

**North Hertfordshire
District Council
Provisional Audit
Results Report**

Year ended 31 March 2022

24 February 2023



EY

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24 February 2023



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

Dear Finance, Audit and Risk Committee Members

2021/22 Provisional Audit Results Report

We are pleased to attach our Provisional Audit Results Report, summarising the status of our audit for the forthcoming meeting of the Finance, Audit and Risk Committee.

The audit is designed to express an opinion on the 31st March 2022 financial statements and address current statutory and regulatory requirements. This report contains our provisional findings related to the areas of audit emphasis, our views on North Hertfordshire's accounting policies and judgements and material internal control findings. Our audit is not yet fully complete and further issues may arise on the completion of the remaining work and manager and partner review. We will update the Committee on any further significant findings.

Each year sees further enhancements to the level of audit challenge and the quality of evidence required to achieve the robust professional scepticism that society expects. We thank the management team for supporting this process.

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

We welcome the opportunity to discuss the contents of this report with you at the Finance, Audit and Risk Committee meeting on 08 March 2023.

Yours faithfully

Debbie Hanson

Partner, For and on behalf of Ernst & Young LLP

Encl

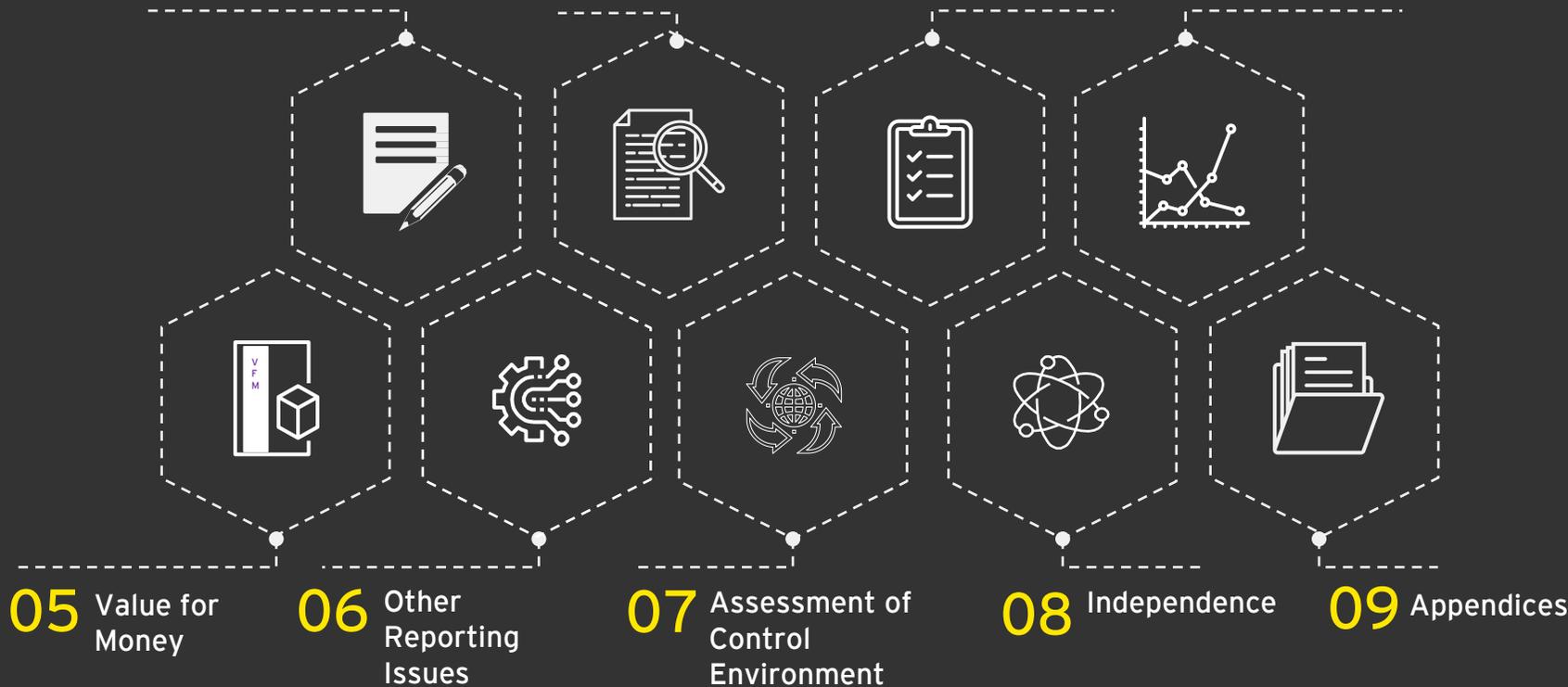
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Public Sector Audit Appointments Ltd (PSAA) issued the "Statement of responsibilities of auditors and audited bodies". It is available from the PSAA website (<https://www.psa.co.uk/managing-audit-quality/statement-of-responsibilities-of-auditors-and-audited-bodies/>). The Statement of responsibilities serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas. The "Terms of Appointment and further guidance (updated July 2021)" issued by the PSAA (<https://www.psa.co.uk/managing-audit-quality/terms-of-appointment-and-further-guidance-1-july-2021/>) sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and in legislation, and covers matters of practice and procedure which are of a recurring nature.

This report is made solely to 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.



01 Executive Summary

Executive Summary

Scope Update

In our Audit Planning Report presented to the 7th of December Finance, Audit and Risk Committee meeting, we provided you with an overview of our audit scope and approach for the audit of the financial statements. We carried out our audit in accordance with this plan.

Materiality Update

In the Audit Plan dated 7 December 2022, we reported that our materiality has been set at £1.4 million, which represents 2% of gross revenue expenditure of the Council, and performance materiality set at £1.05 million. We have revisited these figures during the completion of our audit and are satisfied that they remain appropriate.

Status of the audit

We have substantially completed our audit of North Hertfordshire District Council's financial statements for the year ended 31 March 2022 and have performed the procedures outlined in our Audit Planning Report. The main outstanding area is the valuation of the pension fund liability, where we have not yet received the report from the Pension Fund auditors and hence have not concluded our work in this area. A full list of outstanding items can be seen at Appendix D.

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

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

Executive Summary

Auditor responsibilities under the new Code of Audit Practice 2020

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

The specified reporting criteria are:

- Financial sustainability
How the 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.

Status of the audit - Value for Money

In the Audit Plan dated 7 December 2022, we reported that our area of focus will be on the arrangements that the Council has in place in relation to financial sustainability. Our work on this area is ongoing. We will also revisit our risk assessment on completion of the audit of the financial statements. At the date of this report, we have no matters to report by exception in the auditor's report (see Section 03). We plan to issue the VFM commentary shortly after issuing our audit opinion as part of issuing the Auditor's Annual Report.

Executive Summary

Audit differences

We have identified a number of audit differences throughout our audit work and details of these adjustments can be found in Section 04 of this report, including the following misstatements which Management agreed to correct:

- ▶ Overstatement of property, plant and equipment by £5.6 million due to duplicate recording of Hitchin Town Centre (with another asset code recorded in the fixed assets register as "Museum Services Development"). This also impacts 2020/21 comparative figures and opening balances for 2020/21.
- ▶ Understatement of operating expenditure and the revaluation reserve by £1.1 million due to an error in recording the downward movement in value of assets held for sale in the revaluation reserve instead of operating expenditure.
- ▶ £2.6 million unspent balance of Covid-19 Additional Relief Fund was incorrectly recorded as short term creditors instead of grants received in advance
- ▶ Overstatement of revaluation reserve by £0.178 million due to incorrect recording of upward movement in property, plant and equipment in revaluation reserves instead of a reversal of impairment loss previously charged to surplus/deficit on provision of services
- ▶ In preparing the cash flow statement, management includes the purchase and sale of short term liquid investments (presented as cash equivalents) as part of investing activities, which is not in line with the CIPFA Code. This resulted in an overstatement in the figures for purchase of short-term and long-term investments by £698.4 million, and proceeds from short-term and long-term investments by £710.4 million for 2021/22. The error in the comparative figures for 2020/21 is an overstatement for purchase of short-term and long-term investments by £545.5 million and proceeds from short-term and long-term investments by £542.4 million.

We will need to consult internally on the two errors which also impact on the prior year and will therefore result in an adjustment to the prior year comparatives.

We have identified a small number of disclosure differences in notes to the financial statements. This includes changes which flows from the audit adjustments affecting the primary statements above, as well as casting, referencing, classification which management have agreed to amend in the final set of accounts.

Other reporting issues

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

We plan to complete the procedures required by the National Audit Office (NAO) on the Whole of Government Accounts after issuing our audit opinion and therefore will certify the completion of the audit at that point.

Executive Summary

Areas of audit focus

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

| Fraud Risk | Findings & Conclusions |
|---|---|
| Misstatements due to fraud or error | <p>We carried out standard procedures to address fraud risks as set out in our Audit Plan, including identifying risks, considering controls and their effectiveness, testing journal entries and looking at estimates for evidence of management bias. Using data analytics is central to our approach in this area.</p> <p>Our work in this area is substantially complete pending manager and partner review.</p> |
| Inappropriate capitalisation of revenue expenditure | <p>We have completed our audit work on capital additions and have not identified any misstatements.</p> |
| Valuation of investment properties | <p>We have completed our audit work on investment properties valuation, pending manager and partner review. We have not identified material differences in the valuation of investment property.</p> |
| Valuation of property, plant and equipment (other land and buildings and surplus assets) and assets held for sale | <p>We have completed our audit work on the valuation of property, plant and equipment and assets held for sale. We have noted an overstatement of property, plant and equipment of £5.6 million due to duplicate recording of Hitchin Town Centre (with another asset code recorded in the fixed assets register as "Museum Services Development"). This also impacts 2020/21 comparative figures and opening balances for 2020/21.</p> <p>Additionally, there was an understatement of operating expenditure and the revaluation reserve of £1.1 million due to an error in recording the downward movement in value of assets held for sale in the revaluation reserve instead of operating expenditure.</p> <p>Finally, we noted an overstatement of revaluation reserves by £0.178 million due to incorrect recording of upward movement in property, plant and equipment in the revaluation reserve instead of a reversal of impairment loss previously charged to surplus/deficit on provision of services.</p> |

Executive Summary

Areas of audit focus (continued)

| Fraud Risk | Findings & Conclusions |
|-----------------------------|--|
| Pension liability valuation | Our work on pension liability valuation is well-progressed, pending receipt of the final report from the Pension Fund auditors which we need in order to obtain assurance on the balance of pension fund assets and the resulting net liability in the Council's accounts. We have no issues to report at this stage of the audit. |
| Going concern | Our work on going concern is ongoing. We have no issues to report regarding this area at this stage of the audit. |

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

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

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



Executive Summary

Control observations

Although our audit was not designed to express an opinion on the effectiveness of internal control we are required to communicate to you internal controls that require certain improvements and have three matters to report to you. Please refer to Section 07 for our detailed findings and recommendations.

Independence

Please refer to Section 08 for our update on Independence.



02

Areas of Audit Focus



Areas of Audit Focus

Significant risk

Misstatements due to fraud or error

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?

- ▶ The journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements;
- ▶ Accounting estimates such as the pensions liability property asset valuations; and
- ▶ Significant unusual transactions.

What did we do?

- Identified fraud risks during the planning stages.
- Inquired of management about risks of fraud and 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;
 - ▶ reviewing accounting estimates for evidence of management bias; and
 - ▶ evaluating the business rationale for significant unusual transactions;

What are our conclusions?

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

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

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



Areas of Audit Focus

Significant risk

Incorrect capitalisation of revenue expenditure

What is the risk?

Under ISA 240 there is a presumed risk that revenue may be misstated due to improper revenue recognition. In the public sector, this requirement is modified by Practice Note 10 issued by the Financial Reporting Council, which states that auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure recognition.

We have identified an opportunity and incentive to incorrectly capitalise revenue expenditure to remove it from the general fund. In arriving at this conclusion we have considered the continuing pressure on the revenue budget and the financial value of the Council's annual capital programme, which is significantly higher than our materiality level. This could then result in funding of that expenditure, that should properly be defined as revenue, through inappropriate sources such as capital receipts, capital grants or borrowing.

What judgements are we focused on?

Whether management had inappropriately capitalised revenue spend

What are our conclusions?

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

What did we do?

- Obtained a general ledger breakdown of capital additions in the year, reconciled this to the Fixed Assets Register and reviewed the general ledger descriptions to identify whether there were any potential transactional items that could be revenue in nature;
- Sample tested additions to property, plant and equipment at a lower testing threshold to ensure they have been correctly classified as capital and included at the correct value in order to identify any revenue items that have been inappropriately capitalised. We reviewed the sample selected against the definition of capital expenditure in IAS 16; and
- As part of our journals testing strategy, we reviewed unusual journals transferring expenditure from revenue to capital codes on the general ledger at the end of the year.



Areas of Audit Focus

Significant risk

Valuation of investment properties

What is the risk?

Investment properties represent a significant balance in the Council's accounts and are subject to valuation changes, market volatility and impairment reviews.

Material judgmental inputs and estimation techniques are required to calculate the year-end investment property valuations held in the balance sheet.

Considering that the level of estimation uncertainty and complexity is higher for assets valued using market information, we retained the significant risk on this account for 2021/22. As of 31 March 2022, investment properties are valued at £26.379 million.

What judgements are we focused on?

As this is a material accounting estimate and dependent on a high degree of subjectivity, we associated a significant risk to the valuation of investment properties in the 2021/22 audit.

What did we do?

- Considered the work performed by the Council's external and internal valuers, including the adequacy of the scope of the work performed, their professional capabilities and the results of their work;
- Selected a sample of investment property assets and tested the inputs, assumptions and methodologies employed by the Council's valuers and consider the reasonableness of the estimation techniques employed. We used our own valuation experts to review the methodology and assumptions used by the valuer for one asset;
- Assessed the accuracy of the classification of assets and the valuation basis assigned;
- Identified and corroborated any material increases or impairments during the year;
- Reviewed the annual cycle of valuations to ensure that assets have been valued annually;
- Considered if there are any specific changes to assets that have occurred and confirmed that these have been communicated to the valuer;
- Tested accounting entries, ensuring these have been correctly processed in the financial statements; and
- Reviewed appropriateness of the relevant accounting policies and disclosures.

What are our conclusions?

We have completed our audit work on investment properties valuation, pending Manager and Partner review.

We have not identified material differences in the investment property valuations work.

Audit risks

Other areas of audit focus

What is the risk/area of focus?

Valuation of property, plant and equipment (other land and buildings and surplus assets) and assets held for sale

The fair value of property, plant and equipment and assets held for sale represent significant balances in the Council's accounts and are subject to valuation changes, impairment reviews and depreciation charges. Management is required to make material judgemental inputs and apply estimation techniques to calculate the year-end balances recorded in the balance sheet.

As of 31 March 2022, the Council held the following capital asset values valued at fair value (excluding investment properties):

- Other land & buildings - £83.883 million
- Surplus assets - £7.155 million
- Assets held for sale - £3.227 million

The majority of this balance (£72.815 million from £94.265 million or 77%) was valued on the basis of depreciated replacement cost.

What did we do?

To address this risk, we:

- Considered the work performed by the valuer, including the adequacy of the scope of the work performed, their professional capabilities and the results of their work;
- Analysed the Council's asset base, disaggregating it based on the nature of the asset and valuation method used.
- Selected a sample of assets for detailed testing, ensuring that all significant asset groups are represented in our sample. For the sample selected we tested key assumptions and methodologies and consider the reasonableness of the estimation techniques employed and key asset information used by the valuer;
- For non-specialist assets such as offices, which are typically valued on an existing use value (EUV) basis, we challenged the Council on key inputs such as yield rates, income, lease periods and reversion rent;
- We sent one asset valued using EUV to our valuation expert (EY Real Estate) for review.
- Considered the annual cycle of valuations to ensure that assets have been valued within a 5 year rolling programme as required by the Code for PPE.
- Considered if there are any specific changes to assets that have occurred and whether these have been communicated to the valuer;
- Reviewed assets not subject to valuation in 2021/22 to confirm that the remaining asset base is not materially misstated;
- Considered changes to useful economic lives as a result of the most recent valuation;
- Tested accounting entries have been correctly processed in the financial statements; and
- Reviewed the disclosures to ensure they are adequate in relation to estimation uncertainty.

Audit risks

Other areas of audit focus

What are our findings/conclusions

We have completed our audit work on property, plant and equipment (other land and buildings and surplus assets) and assets held for sale valuation, subject to final Partner review.

We have identified a number of issues from our work as noted below.

We noted an overstatement of property, plant and equipment by £5.6 million due to duplicate recording of Hitchin Town Centre (with another asset code recorded in the fixed assets register as "Museum Services Development"). This also impacts 2020/21 comparative figures and opening balances for 2020/21.

Additionally, there was an understatement of operating expenditure and the revaluation reserve of £1.1 million due to an error in recording the downward movement in value of assets held for sale in revaluation reserve instead of operating expenditure.

Finally, we noted an overstatement of revaluation reserves by £0.178 million due to incorrect recording of upward movement in property, plant and equipment in revaluation reserves instead of a reversal of impairment loss previously charged to surplus/deficit on provision of services.

Audit risks

Other areas of audit focus (continued)

What is the risk/area of focus?

Pension liability valuation

The Local Authority Accounting Code of Practice and IAS19 require the Council to make extensive disclosures within its financial statements regarding its membership of the Local Government Pension Scheme administered by North Hertfordshire Council.

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. At 31 March 2022 this totalled £30.210 million.

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

Accounting for this scheme involves significant estimation and judgement and therefore management engages an actuary to undertake the calculations on their behalf.

ISAs (UK) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.

What did we do?

To address this risk, we :

- 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 (Hymans Robertson) including the assumptions they have used by relying on the work of PWC - Consulting Actuaries commissioned by the National Audit Office for all Local Government sector auditors, and considered reviews of this by the EY actuarial team;
- Engaged our internal EY pensions team to calculate an estimate of the Council's pension liability by running their own 'actuarial model' and compared this to that produced by the Council's actuary; and
- Reviewed and tested the accounting entries and disclosures made within the Council's financial statements in relation to IAS19.

What are our findings/conclusions

Our work on pension liability valuation is well-progressed, pending receipt of the report from the Pension Fund auditors to obtain assurance on the balance of pension fund assets and the associated net liability.

We have no issues to report at this stage of the audit.

Other areas of audit focus (continued)

What is the risk/area of focus?

Going concern disclosure

There is a presumption that the Council will continue as a going concern for the foreseeable future. However, the Council is required to carry out a going concern assessment that is proportionate to the risks it faces. The unpredictability of the current economic environment and the volatility of the market due to the ongoing impact of Covid as well as the Ukraine-Russia conflict are issues we would expect this assessment to consider, particularly in terms of the impact on the Council's day to day finances, its annual budget, cashflow and medium term financial strategy,

The Council is required to ensure that its going concern disclosure within the statement of accounts adequately reflects its going concern assessment and in particular highlights any uncertainties it has identified.

The disclosure should be based on the Council's actual year end financial position for the current year as well as projections for the going concern period of 12 months from the auditor's report date.

What did we do?

We met the requirements of the revised auditing standard on going concern (ISA 570) and consider the adequacy of the Council's going concern assessment and its disclosure in the accounts by:

- Challenging management's identification of events or conditions impacting going concern.
- Testing management's resulting assessment of going concern by evaluating supporting evidence (including consideration of the risk of management bias).
- Reviewing the Council's cashflow forecast covering the foreseeable future, to ensure that it has sufficient liquidity to continue to operate as a going concern.
- Undertaking a 'stand back' review to consider all of the evidence obtained, whether corroborative or contradictory, to form our conclusions on going concern.
- Challenging the disclosure made in the accounts in respect of going concern.

Results of our work:

Our work in this area is still in progress. We have no issues to report at this stage regarding the Council's ability to continue as going concern.



03 Audit Report



Audit Report

Draft audit report

Our draft opinion on the financial statements

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

Opinion

We have audited the financial statements of North Hertfordshire District Council for the year ended 31 March 2022 under the Local Audit and Accountability Act 2014 (as amended). The financial statements comprise the:

- Comprehensive Income and Expenditure Statement,
- Movement in Reserves Statement,
- Balance Sheet,
- Cash Flow Statement,
- the related notes 1 to 42 and the Expenditure and Funding Analysis on page 37, and
- Collection Fund and the related notes 1 to 4

The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2021/22 as amended by the Update to the Code and Specifications for Future Codes for Infrastructure Assets (November 2022).

In our opinion the financial statements:

- give a true and fair view of the financial position of North Hertfordshire District Council as at 31 March 2022 and of its expenditure and income for the year then ended; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2021/22 as amended by the Update to the Code and Specifications for Future Codes for Infrastructure Assets (November 2022).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Council in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard and the Comptroller and Auditor General's AGN01, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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

Conclusions relating to going concern

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

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

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

Other information

The other information comprises the information included in the Statement of Accounts 2021/2022, other than the financial statements and our auditor's report thereon. The Service Director - Resources is responsible for the other information contained within the Statement of Accounts 2021/2022.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements, or our knowledge obtained in the course of the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.



Audit Report

Draft audit report

Our draft opinion on the financial statements

Matters on which we report by exception

We report to you if:

- in our opinion the annual governance statement is misleading or inconsistent with other information forthcoming from the audit or our knowledge of the Council
- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014 (as amended)
- we make written recommendations to the audited body under Section 24 of the Local Audit and Accountability Act 2014 (as amended)
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014 (as amended)
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014 (as amended)
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014 (as amended)
- we are not satisfied that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2022.

We have nothing to report in these respects

Responsibility of the Service Director - Resources

As explained more fully in the Statement of the Service Director - Resources' Responsibilities set out on page 1, the Service Director - Resources is responsible for the preparation of the Statement of Accounts, which includes the financial statements in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2021/22 as amended by the Update to the Code and Specifications for Future Codes for Infrastructure Assets (November 2022), and for being satisfied that they give a true and fair view and for such internal control as the Service Director - Resources determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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



Audit Report

Draft audit report

Our draft opinion on the financial statements

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

- Local Government Act 1972,
- Local Government Finance Act 1988 (as amended by the Local Government Finance Act 1992)
- Local Government Act 2003,
- The Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 as amended in 2018, 2020, and 2022,
- The Local Government Finance Act 2012,
- The Local Audit and Accountability Act 2014 (as amended), and
- The Accounts and Audit Regulations 2015.

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

We understood how North Hertfordshire District Council is complying with those frameworks by understanding the incentive, opportunities and motives for non-compliance, including inquiring of management, the head of internal audit, those charged with governance, and the monitoring officer and obtaining and reading documentation relating to the procedures in place to identify, evaluate and comply with laws and regulations, and whether they are aware of instances of non-compliance. We corroborated this through our reading of the Council's committee minutes, through enquiry of employees to confirm Council policies, and through the inspection of other information. Based on this understanding we designed our audit procedures to identify non-compliance with such laws and regulations. Our procedures had a focus on compliance with the accounting framework through obtaining sufficient audit evidence in line with the level of risk identified and with relevant legislation.

We assessed the susceptibility of the Council's financial statements to material misstatement, including how fraud might occur by understanding the potential incentives and pressures for management to manipulate the financial statements, and performed procedures to understand the areas in which this would most likely arise. Based on our risk assessment procedures, we identified inappropriate capitalisation of revenue expenditure and management override of controls to be our fraud risks.

To address our fraud risk of inappropriate capitalisation of revenue expenditure we tested the Council's capitalised expenditure to ensure the capitalisation criteria were properly met and the expenditure was genuine.

To address our fraud risk of management override of controls, we tested specific journal entries identified by applying risk criteria to the entire population of journals. For each journal selected, we tested specific transactions back to source documentation to confirm that the journals were authorised and accounted for appropriately.

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

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

We have undertaken our review in accordance with the Code of Audit Practice 2020, having regard to the guidance on the specified reporting criteria issued by the Comptroller and Auditor General in December 2021, as to whether the North Hertfordshire District Council had proper arrangements for financial sustainability, governance and improving economy, efficiency and effectiveness. The Comptroller and Auditor General determined these criteria as those necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the North Hertfordshire District Council put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2022.



Audit Report

Draft audit report

Our draft opinion on the financial statements

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

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

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

Certificate

We cannot formally conclude the audit and issue an audit certificate until we have completed the work necessary to issue our assurance statement in respect of the Council's Whole of Government Accounts consolidation pack. We are satisfied that this work does not have a material effect on the financial statements or our work on value for money arrangements. In addition, we cannot formally conclude the audit and issue an audit certificate until we have issued our Auditor's Annual Report for the year ended 31 March 2022. We have completed our work on the value for money arrangements and will report the outcome of our work in our commentary on those arrangements within the Auditor's Annual Report. Until we have completed these procedures, we are unable to certify that we have completed the audit of the accounts in accordance with the requirements of the Local Audit and Accountability Act 2014 (as amended) and the Code of Audit Practice issued by the National Audit Office.

Use of our report

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

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



04 Audit Differences





Audit Differences

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

Summary of adjusted differences

We highlight the following misstatements greater than £1.054 million which have been corrected by management that were identified during the course of our audit

- ▶ Overstatement of property, plant and equipment by £5.6 million due to duplicate recording of Hitchin Town Centre (with another asset code recorded in the fixed assets register as “Museum Services Development”). This also impacts 2020/21 comparative figures and opening balances for 2020/21.
- ▶ Understatement of operating expenditure and the revaluation reserve by £1.1 million due to an error in recording the downward movement in value of Assets Held for Sale in revaluation reserve instead of operating expenditure.
- ▶ £2.6 million unspent balance of Covid-19 Additional Relief Fund was incorrectly recorded as short term creditors instead of grants received in advance
- ▶ We also noted that in preparing the cash flow statement, management includes the purchase and sale of short term liquid investments (presented as cash equivalents) as part of investing activities, which is not in line with the CIPFA Code. This resulted in an overstatement in the figures for purchase of short-term and long-term investments by £698.4 million and proceeds from short-term and long-term investments by £710.4 million for 2021/22. The error in the comparative figures for 2020/21 is an overstatement for purchase of short-term and long-term investments by £545.5 million and proceeds from short-term and long-term investments by £542.3 million.

We have identified a small number of disclosure differences in notes to the financial statements. These includes changes which flows from the audit adjustments affecting the primary statements above, as well as casting, referencing, classification, which management have agreed to amend in the final set of accounts.

There are no other unadjusted differences identified above £0.07 million that are individually or in aggregate material to the presentation and disclosures of the consolidated financial statements for the year ended 31 March 2022.



05

Value for Money



Value for money

The Council's responsibilities for value for money (VFM)

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

As part of the material published with its financial statements, the **Council** is required to bring together commentary on its governance framework and how this has operated during the period in a governance statement. In preparing its governance statement, the **Council** tailors the content to reflect its own individual circumstances, consistent with the requirements set out in the CIPFA code of practice on local authority accounting. This includes a requirement to provide commentary on its arrangements for securing value for money from their use of resources.

Risk assessment and the status of our work

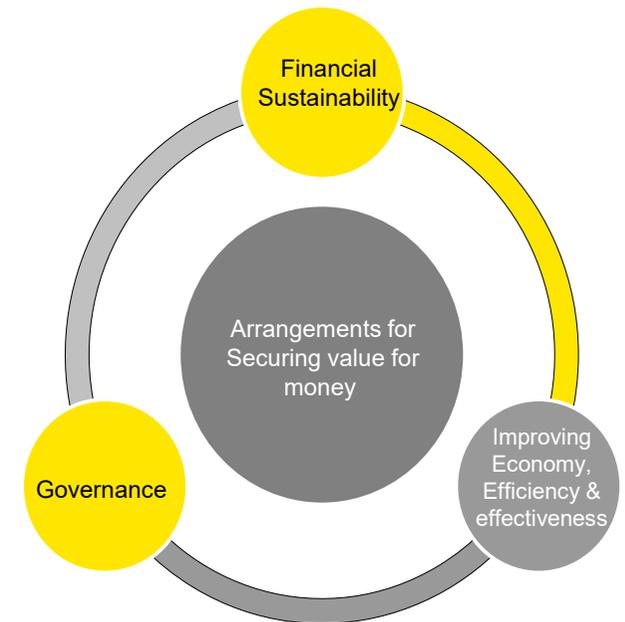
We reported in our Audit Plan that we had yet to complete our detailed VFM planning, but that one area of focus will be on the arrangements that the Council has in place in relation to financial sustainability.

We have not yet completed our risk assessment but have not identified any significant risks during the course of our audit work. We will update the Committee if we identify any risks of significant weaknesses in arrangements once we have completed this work.

Reporting on VFM

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

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





06 Other reporting issues

Other reporting issues

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

We must give an opinion on the consistency of the financial and non-financial information in the North Hertfordshire Statement of Accounts 2021/22 with the audited financial statements

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

Financial information in the North Hertfordshire Statement of Accounts 2021/22 and published with the financial statements was consistent with the audited financial statements.

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

Whole of Government Accounts

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

We plan to complete the procedures required by the National Audit Office (NAO) on the Whole of Government Accounts after issuing our audit opinion and therefore will certify the completion of the audit at that point.

We cannot issue our audit certificate until these procedures are complete.

Other reporting issues

Other reporting issues

Other powers and duties

We have a duty under the Local Audit and Accountability Act 2014 to consider whether to report on any matter that comes to our attention in the course of the audit, either for the Authority to consider it or to bring it to the attention of the public (i.e. “a report in the public interest”). We did not identify any issues which required us to issue a report in the public interest.

We also have a duty to make written recommendations to the Authority, copied to the Secretary of State, and take action in accordance with our responsibilities under the Local Audit and Accountability Act 2014.

We did not identify any issues that require use of these powers.

Other matters

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

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

We have no other matters to report.



07

Assessment of Control Environment



Assessment of Control Environment

Financial controls

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

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

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

We have not identified any significant deficiencies in the design or operation of an internal control that might result in a material misstatement in your financial statements of which you are not aware we do however raise the following recommendation:

Cash flow statements

We noted that in preparing the cash flow statement, management includes the purchase and sale of short term liquid investments (presented as cash equivalents) as part of investing activities, which is not in line with the CIPFA Code. This resulted in an overstatement in the figures for purchase of short-term and long-term investments by £698.4 million and proceeds from short-term and long-term investments by £710.4 million for 2021/22. The error in the comparative figures for 2020/21 is an overstatement for purchase of short-term and long-term investments by £545.5 million and proceeds from short-term and long-term investments by £542.3 million.

As per the Code, cash equivalents investments should not be included within this note and have therefore been incorrectly included within the note. As per the Code, cash equivalents investments should not be included within this note and have therefore been incorrectly included within the note. We recommend that the Council pays particular attention to the presentation of transactions in the Cash Flow Statements to ensure that compliance with the requirements of the CIPFA Code.

Fixed asset register

The Council identified a duplicate asset (Hitchin Town Hall) in the fixed assets register in response to an audit query we raised as part of the audit of property, plant and equipment. This resulted in an overstatement by £5.6 million as of 31 March 2022. This also impacts 2020/21 comparative figures.

We recommend that the council conduct a full review of the assets within the register to confirm existence of all assets.



08

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 2021 to the date of this report, which we consider may reasonably be thought to bear on our independence and objectivity.

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 Transparency Report 2021 | 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 Housing, Communities and Local Government.

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

| | Planned fee 2021/22 | Final Fee 2020/21 |
|--|------------------------|----------------------|
| | £ | £ |
| Scale fee - Code work | 40,068 | 40,068 |
| Additional fees (Note 1) | | |
| Covid 19 | 0 | 8,750 |
| Increased FRC challenge | 4,000 to 5,000 | 3,500 |
| ISA 540 | 3,500 to 5,000 | 3,490 |
| Pension valuation | 4,000 to 5,000 | 2,625 |
| PPE valuation | 4,000 to 5,000 | 2,875 |
| VFM commentary | 6,000 to 11,000 | 6,000 |
| Work of an internal expert | TBC | 5,500 |
| Other | TBC | 2,455 |
| Total audit fee | TBC | 75,263 |
| Other non-audit services not covered above (Housing Benefits) | 6,000 to 11,000 | 20,840 |
| Total other non-audit services | TBC | 20,840 |
| Total fees | TBC | 96,103 |

The scale fee presented is based on the following assumptions:

- Officers meeting the agreed timetable of deliverables;
- Our accounts opinion being unqualified;
- Appropriate quality of documentation is provided by the Council; and
- The Council has an effective control environment.

If any of the above assumptions prove to be unfounded, we will seek a variation to the agreed fee. This will be discussed with the Council in advance.

Fees for the auditor's consideration of correspondence from the public and formal objections will be charged in addition to the scale fee.

Note 1:

We proposed an additional fee of £42,325 in relation to the 2020/21 audit. This relates to uplifts to the base scale fee due to increased regulatory requirements, as well as additional work in respect of risks identified and outlined in the 2020/21 Audit Plan and Audit Results Report, new NAO Code of Audit Practice and ISA requirements including VFM and accounting estimates. PSAA have now determined our submission and have approved an additional fee of £35,195. The breakdown of this is detailed in the table.

For 2021/22, the scale fee will again be impacted by the increased regulatory requirements as well as a range of other factors which will result in additional work, including some of those that were present in the prior year. We have included our current estimate of the likely fee range for these areas in the table, where it is possible to estimate at this stage. We will confirm our final proposed fee once the audit is complete. This will again be subject to determination by PSAA



09

Appendices

Appendix B

Required communications with the Audit Committee

We have detailed the communications that we must provide to the Finance, Audit and Risk Committee.

Our Reporting to you

| Required communications |  What is reported? |   When and where |
|-------------------------------------|---|--|
| Terms of engagement | Confirmation by the Finance, Audit and Risk Committee of acceptance of terms of engagement as written in the engagement letter signed by both parties. | The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies. |
| Our responsibilities | Reminder of our responsibilities as set out in the engagement letter | The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies. |
| Planning and audit approach | <p>Communication of the planned scope and timing of the audit, any limitations and the significant risks identified.</p> <p>When communicating key audit matters this includes the most significant risks of material misstatement (whether or not due to fraud) including those that have the greatest effect on the overall audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team</p> | Audit Plan - December 2022 |
| Significant findings from the audit | <ul style="list-style-type: none"> ▶ Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures ▶ Significant difficulties, if any, encountered during the audit ▶ Significant matters, if any, arising from the audit that were discussed with management ▶ Written representations that we are seeking ▶ Expected modifications to the audit report ▶ Other matters if any, significant to the oversight of the financial reporting process | <p>Audit results report - March 2023</p> <p>Auditor's Annual Report - March 2023</p> |

Appendix B

Required communications with the Audit Committee (continued)

| | |  Our Reporting to you |
|--------------------------------|---|---|
| Required communications |  What is reported? |  When and where |
| Going concern | <p>Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including:</p> <ul style="list-style-type: none"> ▶ Whether the events or conditions constitute a material uncertainty ▶ Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements ▶ The adequacy of related disclosures in the financial statements | Audit results report - March 2023 |
| Misstatements | <ul style="list-style-type: none"> ▶ Uncorrected misstatements and their effect on our audit opinion, unless prohibited by law or regulation ▶ The effect of uncorrected misstatements related to prior periods ▶ A request that any uncorrected misstatement be corrected ▶ Material misstatements corrected by management | Audit results report - March 2023 |
| Subsequent events | <ul style="list-style-type: none"> ▶ Enquiries of the audit committee where appropriate regarding whether any subsequent events have occurred that might affect the financial statements | Audit results report - March 2023 |
| Fraud | <ul style="list-style-type: none"> ▶ Enquiries of the Finance, Audit and Risk Committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity ▶ Any fraud that we have identified or information we have obtained that indicates that a fraud may exist ▶ Unless all of those charged with governance are involved in managing the entity, any identified or suspected fraud involving: <ol style="list-style-type: none"> a. Management; b. Employees who have significant roles in internal control; or c. Others where the fraud results in a material misstatement in the financial statements ▶ The nature, timing and extent of audit procedures necessary to complete the audit when fraud involving management is suspected ▶ Any other matters related to fraud, relevant to Finance, Audit and Risk Committee responsibility | Audit results report - March 2023 |

Appendix B

Required communications with the Audit Committee (continued)

| | |  Our Reporting to you |
|---------------------------------------|--|--|
| Required communications |  What is reported? |   When and where |
| Related parties | <ul style="list-style-type: none"> ▶ Significant matters arising during the audit in connection with the entity's related parties including, when applicable: ▶ Non-disclosure by management ▶ Inappropriate authorisation and approval of transactions ▶ Disagreement over disclosures ▶ Non-compliance with laws and regulations ▶ Difficulty in identifying the party that ultimately controls the entity | Audit results report - March 2023 |
| Independence | <p>Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, objectivity and independence</p> <p>Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as:</p> <ul style="list-style-type: none"> ▶ The principal threats ▶ Safeguards adopted and their effectiveness ▶ An overall assessment of threats and safeguards ▶ Information about the general policies and process within the firm to maintain objectivity and independence <p>Communication whenever significant judgements are made about threats to objectivity and independence and the appropriateness of safeguards put in place.</p> | <p>Audit Plan - December 2022</p> <p>Audit results report - March 2023</p> |
| External confirmations | <ul style="list-style-type: none"> ▶ Management's refusal for us to request confirmations ▶ Inability to obtain relevant and reliable audit evidence from other procedures | Audit results report - March 2023 |
| Consideration of laws and regulations | <ul style="list-style-type: none"> ▶ Subject to compliance with applicable regulations, matters involving identified or suspected non-compliance with laws and regulations, other than those which are clearly inconsequential and the implications thereof. Instances of suspected non-compliance may also include those that are brought to our attention that are expected to occur imminently or for which there is reason to believe that they may occur ▶ Enquiry of the Finance, Audit and Risk Committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the Finance, Audit and Risk Committee may be aware of | Audit results report - March 2023 |

Appendix B

Required communications with the Audit Committee (continued)

| | |  Our Reporting to you |
|--|---|--|
| Required communications |  What is reported? |   When and where |
| Internal controls | <ul style="list-style-type: none"> ▶ Significant deficiencies in internal controls identified during the audit | Audit results report - March 2023 |
| Representations | Written representations we are requesting from management and/or those charged with governance | Audit results report - March 2023 |
| Material inconsistencies and misstatements | Material inconsistencies or misstatements of fact identified in other information which management has refused to revise | Audit results report - March 2023 |
| Auditors report | <ul style="list-style-type: none"> ▶ Any circumstances identified that affect the form and content of our auditor's report | Audit results report - March 2023 Auditor's Annual Report - March 2023 |
| Fee Reporting | <ul style="list-style-type: none"> ▶ Breakdown of fee information when the audit plan is agreed ▶ Breakdown of fee information at the completion of the audit ▶ Any non-audit work | Audit Plan - December 2022 Audit results report - March 2023 |
| Value for Money | <ul style="list-style-type: none"> ▶ Risks of significant weakness identified in planning work ▶ Commentary against specified reporting criteria on the VFM arrangements, including any exception report on significant weaknesses. | Audit Plan - December 2022 Audit results report - March 2023 Auditor's Annual Report - March 2023 |

Appendix D

Outstanding matters

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

| Item  | Actions to resolve  | Responsibility  |
|--|---|--|
| Pension liability | To receive the pension fund auditor response | EY |
| Going concern review and disclosures | EY central review process and finalisation of disclosures and opinion wording | EY and management |
| Management representation letter | Receipt of signed management representation letter | Management and audit committee |
| Subsequent events review | Completion of subsequent events procedures to the date of signing the audit report | EY and management |
| Final Review Procedures | Final review of areas listed above | EY |
| Other miscellaneous audit enquiries | Management to provide responses on the queries raised. Also pending are manager and partner review of other areas | Management (to provide) EY (to review) |

Until all our audit procedures are complete, we cannot confirm the final form of our audit opinion as new issues may emerge or we may not agree on final detailed disclosures in the Annual Report. At this point no issues have emerged that would cause us to modify our opinion, but we should point out that key disclosures on going concern remain to be finalised and audited. A draft of the current opinion (with outstanding areas highlighted) is included in Section 3.

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 2022. 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 the 31 March 2022 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 2021/22.

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 2021/22.
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 2021/22, and are free of material misstatements, including omissions. We have approved the financial statements.

DRAFT Management representation letter

Management Representation Letter - DRAFT

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 2021/22, 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.
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 [specify reasons for not correcting misstatement].

OR

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

OR

We do not agree that items [specify items in question] constitute differences because [specify reasons for disagreement].

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.

DRAFT Management representation letter

Management Representation Letter - DRAFT

1. 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’s financial statements;
 - related to laws and regulations that have an indirect effect on amounts and disclosures in the financial statements, but compliance with which may be fundamental to the operations of the Council’s activities, its ability to continue to operate, or to avoid material penalties;
 - involving management, or employees who have significant roles in internal controls, or others; or
 - in relation to any allegations of fraud, suspected fraud or other non-compliance with laws and regulations communicated by employees, former employees, analysts, regulators or others.

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, Cabinet and Finance, Audit and Risk Committee meetings (or summaries of actions of recent meetings for which minutes have not yet been prepared) held through the year to the most recent meeting on the following date: [list date].
4. We confirm the completeness of information provided regarding the identification of related parties. We have disclosed to you the identity of the Council’s related parties and all related party relationships and transactions of which we are aware, including sales, purchases, loans, transfers of assets, liabilities and services, leasing arrangements, guarantees, non-monetary transactions and transactions for no consideration for the period ended, as well as related balances due to or from such parties at the yearend. 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.

DRAFT Management representation letter

Management Representation Letter - DRAFT

7. From the date of our last management representation letter (30 June 2022) 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 41 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.

G. Other information

1. We acknowledge our responsibility for the preparation of the other information. The other information comprises Audited Statement of Accounts 2021/2022, 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.

DRAFT Management representation letter

Management Representation Letter - DRAFT

Comparative information - corresponding financial information

1. The balances for 2020/21 in the statement of accounts have been restated to reflect the following prior period errors:

Property, plant and equipment

1. The balance of property, plant and equipment as of 31 March 2021 was decreased by £5.6 million due to duplicate recording of Hitchin Town Centre.

Cash Flow Statement

1. The figures in the cash flow statement and related notes for 2020/21 for purchase of short-term and long-term investments were overstated by £545.5 million and proceeds from short-term and long-term investments by £542.4 million due to the inclusion of purchase and sale of short term liquid investments (presented as cash equivalents) as part of investing activities, which is not in line with the CIPFA Code.
2. The comparative amounts have been correctly restated to reflect the above matter(s) and appropriate note disclosure of these restatements has also been included in the current year's financial statements.

Ownership of Assets

1. Except for assets capitalised under finance leases, the Council has satisfactory title to all assets appearing in the balance sheet(s), and there are no liens or encumbrances on the Council's assets, nor has any asset been pledged as collateral. All assets to which the Council has satisfactory title appear in the balance sheet.
2. All agreements and options to buy back assets previously sold have been properly recorded and adequately disclosed in the financial statements.

Reserves

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

Use of the Work of a Specialist

1. We agree with the findings of the specialists that we engaged to evaluate the valuation of property, plant and equipment, assets held for sale 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.

DRAFT Management representation letter

Management Representation Letter - DRAFT

Estimates - property, plant & equipment, investment properties, the defined benefit pension scheme liability and NNDR appeals provision

1. We confirm that the significant judgments made in making the 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 2022 of which we are aware.
2. We believe that the selection or application of the methods, assumptions and data used by us have been consistently and appropriately applied or used in making the valuation of property, 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 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.
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 2022, are complete and are reasonable in the context of the applicable financial reporting framework.
5. We confirm that appropriate specialized skills or expertise has been applied in making the valuation of property, 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.

Retirement benefits

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

Yours faithfully,

(Service Director - Resources)

(Chairman of the Finance, Audit and Risk Committee)

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