



# **North Hertfordshire District Council**

**Auditor's Annual Report  
Year ended 31 March 2021**

August 2022



Building a better  
working world

# Contents

Section	Page
<b>01 - Executive Summary</b>	<b>03</b>
<b>02 - Purpose and responsibilities</b>	<b>06</b>
<b>03 - Financial statements audit</b>	<b>08</b>
<b>04 - Value for Money</b>	<b>21</b>
<b>05 – Other reporting issues</b>	<b>31</b>
<b>Appendix A – Fees</b>	<b>33</b>

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

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

Section 1

# Executive Summary



## Executive Summary: Key conclusions from our 2020/21 audit

Area of work	Conclusion
<b>Opinion on the Council:</b>	
Financial statements	Unqualified – the financial statements give a true and fair view of the financial position of the Council as at 31 March 2021 and of its expenditure and income for the year then ended. The financial statements have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21. We issued our auditor's report on 30 June 2022.
Going concern	We have concluded that the Service Director – Resources' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.
Consistency of the Statement of Accounts 2020/21 and other information published with the financial statements	We concluded that financial information in the Statement of Accounts 2020/21 and published with the financial statements was consistent with the audited accounts.

Area of work	Conclusion
<b>Reports by exception:</b>	
Value for money (VFM)	We had no matters to report by exception on the Council's VFM arrangements. We have included our VFM commentary in Section 04.
Consistency of the annual governance statement	We were satisfied that the annual governance statement was consistent with our understanding of the Council.
Public interest report and other auditor powers	We had no reason to use our auditor powers.

# Executive Summary: Key conclusions from our 2020/21 audit

As a result of the work we carried out we have also:

Outcomes	Conclusion
Issued a report to those charged with governance of the Council communicating significant findings resulting from our audit.	We issued a Provisional Audit Results Report to the Council in on 2 March 2022. Before we issued the audit report on 30 June 2022, we concluded that, due to changes since the date of our Provisional Audit Results Report, there was a need to issue an update on our Provisional Audit Results Report. Accordingly, we issued an update in the form of Audit Results Report - Addendum on 6 June 2022.
Issued a certificate that we have completed the audit in accordance with the requirements of the Local Audit and Accountability Act 2014 and the National Audit Office's 2020 Code of Audit Practice.	We have not yet issued our certificate for 2020/21 as we have not yet performed the procedures required by the National Audit Office on the Whole of Government Accounts submission. The guidance for 2020/21 has been significantly delayed and although this has now been recently been issued we are still not able to issue our certificate until the NAO has clarified the additional work they may require for a sample of bodies.

## Fees

We carried out our audit of the Council's financial statements in line with PSAA Ltd's "Statement of Responsibilities of auditors and audited bodies" and "Terms of Appointment and further guidance (updated April 2018)". As outlined in our Provisional Audit Results Report, we were required to carry out additional audit procedures to address audit risks in relation to the significant and fraud risks and other areas of audit focus identified in our Audit Plan and Audit Results Reports. These risks, and the resulting additional costs, are driven by risks that are common across most if not all local authorities and increased regulatory audit requirements. As a result of the additional work required to address these risks and requirements, we have proposed an additional fee which we have shared with the Service Director - Resources. We include details of the final audit fees in Appendix 1.

We would like to take this opportunity to thank the Council staff for their assistance during the course of our work.

Debbie Hanson

Partner

For and on behalf of Ernst & Young LLP



Section 2

## Purpose and responsibilities



# Purpose and responsibilities

---

This report summarises our audit work on the 2020/21 financial statements

---

## **Purpose**

The purpose of the Auditor's Annual Report is to bring together all of the auditor's work over the year. A core element of the report is the commentary on VFM arrangements, which aims to draw to the attention of the Council or the wider public relevant issues, recommendations arising from the audit and follow-up of recommendations issued previously, along with the auditor's view as to whether they have been implemented satisfactorily.

## **Responsibilities of the appointed auditor**

We have undertaken our 2020/21 audit work in accordance with the Audit Plan dated 23 February 2021 and Update in December 2021. We have complied with the NAO's 2020 Code of Audit Practice, International Standards on Auditing (UK), and other guidance issued by the NAO.

As auditors we are responsible for:

Expressing an opinion on:

- The 2020/21 financial statements;
- Conclusions relating to going concern; and
- The consistency of other information published with the financial statements.

Reporting by exception:

- If the governance statement does not comply with relevant guidance or is not consistent with our understanding of the Council;
- If we identify a significant weakness in the Council's arrangements in place to secure economy, efficiency and effectiveness in its use of resources; and
- Any significant matters that are in the public interest.

## **Responsibilities of the Council**

The Council is responsible for preparing and publishing its financial statements, and governance statement. It is also responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Section 3

## Financial Statement Audit





# Financial Statement Audit

---

We have issued an unqualified audit opinion on the Council's 2020/21 financial statements.

---

## Key issues

The Statement of Accounts is an important tool for the Council to show how it has used public money and how it can demonstrate its financial management and financial health.

On 30 June 2022, we issued an unqualified opinion on the financial statements. We reported our detailed findings to the Finance, Audit & Risk Committee in our Provisional Audit Results Report dated 2 March 2022 and a further update on 6 June 2022. We outline below the key issues identified as part of our audit, reported against the significant risks and other areas of audit focus we included in our Audit Plan.

Significant risk	Conclusion
<b>Misstatements due to fraud or error - management override of controls</b> 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.	Our audit work did not identified any material issues, inappropriate judgements or unusual transactions which indicated that there had been any misreporting of the Council's financial position, or that management had overridden controls. We are satisfied that journal entries had been posted properly and for genuine business reasons. There were no unusual transactions identified.
<b>Incorrect capitalisation of revenue expenditure</b> 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.	We did not identified any revenue items that have been inappropriately capitalised from our substantive testing.

Continued over.

## Financial Statement Audit (continued)

Significant risk	Conclusion
<p><b>Valuation of investment properties</b></p> <p>The fair value of investment properties represent a significant balance in the Council's accounts and is subject to valuation changes, market volatility and impairment reviews. 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 the accounts for 2020/21, investment properties amount to £23.8 million (2019/20: £18.4 million).</p> <p>ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of experts and assumptions underlying fair value estimates.</p>	<p>We undertook additional procedures to address the specific risk we identified, which included:</p> <ul style="list-style-type: none"> <li>• Considering 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.</li> <li>• Engaging our valuations specialist (EY Real Estates) to review a sample of four investment properties valuations to verify the reasonableness of the valuation methodology applied and key assumptions used.</li> <li>• Challenging the assumptions used by the valuer and sample testing key information used by the valuer in performing their valuation.</li> <li>• Reviewing the list of investment properties to ensure that all properties were revalued in 2020/21.</li> <li>• Reviewing the report from the Council's valuer – Reynolds Butler, and confirmed there is no material uncertainty in their report for 2020/21.</li> </ul> <p>Based on our above procedures performed, We have not identified any significant difference in valuation of investment properties and have sufficient assurance that they are materially accurate.</p>

Continued over.

## Financial Statement Audit (continued)

In addition to the significant risks above, we also concluded on the following areas of audit focus.

Other area of audit focus	Conclusion
<p><b>Valuation of property, plant and equipment (PPE) assets</b></p> <p>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.</p> <p>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 totalled £98.7 million (2019/20: £95.6 million).</p>	<p>We completed following procedures to address this risk:</p> <ul style="list-style-type: none"> <li>• 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;</li> <li>• 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;</li> <li>• Sample tested key asset information used by the valuers in performing their valuation;</li> <li>• Considered the annual cycle of valuations to ensure that assets have been valued within an appropriate timescale.</li> <li>• Considered any specific changes to assets that have occurred and whether these have been communicated to the valuer;</li> <li>• Reviewed assets not subject to valuation in 2020/21 to confirm that the remaining asset base is not materially misstated;</li> <li>• Considered changes to useful economic lives as a result of the most recent valuation; and</li> <li>• Tested accounting entries have been correctly processed in the financial statements.</li> </ul>

Continued over.

## Financial Statement Audit (continued)

In addition to the significant risks above, we also concluded on the following areas of audit focus.

Other area of audit focus	Conclusion
<b>Valuation of property, plant and equipment (PPE) assets</b>  (continued)	<p>We completed our procedures including our valuers concluded that for all four properties reviewed the values were supportable. However, 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.</p> <p>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 below section "Audit Differences" for details.</p> <p>We also 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.</p>

Continued over.



## Financial Statement Audit (continued)

In addition to the significant risks above, we also concluded on the following areas of audit focus.

Other area of audit focus	Conclusion
<p><b>Pension liability valuation and disclosures</b></p>	<p>To address this risk, we carried out a range of procedures including:</p>
<p>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 signed accounts, this liability amounts to £46 million as at 31 March 2021 (2019/20: £30.7 million).</p>	<ul style="list-style-type: none"> <li>liaising with the auditors of Hertfordshire Pension Fund to obtain assurances over the information supplied to the actuary in relation to the Council;</li> <li>assessing 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;</li> <li>Considering 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;</li> <li>Considering the movement in fund asset values between the actuary's estimate and year end; and</li> <li>Reviewing and tested the accounting entries and disclosures made within the Council's financial statements in relation to IAS19.</li> </ul>
<p>The information disclosed is based on the IAS 19 report issued to the Council by the actuary to the County Council.</p>	<p>We completed our audit work and did not identify any material differences.</p>
<p>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.</p>	<p>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.</p>

Continued over.

## Financial Statement Audit (continued)

In addition to the significant risks above, we also concluded on the following areas of audit focus.

Other area of audit focus	Conclusion
<b>Pension liability valuation and disclosures</b>  (continued)	<p>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) in 2017. At this point, 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.</p> <p>The impact for North Hertfordshire is that 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.</p> <p>Management calculated the impact for the year ended 31 March 2020 and 2021, and concluded that the overall impact on the accounts is not material for either 31 March 2020 or 2021. Based on the information we received from the pension fund actuary the impact of the above we also concluded that building control issue is not material. We also obtained 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.</p> <p>The differences as a result of this error amount to £454k for 2020/21 and £377k for 2019/20. We therefore agreed that these were not material but considered the 2020/21 difference as an unadjusted misstatements, as the amount for 2020/21 was above our SAD level. We obtained confirmation from management on the reasons for this not being adjusted via our management representation letter.</p>

## Financial Statement Audit (continued)

Other area of audit focus	Conclusion
<b>Going concern disclosures</b>	<p>The revised standard required us to perform the following procedures:</p> <ul style="list-style-type: none"> <li>• 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;</li> <li>• 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;</li> <li>• ensuring compliance with any updated reporting requirements;</li> <li>• a stand back requirement to consider all of the evidence obtained, whether corroborative or contradictory, when we draw our conclusions on going concern; and</li> <li>• necessary consideration regarding the appropriateness of financial statement disclosures around going concern.</li> </ul> <p>We completed our audit work in this area, including review of cashflow forecast of the Council up to the end of June 2023. Based on the work undertaken we were satisfied that management's assessment on going concern was adequate and supportable. We also reviewed the Council's disclosures within the financial statements and assessed the need for any internal consultation. We concluded that there is no need for any internal consultation as we assessed the risk involved with management's use of going concern basis to be low.</p> <p>We have no matters to report with regards to going concern of the Council.</p>

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.

## Financial Statement Audit (continued)

Other area of audit focus	Conclusion
<b>National non-domestic rates (NNDR) appeals provision</b>	We considered the Council's estimation of the NNDR appeals provision by performing the following:
<p>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.</p>	<ul style="list-style-type: none"><li>• Reviewing the assumptions made by the Council in determining the NNDR appeals provision and challenged these assumptions to ensure their adequacy.</li><li>• Assessing the reasonableness of any local adjustments made by the Council on the NNDR appeals provision.</li></ul>
<p>The NNDR provision amount as per the draft statement of accounts for 2020/21 is £2.74 million (2019/20: £0.84 million).</p>	<p>Based on our above procedures, no material misstatements were identified.</p>



## Financial Statement Audit (continued)

Other area of audit focus	Conclusion
<b>Recognition of grant income associated with Covid-19</b>  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.	<p>We have:</p> <ul style="list-style-type: none"><li>• Considered the revenue and capital grants received by the Council;</li><li>• Carried out testing to ensure the accounting treatment and recognition applied to grant income is appropriate.</li><li>• For a sample of the grants we have:<ul style="list-style-type: none"><li>➤ Reviewed the Council's assessment of whether it is acting as principal or agent;</li><li>➤ Reviewed whether any initial conditions are attached to grants which would impact on their recognition;</li><li>➤ Assessed whether the accounting appropriately follows those judgements.</li></ul></li></ul> <p>We also checked that the Council adequately disclosed grant income received in the year, under both principal and agent arrangements.</p> <p>We completed our above procedures in relation to the of accounting for Covid-19 grant income. No material misstatements were identified.</p>

## Financial Statement Audit (continued)

Other area of audit focus	Conclusion
<b>Auditing accounting estimates</b>  ISA 540 (Revised) - Auditing Accounting Estimates and Related Disclosures applies to audits of all accounting estimates in financial statements for periods beginning on or after December 15, 2019. This revised ISA responds to changes in financial reporting standards and a more complex business environment which together have increased the importance of accounting estimates to the users of financial statements and introduced new challenges for preparers and auditors. The revised ISA requires auditors to consider inherent risks associated with the production of accounting estimates.	We reviewed material estimates and have not identified any issues.

## Financial Statement Audit (continued)

### Audit differences

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

- Understatement of pension liability and pension reserve (unusable reserve) by £454k due to error made by the actuary in the allocation of assets from the Council
- Potential understatement of land and buildings in property, plant and equipment of £1,335k due to use of low agricultural land values by the Council's valuer. There will be a corresponding impact on gains and losses on the revaluation of land and buildings

We did not identify any adjusted differences.

### Our application of materiality

When establishing our overall audit strategy, we determined a magnitude of uncorrected misstatements that we judged would be material for the financial statements as a whole.

As communicated in our Audit Plan and Provisional Audit Results Report and Addendum, our audit procedures were performed using a planning materiality of £1.427 million, with performance materiality of £1.07 million, which is 75% of planning materiality, and a threshold for reporting misstatements of £71K. We calculated our planning materiality assessment using the draft accounts. We have not reassessed our materiality since then as there has been no significant changes in circumstances leading us to update our materiality.

Section 4

## Value for Money





## Value for Money (VFM)

---

We did not identify any risks of significant weaknesses in the Council's VFM arrangements for 2020/21.

### Scope and risks

We have complied with the NAO's 2020 Code and the NAO's Auditor Guidance Note in respect of VFM. We presented our VFM risk assessment to the Finance, Audit and Risk Committee via our Audit Plan and Provisional Audit Results Report followed by an Addendum which was based on a combination of our cumulative audit knowledge and experience, our review of Council and committee reports, and evaluation of associated documentation through our regular engagement with management and the finance team.

We reported that we had not identified any risks of significant weaknesses in the Council's VFM arrangements for 2020/21.

---

We had no matters to report by exception in the audit report.

### Reporting

We completed our planned VFM arrangements work and did not identify any significant weaknesses in the Council's VFM arrangements. As a result, we had no matters to report by exception in the audit report on the financial statements.

---

Our VFM commentary highlights relevant issues for the Council and the wider public.

### VFM commentary

In accordance with the NAO's 2020 Code, we are required to report a commentary against three specified reporting criteria:

- ***Financial sustainability***  
How the Council plans and manages its resources to ensure it can continue to deliver its services;
  - ***Governance***  
How the Council ensures that it makes informed decisions and properly manages its risks; and
  - ***Improving economy, efficiency and effectiveness***  
How the Council uses information about its costs and performance to improve the way it manages and delivers its services.
-

## Introduction and context

The 2020 Code confirms that the focus of our work should be on the arrangements that the audited body is expected to have in place, based on the relevant governance framework for the type of public sector body being audited, together with any other relevant guidance or requirements. Audited bodies are required to maintain a system of internal control that secures value for money from the funds available to them whilst supporting the achievement of their policies, aims and objectives. They are required to comment on the operation of their governance framework during the reporting period, including arrangements for securing value for money from their use of resources, in a governance statement.

We have previously reported the VFM work we have undertaken during the year including our risk assessment. The commentary below aims to provide a clear narrative that explains our judgements in relation to our findings and any associated local context.

---

The Council has had the arrangements we would expect to see to enable it to plan and manage its resources to ensure that it can continue to deliver its services.

For 2020/21, the significant impact that the Covid-19 pandemic has had on the Council has shaped decisions made, how services have been delivered and financial plans have necessarily had to be reconsidered and revised. We have reflected these national and local contexts in our VFM commentary.

## Financial sustainability

### ***How the body ensured that it identified all the significant financial pressures that were relevant to its short and medium-term plans and built these into them***

The Council has a robust procedures in place to identify all significant financial pressures relevant to its short and medium term plans. These are gathered from a variety of sources, including:

- quarterly budget monitoring, which includes reviewing the ongoing impacts
- meetings between Service Managers and the Accounts team (as part of a Business Partnering role)
- discussions at Leadership Team (Service Directors and Managing Director) and Political Liaison Board (Service Directors, MD and Cabinet members) which highlight strategic issues
- the MTFS is reviewed by Leadership Team whilst it is being prepared, to allow for feedback.

### **Financial sustainability (continued)**

#### ***How the body planned to bridge its funding gaps and identifies achievable savings***

As per MTFS, the Council needs savings to deliver its services to achieve a balanced budget by 2026/27. This means that by 2026/27, Council's funding should equal its expenditure. The savings may be achieved by several ways, mainly;

- Delivering existing services at a lower cost. The use of technology and automation may enable the Council to do this in some areas. Generally however, the savings that the Council has delivered over the years have been through efficiencies, which potentially means there may be a little room to achieve further efficiencies.
- Generating additional income from services that can be charged for, less any costs in providing those additional services.
- Generating income from commercial activities, although the opportunities to do this are limited by economic conditions. The Council also needs to ensure that these commercial activities are in line with its priorities.
- Reducing the level of services provided, or no longer providing services that are not required.

---

The Council has had the arrangements we would expect to see to enable it to plan and manage its resources to ensure that it can continue to deliver its services.

---

#### ***How the body planned finances to support the sustainable delivery of services in accordance with strategic and statutory priorities***

The Council produces the MTFS and the Council Plan at the same time and treats them as sister documents. The approach to preparing these documents is that most of the money that the Council spends is on delivering statutory services. The Council will always look to deliver these services in line with its priorities. As the funding level has continued to reduce, the Council has tried to maintain its ability to offer discretionary services that are linked to its priorities. The current forecasts suggest that the Council will need to continue further reducing its costs in the future. This will mean that difficult decisions may need to be taken. We expect that the Council will make those decisions in line with its priorities.

The Council also has an established budget challenge process that reviews the various services the Council delivers and how much they cost. This has included a review of which services are statutory, and for those non-statutory services the extent to which they deliver the priorities of the Council Plan.

### Financial sustainability (continued)

***How the body ensured that its financial plan was consistent with other plans such as workforce, capital, investment, and other operational planning which may include working with other local public bodies as part of a wider system***

As noted above the MTFS and Council Plans are treated as sister documents. The capital programme is included in the Investment Strategy with a 10 year time horizon. The forecast revenue impacts of capital investment are incorporated in to budget planning.

---

The Council has had the arrangements we would expect to see to enable it to plan and manage its resources to ensure that it can continue to deliver its services.

The Council's HR plan is currently focused on Covid-19 response and recovery. It does not make any specific proposals around changes in remuneration or head-count. Any proposals for growth in headcount must be considered through the budget process.

All other significant service/corporate plans have a contribution from finance to ensure that financial implications are considered. Sometimes (e.g. where plans include aspirations rather than detailed actions) it may be necessary to set out that the plans will be subject to prioritisation and consideration as part of the financial/business planning process. We understand from management that this would apply to some aspects of the Council's Climate Change Strategy.

---

***How the body identified and managed risks to financial resilience, e.g. unplanned changes in demand, including challenge of the assumptions underlying its plans.***

This is primarily managed through the setting of the minimum General Fund balance. This makes an allowance for known financial risks (through discussions between the finance team and Service Managers), as well as a general allowance for unknown risks. The specific risks are monitored throughout the year in the quarterly budget monitoring report. That same report also considers overall variance forecasts and therefore also monitors those risk outcomes that were not foreseen at the start of the year.

---

The Council has had the arrangements we would expect to see to enable it to plan and manage its resources to ensure that it can continue to deliver its services.

---

The MTFS also considers the variation in assumptions made, although for the current period this is focused on the impacts of Covid-19.



## Governance

### ***How the body monitored and assessed risk and how the body gained assurance over the effective operation of internal controls, including arrangements to prevent and detect fraud***

---

The Council has had the arrangements we would expect to see to enable to make informed decisions and properly manage its risks.

---

The Council has a Risk Management Group which is made up of key officers (including service representatives, the Risk Officer Champion, Risk Officers, Internal Audit and Insurance), the Executive Member for Risk and the Finance, Audit and Risk Committee Chair. At this group, the outcomes of key risk reviews are considered in detail, including being able to ask questions and offer support to the risk manager. The relevant outputs from the group (including recommendations on changes to corporate risks) are considered by Finance, Audit and Risk Committee, prior to discussion and agreement by Cabinet.

The Council is part of a shared Fraud service (known as the Shared Anti Fraud Service or SAFS). There are regular reports to the Finance, Audit and Risk Committee on SAFS, including plans for the forthcoming year and monitoring of performance.

### ***How the body approached and carried out its annual budget setting process***

The Council has an integrated budget setting structure, plan and timetable in place. Although this process stays largely unchanged from year to year, the underlying strategic goals and challenges can change between years, dependent on pressures being faced by each department.

Over the Summer, the responsible officers and executive members start work on the Council Plan and the MTFS for the forthcoming year. This sets the objectives of the Council (Council Plan) and the financial context to deliver them in (MTFS). The MTFS will usually set a net savings target.

Officers and Executive Members then commence work on detailed proposals for the following year. This is collated by the finance team with a review against the MTFS targets. These proposals are then discussed at the Political Liaison Board (including the Managing Director, Service Directors and Cabinet) to determine any prioritisation. Proposals are then discussed with Political Groups in early November. Feedback from these discussions is presented to Cabinet in December, as part of a draft budget report. This report also includes any relevant updates (e.g. inflation and the local government finance settlement). The outcome of this Cabinet meeting helps to determine the content of the final budget report, which goes to Finance, Audit and Risk Committee and Cabinet in January, and is referred on to Council in February each year.

## Governance (continued)

***How the body ensured effective processes and systems were in place to ensure budgetary control; to communicate relevant, accurate and timely management information (including non-financial information where appropriate); supported its statutory financial reporting requirements; and ensured corrective action was taken where needed.***

The Council generally carry out quarterly budget monitoring, which is reported through to Leadership Team, the Finance, Audit and Risk Committee and Cabinet. This is generally proportionate to the level of risk in the Council's budgets. Where necessary, the management implements more frequent monitoring (e.g. during 2020/21 management carried out monthly monitoring of the impacts of the pandemic). There are set revenue performance indicators which are monitored and reported on a monthly basis. These cover the Council's key income streams and provide an indication of any areas of concern.

---

The Council has had the arrangements we would expect to see to enable to make informed decisions and properly manage its risks.

---

If required, the budget monitoring reports would require that action was taken to manage the overall Council budget. Before reporting variances to Cabinet etc. Budget Managers are asked to consider ways to manage their spend within their budget. Finance would support with ideas and options. This will not include significant changes in level of service, as that would be a Cabinet decision.

***How the body ensured it made properly informed decisions, supported by appropriate evidence and allowing for challenge and transparency. This included arrangements for effective challenge from those charged with governance/audit committee.***

The Council has a long-established Constitution which together with a range of codes of conduct, policies and procedures support informed decision making. The Council's Constitution includes guidelines on how decisions need to be made and by whom.

All reports require professional input including legal, financial, risk and HR implications. Decisions are taken in accordance with the Constitution. Cabinet decisions are subject to call-in by the Overview and Scrutiny Committee. All financial monitoring, budget and risk (among others) are reviewed by the Finance, Audit and Risk Committee prior to going to Cabinet. The Finance, Audit and Risk Committee has responsibility for overseeing risk management and financial control, receiving reports from, and providing challenge to, the Section 151 Officer, Internal Audit and External Audit. The Finance, Audit and Risk Committee provides specific challenge on effectiveness of the internal control environment.

## Governance (continued)

---

The Council arrangements we would expect to see to enable to make informed decisions and properly manage its risks.

---

***How the body monitored and ensured appropriate standards, such as meeting legislative/regulatory requirements and standards in terms of officer or member behaviour (such as gifts and hospitality or declarations/conflicts of interests)***

Compliance with legislative and regulatory requirements are monitored through various mechanisms, including the Monitoring Officer, who maintains a register of interests for Members which is published on the Councils website.

For Officers, the Council has a policy in relation to gifts and hospitality. There is also a separate Declaration of Interests/Conflicts of Interest policy. The Monitoring Officer's oversight on standards also provides a control.

### Improving economy, efficiency and effectiveness

#### ***How financial and performance information was used to assess performance to identify areas for improvement.***

Management has carried out a budget challenge process during the last two years. These sessions have involvement from the Chief Finance Officer, Managing Director, Leader, Deputy Leader, Finance Portfolio Holder and Deputy Finance Portfolio Holder. With support from Finance, each Service Director and Executive Member have presented their budgets, detailing what they spent, the level of service provided, split between statutory and discretionary services and well as opportunities for savings. These reports have included a small number of opportunities for pure efficiencies (i.e. spend reduction with no apparent impact on service levels) and generally have been contingent on future restructures. There were also examples of where transformation was expected to enable savings and improve service delivery. Finally there were areas where decisions would need to be made (dependent on future funding) as to which discretionary services were a priority.

The transformation programme is developing skills in AI and Robotics to provide automation that will deliver a better service to the customer (e.g. through being able to provide a response 24/7) as well as enabling enable savings to be delivered.

#### ***How the body evaluated the services it provides to assess performance and identify areas for improvement***

Where available management compares its performance indicators to performance by others through benchmarking process (e.g. waste collection data). A lot of this data has however been suspended due to Covid-19.

The use of spend comparative indicators is not considered, as most of the differences are created by different approaches to overhead costs. However management considers use of various networks to generate ideas and learn from others. This includes (for example) the Hertfordshire Chief Finance Officers Group, the Hertfordshire Chief Executives Group, and Herts Waste Partnership.

In January 2020, the Council had a peer review and an action plan is being developed to respond to the conclusions of this review. Progress against this is reported regularly to the Political Liaison Board. There is expected to be some follow up work during 2022, looking at the roles of Overview and Scrutiny Committee and the Finance, Audit and Risk Committee.

---

The Council has had the arrangements we would expect to see to enable it to use information about its costs and performance to improve the way it manages and delivers services.

---

### Improving economy, efficiency and effectiveness (continued)

#### ***How the body ensured it delivers its role within significant partnerships, engaged with stakeholders it identified, monitored performance against expectations, and ensured action was taken where necessary to improve***

The Council appreciates the fact that Services will not always be delivered by them alone, but in a partnership or through alternative delivery models. Key partners include those in partner authorities and other Councils across the County; for example Urbaser (waste contract), John O'Connor (grounds maintenance contract), Settle (previously North Herts Homes), Stevenage Leisure, Countryside Management Service and Groundwork. The Council works to support local, County and wider partnerships that seek to improve the wellbeing of its local community e.g. through the North Herts Health and Wellbeing Partnership and Hertfordshire Public Health Board.

Other key partners of the Council include District Councillors, County Councillors,, Parish Councillors, local Members of Parliament, the Ministry of Housing Communities and Local Government, the Local Government Association, the East of England Local Government Association, the Local Government Ombudsman, housing associations, North Herts Centre for Voluntary Service, Citizens Advice North Hertfordshire, North Herts Minority Ethnic Forum, Youth Connexion Herts, Business Improvement Districts, Letchworth Garden City Heritage Foundation, the Police, Herts Young Homeless and the Stevenage Haven.

As part of the delivery of its services, the Council needs to manage a proactive programme of communications activity across a range of channels which ensures the good work of the Council is promoted and improves resident satisfaction, by ensuring they feel well informed about the Council's work. Cabinet adopted the Communications Strategy for the period 2019-2023 in December 2018.

#### ***How the body ensured that commissioning and procuring services was done in accordance with relevant legislation, professional standards and internal policies, and how the body assessed whether it was realising the expected benefits***

All procurements are governed by the Council's Contract and Procurement Rules (part of the Council's Constitution). Compliance with these is monitored by Procurement/ Legal and the Contract Procurement Group. Section 20 of Constitution explains about the Contract Procurement Rules.

Each contract has a contract manager who is responsible for ensuring that the contracted service is delivered.

---

The Council has had the arrangements we would expect to see to enable it to use information about its costs and performance to improve the way it manages and delivers services.

---



A blurred background image of a business meeting. Several people in professional attire are gathered around a wooden conference table. A woman with blonde hair is in the foreground, looking down at a document on the table with her hand resting on her chin. Other people's hands and arms are visible, also interacting with the documents. The scene is brightly lit, suggesting an indoor office environment with large windows in the background.

Section 5

## Other Reporting Issues

## Other Reporting Issues

### **Governance Statement**

We are required to consider the completeness of disclosures in the Council's governance statement, identify any inconsistencies with the other information of which we are aware from our work, and consider whether it complies with relevant guidance.

We completed this work and did not identify any areas of concern.

### **Whole of Government Accounts**

We have not yet performed the procedures required by the National Audit Office (NAO) on the Whole of Government Accounts consolidation pack submission. The guidance for 2020/21 has been significantly delayed and although this has now been recently been issued we are still not able to issue our certificate until the NAO has clarified the additional work they may require for a sample of bodies.

### **Report in the Public Interest**

We have a duty under the Local Audit and Accountability Act 2014 to consider whether, in the public interest, to report on any matter that comes to our attention in the course of the audit in order for it to be considered by the Council or brought to the attention of the public.

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

### **Other powers and duties**

We identified no issues during our audit that required us to use our additional powers under the Local Audit and Accountability Act 2014.

### **Control themes and observations**

As part of our work, we obtained an understanding of internal control sufficient to plan our audit and determine the nature, timing and extent of testing performed. 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 identified during our audit.

We have adopted a fully substantive approach and have therefore not tested the operation of controls.

We have identified a very small number of 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. Overall the Council's accounts are well prepared with a very small number of issues identified.

Appendix A

## Audit Fees





# North Hertfordshire District Council's 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 - <b>Note 1</b>	19,752	12,962	13,174
Additional work required in 2019/20 - <b>Note 2</b>	14,877	7,000	-
Additional work required in 2020/21 - <b>Note 3</b>	-	-	19,661
Additional work required due to changes in auditing standards for estimates – <b>Note 4</b>	-	-	3,490
Additional work required due to change in scope of VFM work – <b>Note 4</b>	-	-	6,000
Non-audit Fee – Housing subsidy claim	7,340*	9,140	7,340*
Total audit fees	82,037	69,170	89,733

*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 risks identified in relation to the audit of most if not all local authorities, including North Hertfordshire, and increases in regulatory standards. Further detail on this proposed increase was included in our previous reports to the Committee. We 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 of this proposed fee. For 2020/21, the proposed increase in fee by using the revised hourly rates as approved by PSAA (refer Note 4 below) is £13,174 (note this excludes the VFM significant risk element included in 2019/20).

**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 of this proposed fee.

**Note 3:** For 2020/21, the proposed additional fee is £19,661. We have shared the details of this proposed additional fee with management. PSAA will determine the final fee.

**Note 4:** PSAA published additional information for 2020/21 audit fees in August 2021 and provided guidance about the range of minimum additional fee in relation to changes in the Code impacting on VMF work and increased work on accounting estimates due to changes in auditing standards. We have shared the details of these amounts with management. PSAA also revised its hourly rates for calculating the additional fee variations.

EY | Assurance | Tax | Transactions | Advisory

Ernst & Young LLP

© Ernst & Young LLP. Published in the UK.  
All Rights Reserved.

The UK firm Ernst & Young LLP is a limited liability partnership  
registered in England and Wales  
with registered number OC300001 and is a member firm of Ernst &  
Young Global Limited.

Ernst & Young LLP, 1 More London Place, London, SE1 2AF.

[ey.com](https://www.ey.com)