our valuer, due to the small land areas for these assets and the fact that the Council's valuer's assumptions for obsolescence resulted in building values being towards the upper end of our valuers expected range, we have considered the impact of the use of lower land values on all other DRC assets. This has resulted in a potential difference of around £1.3 million between the Council's valuers and our estimated values in relation to the land element of the valuation. As set out above, we also noted that the valuer's assumptions for obsolescence for these assets were lower than we would have expected which results in the value of the building element being higher. Therefore the £1.3 million difference noted on the land would be the maximum potential difference as it would be offset by the Council's value of buildings being higher. We are therefore satisfied that overall the combined land and buildings values are materially accurate. Please refer section "Audit Differences" for details. Furthermore, we noted that the Council's valuers performed their valuation as of 1 November 2020, which is some time before year end of 31 March 2021. EYRE's rollforward procedures confirmed that the values remained appropriate for use as of 31 March 2021. However we would have expected the valuer to provide an update letter as at the valuation date to confirm to the Council that the valuations remained appropriate for use as at year end, but understand that this is not part of the valuers scope. We would therefore recommend that the Council should include this as part of the valuers scope moving forward.

Executive Summary

Risk	Findings & Conclusions
Pension liability valuation and disclosures	*Update from Provisional Audit Results Report – 2 March 2022* We have completed our audit work in this area, including the review of report from our EY pension specialists in relation to alternate procedures performed to create an auditor's estimate on rollforward of the pension liability. Our specialists did not identify any material difference based on their procedures. In addition to the completion of the above procedures, the Council made us aware that there was an error in the actuary's IAS19 report and the net pension liabilities reported in this. This was due to the incorrect treatment of assets related to Hertfordshire Building Control (HBC) at outset of HBC's participation in the Hertfordshire Pension Fund (HPF). Below is a brief summary of this issue and impact on North Hertfordshire District Council's accounts. <u>Background</u> In 2017, when HBC began participation in the HPF, assets were allocated to HBC from Hertfordshire County Council (HCC) rather than from each of the seven originating councils. As a result, since this date, asset shares for HCC have been understated, with asset shares for the seven originating councils correspondingly overstated. <u>Impact for NHDC</u> • At the 2019 formal actuarial valuation, rectifying the error would result in a small decrease in the reported funding level of North Herts District Council. This would have had no impact on the contribution rate calculated at the time of the valuation. • The net asset position reported in the 31 March 2020 IAS19 accounting reports would have been overstated by around 0.3% of total assets. This will also have had a similar impact on the 31 March 2021 IAS19 accounting position. Management has calculated the impact for the year ended 31 March 2020 and 2021, and have concluded that the overall impact on the Council accounts is not material for either 31 March 2020 or 2021, and therefore do not propose to adjust the difference in the accounts for 2020/21. Based on the information we have currently received from the pension fund actuary the impact of the above we have also concluded that building control issue is not material. We are however currently awaiting assurance over the method applied by the actuary to confirm the difference, including the reasonableness of impact on total assets for the Council being 0.3%, as reported by actuary. The difference calculated above amounts to £454k for 2020/21 and £377k for 2019/20. We have therefore considered this as an unadjusted misstatement, as the amount for 2020/21 is above our SAD level. We will seek confirmation from management on the reasons for this not being adjusted via our management representation letter. Refer Appendix A for draft representation letter (which is updated from draft representation letter included in our Provisional Audit Results Report). Please refer Section "Audit Differences" for the impact amount for 2020/21. As the difference for 2019/20 is not material we would not require any adjustment to the prior year comparative as a prior period adjustment for this.

Executive Summary

Risk	Findings & Conclusions
Going concern disclosure	*Update from Provisional Audit Results Report – 2 March 2022* We have now completed our audit work in this area, including review of cashflow forecast of the Council up to June 2023. Based on the work undertaken we are satisfied that management's assessment on going concern is adequate and supportable. We also reviewed the Council's disclosures within the financial statements and have assessed the need for any internal consultation. We have concluded that there is no need for any internal consultation as we have assessed the risk involved with management's use of going concern basis to be low. We have no matters to report.
Calculation of NNDR appeals provision	*Update from Provisional Audit Results Report – 2 March 2022* We have now completed our procedures in relation to the calculation of NNDR appeals provision. No material misstatements were identified.
Accounting for Covid-19 related government grants	*Update from Provisional Audit Results Report – 2 March 2022* We have now completed our procedures in relation to the of accounting for Covid-19 grant income. No material misstatements were identified.

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

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

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

02 Areas of Audit Focus

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.

What 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.
- Inquiry of 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?

No change from Provisional Audit Results Report – 2 March 2022

We have completed our audit work in respect of journal entries, estimates and unusual transactions, including reviews from Manager and Associate Partner.

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.

Significant Risk

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.

What judgements 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?

No change from Provisional Audit Results Report – 2 March 2022

We have completed our audit work on capital additions including reviews from Manager and Associate Partner.

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

Significant Risk

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)

What 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?

Update from Provisional Audit Results Report – 2 March 2022

We have now completed our audit work in this area, including receipt and review of our internal valuation specialists report. We engaged our valuations specialist (EY Real Estates) to review a sample of four investment property valuations to verify the reasonableness of the valuation methodology applied and key assumptions used. We have not identified any significant difference in valuation of Investment Properties and have sufficient assurance that they are materially accurate.

Significant Risk

Inherent risks and other areas of audit focus

What is the risk/area of focus?	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).	We have: ▸ 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 four properties – out of this sample three 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; and ▸ Tested accounting entries have been correctly processed in the financial statements. *Update from Provisional Audit Results Report – 2 March 2022* We have now completed our audit work in this area, including receipt and review of EYRE report. We engaged our valuations specialists to verify the reasonableness of the valuation methodology applied and key assumptions used, including the potential ongoing impact of Covid on valuations. Our sample included total four properties, including three from other land and buildings and one surplus asset. Our valuers concluded that for all four properties reviewed the values were supportable. *(continued to next slide)*

Inherent risks and other areas of audit focus

What is the risk/area of focus?	What have we done and our conclusions?
Valuation of property, plant and equipment (PPE) assets	*Update from Provisional Audit Results Report – 2 March 2022 (continued)* Our valuer's also noted that the Council's valuers use of Depreciated Replacement Cost (DRC) method is reasonable and consistent with the valuation practice, with the land value element assessed using the market approach. They did however note that the Council's valuers have used land values of £9,500 per acre, which in our specialists opinion are lower than the land values that should have been adopted (with EYRE expected range being from £150,000 to £200,000 per acre). Although this did not have an impact on the overall values for the assets sampled by our valuer, due to the small land areas for these assets and the fact that the Council's valuer's assumptions for obsolescence resulted in building values being towards the upper end of our valuers expected range, we have considered the impact of the use of lower land values on all other DRC assets. This has resulted in a potential difference of around £1.3 million between the Council's valuers and our estimated values in relation to the land element of the valuation. As set out above, we also noted that the valuer's assumptions for obsolescence for these assets were lower than we would have expected which results in the value of the building element being higher. Therefore the £1.3 million difference noted on the land would be the maximum potential difference as it would be offset by the Council's value of buildings being higher. We are therefore satisfied that overall the combined land and buildings values are materially accurate. Please refer section "Audit Differences" for details. Furthermore, we noted that the Council's valuers performed their valuation as of 1 November 2020, which is some time before year end of 31 March 2021. EYRE's rollforward procedures confirmed that the values remained appropriate for use as of 31 March 2021. However we would have expected the valuer to provide an update letter as at the valuation date to confirm to the Council that the valuations remained appropriate for use as at year end, but understand that this is not part of the valuers scope. We would therefore recommend that the Council should include this as part of the valuers scope moving forward.

Inherent risks and other areas of audit focus

What is the risk/area of focus?	What have we done and our conclusions?
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.	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. *(continued to next slide)*

Inherent risks and other areas of audit focus

What is the risk/area of focus?	What have we done and our conclusions?
Pension liability valuation and disclosures	*Update from Provisional Audit Results Report – 2 March 2022* We have completed our audit work in this area, including the review of report from our EY pension specialists in relation to alternate procedures performed to create an auditor's estimate on rollforward of the pension liability. Our specialists did not identify any material difference based on their procedures. In addition to the completion of the above procedures, the Council made us aware that there was an error in the actuary's IAS19 report and the net pension liabilities reported in this. This was due to the incorrect treatment of assets related to Hertfordshire Building Control (HBC) at outset of HBC's participation in the Hertfordshire Pension Fund (HPF). Below is a brief summary of this issue and impact on North Hertfordshire District Council's accounts. Background In 2017, when HBC began participation in the HPF, assets were allocated to HBC from Hertfordshire County Council (HCC) rather than from each of the seven originating councils. As a result, since this date, asset shares for HCC have been understated, with asset shares for the seven originating councils correspondingly overstated. Impact for NHDC • At the 2019 formal actuarial valuation, rectifying the error would result in a small decrease in the reported funding level of North Herts District Council. This would have had no impact on the contribution rate calculated at the time of the valuation. • The net asset position reported in the 31 March 2020 IAS19 accounting reports would have been overstated by around 0.3% of total assets. This will also have had a similar impact on the 31 March 2021 IAS19 accounting position. Management has calculated the impact for the year ended 31 March 2020 and 2021, and have concluded that the overall impact on the Council accounts is not material for either 31 March 2020 or 2021, and therefore do not propose to adjust the difference in the accounts for 2020/21. Based on the information we have currently received from the pension fund actuary the impact of the above we have also concluded that building control issue is not material. We are however currently awaiting assurance over the method applied by the actuary to confirm the difference, including the reasonableness of impact on total assets for the Council being 0.3%, as reported by actuary. The difference calculated above amounts to £454k for 2020/21 and £377k for 2019/20. We have therefore considered this as an unadjusted misstatement, as the amount for 2020/21 is above our SAD level. We will seek confirmation from management on the reasons for this not being adjusted via our management representation letter. Refer Appendix A for draft representation letter (which is updated from draft representation letter included in our Provisional Audit Results Report). Please refer Section "Audit Differences" for the impact amount for 2020/21. As the difference for 2019/20 is not material we would not require any adjustment to the prior year comparative as a prior period adjustment for this.

Inherent risks and other areas of audit focus

What is the risk/area of focus?	What have we done and our conclusions?
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.	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. ***Update from Provisional Audit Results Report – 2 March 2022*** We have now completed our audit work in this area, including review of cashflow forecast of the Council up to June 2023. Based on the work undertaken we are satisfied that management's assessment on going concern is adequate and supportable. We also reviewed the Council's disclosures within the financial statements and have assessed the need for any internal consultation. We have concluded that there is no need for any internal consultation as we have assessed the risk involved with management's use of going concern basis to be low. We have no matters to report.

Inherent risks and other areas of audit focus

What is the risk/area of focus?	What have we done and our conclusions?
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).	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. ***Update from Provisional Audit Results Report – 2 March 2022*** We have now completed our procedures in relation to the calculation of NNDR appeals provision. No material misstatements were identified.

Inherent risks and other areas of audit focus

What is the risk/area of focus?	What have we done and our conclusions?
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.	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 agent; ▪ 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. *Update from Provisional Audit Results Report – 2 March 2022* We have now completed our procedures in relation to the of accounting for Covid-19 grant income. No material misstatements were identified.

03 Audit Differences

Audit Differences

Summary of unadjusted differences

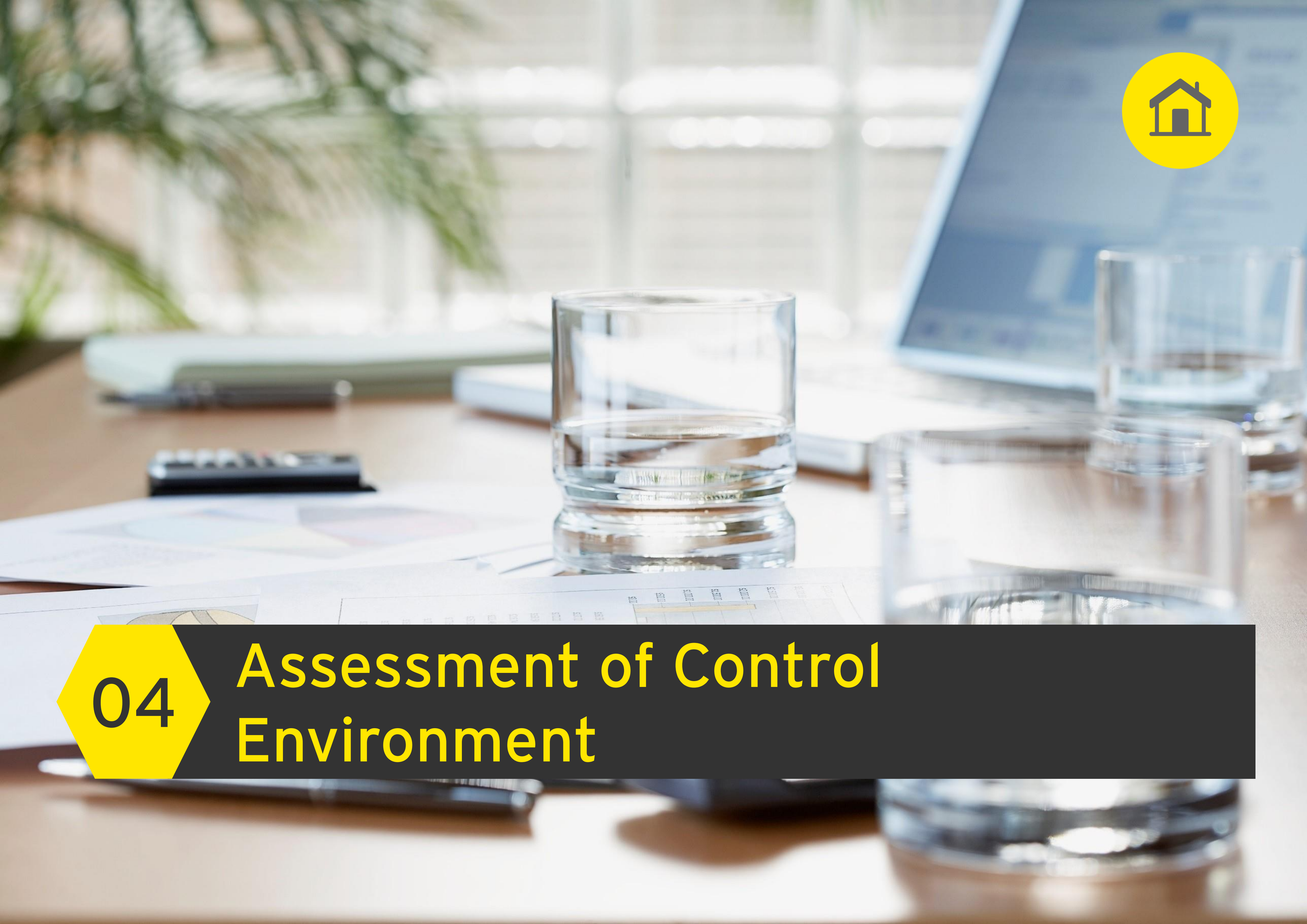
We identified the following audit differences which management has not agreed to adjust in the final accounts, therefore these differences remain uncorrected.

Uncorrected misstatements			Analysis of misstatements Debit/(Credit)							
No.	WIP ref.	Account (Note 1)	Assets Current	Assets Non-current	Liabilities Current	Liabilities Non-current	Equity components	Effect on the current period OCI	Income statement effect of the current period	
		(misstatements are recorded as journal entries with a description)	Debit/(Credit) (Note 2)	Debit/(Credit) (Note 2)	Debit/(Credit) (Note 2)	Debit/(Credit) (Note 2)	Debit/(Credit)	Debit/(Credit)	Debit/(Credi t)	Non taxabl
Add new misstatement										
Judgmental misstatements:										
1	21	Difference is due to an error made by the actuary in accounting for Herts Building Control for assets not allocated from NHDC at the start of HBC being part of the HPF								
		Unusable Reserves						454,000		
		Pensions Liability				(454,000)				
2	21	The internal valuer used a low agricultural value of land. EY Real Estate specialists suggested a higher value of such land. We have used EYRE value and calculated the difference.								
		Property, plant & equipment		1,335,801						
		Gains on Revaluation of property, plant & equipment						(1,335,801)		

Audit Differences

Adjusted differences

We identified the certain disclosure differences (e.g. casting, referencing, classification etc) which management has agreed to adjust in the final accounts. As these adjustments are purely related to disclosures, they will not have any impact on current year's CIES and/or balance sheet.



04 Assessment of Control Environment

Assessment of Control Environment

Financial controls

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

As part of our audit of the financial statements, we obtained an understanding of internal control sufficient to plan our audit and determine the nature, timing and extent of testing performed. As we have adopted a fully substantive approach, we have therefore not tested the operation of controls.

Although our audit was not designed to express an opinion on the effectiveness of internal control we are required to communicate to you significant deficiencies in internal control.

Whilst we have identified certain audit differences as detailed in above Section "Audit Differences" of this report, neither of these audit differences suggest nor we have identified any significant deficiencies in the design or operation of an internal control that might result in a material misstatement in your financial statements of which you are not aware.

05 Independence

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 Housing Benefit Certification assurance work.

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

Relationships, services and related threats and safeguards

Services provided by Ernst & Young

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	TBC
Additional work required in 2019/20 - **Note 2**	14,877	7,000	-
Additional work required in 2020/21 - **Note 3**	-	-	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	TBC

All above fees are excluding VAT ** This amount doesn't include any fee for extended ("40+") testing*

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 for 2019/20 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. For 2020/21, we will calculate the proposed increase in fee by using the revised hourly rates as approved by PSAA (refer Note 4 below).

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.

DRAFT Management representation letter

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 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 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 income and expenditure for the year then ended in accordance with 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 financial statements is to express an opinion thereon and that your audit was conducted in accordance with International Standards on Auditing (UK), which involves an examination of the accounting system, internal control and related data to the extent you considered necessary in the circumstances, and is not designed to identify - nor necessarily be expected to disclose - all fraud, shortages, errors and other irregularities, should any exist.

Accordingly, we make the following representations, which are true to the best of our knowledge and belief, having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

A. Financial Statements and Financial Records

1. We have fulfilled our responsibilities, under the relevant statutory authorities, for the preparation of the financial statements in accordance with the Accounts and Audit Regulations 2015 and CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21.
2. We acknowledge, as members of management of the Council, our responsibility for the fair presentation of the financial statements. We believe the financial statements referred to above give a true and fair view of the financial position, financial performance (or results of operations) and cash flows of the Council in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21, and are free of material misstatements, including omissions. We have approved the financial statements.
3. The significant accounting policies adopted in the preparation of the financial statements are appropriately described in the financial statements.
4. As members of management of the Council, we believe that the Council has a system of internal controls adequate to enable the preparation of accurate financial statements in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21, 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 and the effects of the conflict and related sanctions in Ukraine, Russia and/or Belarus on our system of internal controls.

DRAFT Management representation letter

Management Representation Letter - DRAFT

5. We believe that the effects of any unadjusted audit differences, summarised in the accompanying schedule, accumulated by you during the current audit and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the financial statements taken as a whole. We have not corrected these differences identified by and brought to the attention from the auditor because *they do not have a General Fund impact, only affect unusable reserves and relate to areas of the Balance Sheet that are already subject to significant estimation. Furthermore, we do not view the difference to be material particularly in the context of the overall PPE balance of £xxxm.*
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 to determine that the Council's activities are conducted in accordance with laws and regulations and that we are responsible to identify and address any non-compliance with applicable laws and regulations, including fraud.
2. We acknowledge that we are responsible for the design, implementation and maintenance of internal controls to prevent and detect fraud.
3. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
4. We have no knowledge of any identified or suspected non-compliance with laws or regulations, including fraud that may have affected the Council (regardless of the source or form and including without limitation, any allegations by "whistleblowers"), including non-compliance matters:
    - involving financial improprieties;
    - related to laws and regulations that have a direct effect on the determination of material amounts and disclosures in the [Council/Authority]'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/Authority]'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.

C. Information Provided and Completeness of Information and Transactions

1. We have provided you with:
    - Access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;
    - Additional information that you have requested from us for the purpose of the audit; and
    - Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
2. All material transactions have been recorded in the accounting records and all material transactions, events and conditions are reflected in the financial statements, including those related to the COVID-19 pandemic and including those related to the conflict and related sanctions in Ukraine, Russia and/or Belarus.
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].

DRAFT Management representation letter

Management Representation Letter - DRAFT

4. We confirm the completeness of information provided regarding the identification of related parties. We have disclosed to you the identity of the Council's related parties and all related party relationships and transactions of which we are aware, including sales, purchases, loans, transfers of assets, liabilities and services, leasing arrangements, guarantees, non-monetary transactions and transactions for no consideration for the period ended, as well as related balances due to or from such parties at the year end. These transactions have been appropriately accounted for and disclosed in the financial statements.
5. We believe that the 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 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, to the extent that we are aware, any (1) 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, and (2) ransomware attacks when we paid or are contemplating paying a ransom, regardless of the amount.

D. Liabilities and Contingencies

1. All liabilities and contingencies, including those associated with guarantees, whether written or oral, have been disclosed to you and are appropriately reflected in the financial statements.
2. We have informed you of all outstanding and possible litigation and claims, 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 [XXX] to the financial statements all guarantees that we have given to third parties.

E. Going Concern

1. Note 4 to the financial statements discloses all the matters of which we are aware that are relevant to the Council's ability to continue as a going concern, including significant conditions and events, our plans for future action, and the feasibility of those plans.

F. Subsequent Events

1. As described in Note 6 to the financial statements, there have been no events, including events related to the COVID-19 pandemic, and including events related to the conflict and related sanctions in Ukraine, Russia and/or Belarus, subsequent to period end which require adjustment of or disclosure in the financial statements or notes thereto.

DRAFT Management representation letter

Management Representation Letter - DRAFT

G. 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.

H. Ownership of Assets

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

I. Reserves

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

J. 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, plant & equipment and investment properties 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 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.

K. Estimates

1. We confirm that the significant judgments made in making the valuation of valuation of property, plant & equipment and investment properties, the defined benefit pension scheme liability and NNDR appeals provision have taken into account all relevant information and the effects of the COVID-19 pandemic on 31 March 2021 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 valuation of property, plant & equipment and investment properties, the defined benefit pension scheme liability and NNDR appeals provision.
3. We confirm that the significant assumptions used in making the valuation of valuation of property, plant & equipment and investment properties, the defined benefit pension scheme liability and NNDR appeals provision appropriately reflect our intent and ability to carry out our procedures on behalf of the entity.

DRAFT Management representation letter

Management Representation Letter - DRAFT

4. We confirm that the disclosures made in the financial statements with respect to the accounting estimates, including those describing estimation uncertainty and the effects of the COVID-19 pandemic on 31 March 2021, 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 valuation of property, plant & equipment and investment properties, the defined benefit pension scheme liability and NNDR appeals provision.
6. We confirm that no adjustments are required to the accounting estimates and disclosures in the financial statements, including due to the COVID-19 pandemic.

L. 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,

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(Service Director - Resources)

____

(Chairman of the Finance, Audit and Risk Committee)

DRAFT Management representation letter

Management Representation Letter - DRAFT

Schedule of unadjusted audit differences

Uncorrected misstatements			Analysis of misstatements Debit/(Credit)							
No.	W/P ref.	Account (Note 1)	Assets Current	Assets Non-current	Liabilities Current	Liabilities Non-current	Equity components	Effect on the current period OCI	Income statement effect of the current period	
		(misstatements are recorded as journal entries with a description)	Debit/(Credit) (Note 2)	Debit/(Credit) (Note 2)	Debit/(Credit) (Note 2)	Debit/(Credit) (Note 2)	Debit/(Credit)	Debit/(Credit)	Debit/(Credi t)	Non taxabl
Add new misstatement										
Judgmental misstatements:										
1	21	Difference is due to an error made by the actuary in accounting for Herts Building Control for assets not allocated from NHDC at the start of HBC being part of the HPF								
		Unusable Reserves						454,000		
		Pensions Liability				(454,000)				
2	21	The internal valuer used a low agricultural value of land. EY Real Estate specialists suggested a higher value of such land. We have used EYRE value and calculated the difference.								
		Property, plant & equipment		1,335,801						
		Gains on Revaluation of property, plant & equipment						(1,335,801)		

EY | Assurance | Tax | Transactions | Advisory

About EY
EY is a global leader in assurance, tax, transaction and advisory services. The insights and quality services we deliver help build trust and confidence in the capital markets and in economies the world over. We develop outstanding leaders who team to deliver on our promises to all of our stakeholders. In so doing, we play a critical role in building a better working world for our people, for our clients and for our communities.

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