Year End Report to the Finance, Audit and Risk Committee

North Hertfordshire District Council

Year end report for the year ended 31 March 2024

22 January 2025

Introduction

To the Finance, Audit and Risk Committee of North Hertfordshire District Council

We are pleased to have the opportunity to meet with you on 5 February 2025 to discuss the results of our audit of North Hertfordshire District Council as at and for the year ended 31 March 2024.

We are providing this report in advance of our meeting to enable you to consider our findings and hence enhance the quality of our discussions. This report should be read in conjunction with our audit plan, presented on 19 June 2024. We will be pleased to elaborate on the matters covered in this report when we meet.

The engagement team

We expect to be in a position to sign our audit opinion on the approval of the financial statements and auditor's representation letter by the 28 February 2025, provided that the outstanding matters noted on page 6 of this report are satisfactorily resolved.

We will be issuing a disclaimer audit opinion for the reasons outlined on page 4.

We draw your attention to the important notice on page 3 of this report, which explains:

- The purpose of this report
- Limitations on work performed
- Status of our audit and the implications of the statutory backstop.

Yours sincerely,

Jessica Hargreaves

Director

KPMG LLP

22 January 2025

How we deliver audit quality

Audit quality is at the core of everything we do at KPMG and we believe that it is not just about reaching the right opinion, but how we reach that opinion.

We consider risks to the quality of our audit in our engagement risk assessment and planning discussions.

We define 'audit quality' as being the outcome when audits are:

- Executed consistently, in line with the requirements and intent of applicable professional standards within a strong system of quality management and
- All of our related activities are undertaken in an environment of the utmost level of objectivity, independence, ethics and integrity.

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KPMG required communications for all entities

Important notice

This report is presented under the terms of our audit under Public Sector Audit Appointments (PSAA) contract.

The content of this report is based solely on the procedures necessary for our audit.

Purpose of this report

This Report has been prepared in connection with our audit of the financial statements of North Hertfordshire District Council prepared in accordance with International Financial Reporting Standards ('IFRSs') as adapted by the Code of Practice on Local Council Accounting in the United Kingdom 2023/24, as at and for the year ended 31 March 2024.

This Report has been prepared for the Council's Finance, Audit and Risk Committee, a sub-group of those charged with governance, in order to communicate matters that are significant to the responsibility of those charged with oversight of the financial reporting process as required by ISAs (UK), and other matters coming to our attention during our audit work that we consider might be of interest, and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone (beyond that which we may have as auditors) for this Report, or for the opinions we have formed in respect of this Report.

This report summarises the key issues identified during our audit.

Limitations on work performed

This Report is separate from our audit report and does not provide an additional opinion on the Council's financial statements, nor does it add to or extend or alter our duties and responsibilities as auditors.

We have not designed or performed procedures outside those required of us as auditors for the purpose of identifying or communicating any of the matters covered by this Report.

The matters reported are based on the knowledge gained as a result of being your auditors. We have not verified the accuracy or completeness of any such information other than in connection with and to the extent required for the purposes of our audit.

Status of our audit and implications of the statutory backstop

Page 4 'Our audit and the implications of the statutory backstop' explains the impact of the statutory backstop and our resulting conclusion to issue a disclaimer opinion on the financial statements.

Our audit is not yet complete and matters communicated in this Report may change pending signature of our audit report. We will provide an oral update on the status. Page 6 'Our Audit Findings' outlines the outstanding matters in relation to the audit. Our conclusions will be discussed with you before our audit report is signed.

This report is addressed to North Hertfordshire District Council. We take no responsibility to any member of staff acting in their individual capacities, or to third parties.

External auditors do not act as a substitute for the audited body's own responsibility for putting in place proper arrangements to ensure that public business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.

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Our audit and the implications of the statutory backstop

Measures to resolve the backlog

The Government has introduced measures to resolve the local government financial reporting and audit backlog. Amendments have been made to the Accounts and Audit Regulations and NAO's Code of Audit Practice which have allowed auditors to give disclaimed opinions over any open, incomplete audits up to the period ending 31 March 2023. These were required to be delivered by 13th December 2024. For North Hertfordshire District Council this has resulted in a disclaimed audit opinion for the financial year 2022/23.

Those same amendments to the Accounts and Audit Regulations require the Council to publish its audited 2023/24 financial statements and accompanying information on or before 28 February 2025. In accordance with the Code, as auditors we are required to provide our audit report on those financial statements in sufficient time to enable the Council to publish its audited financial statements by this date, irrespective of if the audit is complete or not.

The Appendix 'Local Audit - Reset and Recovery' provides more detailed information regarding this. The appendix also provides more detail on the implication of this in future audits, in respect of rebuilding assurance.

Impact on our audit of the financial statements

The impact of the above means that for the financial year 2023/24 we have not been able to obtain sufficient appropriate audit evidence in respect of the 2023/24 opening balances and the comparatives balances relating to 2022/23. The work we have performed in 2023/24 is explained on the next page.

As explained in the previously referenced appendix, the level of rebuilding assurance has been limited in 2023/24 as we have determined that there is insufficient time to complete our audit to obtain sufficient appropriate audit evidence, and, in our view, this is pervasive to the financial statements as a whole.

As a result of the above and irrespective of the level of work completed on 2023/24 balances, we intend to issue a disclaimer opinion on the financial statements.

Other matters

As required by the ISAs (UK) when we are disclaiming our audit opinion, our audit report will not report on other matters that we would usually report on, most notably the use of the going concern assumption in the preparation of the financial statements; the extent to which our audit was considered capable of detecting irregularities, including fraud; and whether there are material misstatements in the other information presented within the Statement of Accounts.

Although we are disclaiming our audit opinion we have, in this report, reported matters that have come to our attention and, where appropriate, we intend to include in our audit report.

Value for Money

The amendments to the Accounts and Audit Regulations do not impact on our responsibilities in relation to the Council's Value for Money arrangements. We are responsible for forming a view on the arrangements that the Council has in place to secure economy, efficiency and effectiveness in its use of resources. Page 18 provides a summary of our findings. Further details are also available in our Auditor's Annual Report for 2023/24.

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Our audit and the implications of the statutory backstop

Work completed in 2023/24

Our audit plan, presented to you on 19 June 2024 set out our audit approach including our significant risks and other audit risks. We have updated our response to those significant risks, in the pages overleaf, identifying the work we have and have not been able to complete.

Although we are disclaiming our audit opinion, we have reported matters that have come to our attention during the audit and, where appropriate, we intend to include in our audit report.

Specifically in relation to 2023/24 we have completed our work on the following areas in addition to our planning and risk assessment work:

Significant risks

- Valuation of post retirement benefit obligations
- Assessment of the Design and Implementation of key controls of all significant risk areas

Other areas

- Recognition the net pension asset surplus
- Fees and charges income
- Interest and rental income
- Grants and contributions income
- Cash in bank testing
- Employee Expenditure
- Confirmation of the PPE classification for the Churchgate asset - We have undertaken consultation with our technical team related to the Churchgate Shopping Centre classification issue. We have assessed that the recognition of Churchgate as Property, plant and equipment is appropriate and is in line with the CIPFA code where an asset is not held purely for rental income and capital accumulation.
- Other service expenditure

We have been unable to complete our work on the following areas:

- Opening balances;
- Movements in usable and unusable reserves for the year ended 31 March 2024;
- Work associated with significant risks on: Valuation of land and buildings, Valuation of investment property, Management override of control
- Other work areas: Short-term deposits and investments, Debtors, Creditors, PPE additions and disposals, Collection Fund income and expenditure, Housing Benefits income and expenditure, Other long-term assets
- Disclosures testing

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Our audit findings

We have set out below the status of our work and key findings from the work we were able to perform before the backstop date. On page 4 we have discussed the reasons for the disclaimer audit opinion.

Significant audit risks	Pages 8 - 11
Significant audit risks	**Our findings**
Valuation of post retirement benefit obligation	We assessed as reasonable the assumptions underpinning the valuation.

Key accounting estimates	Page 14
Valuation of Pension Liabilities/Assets	We assessed as reasonable the assumptions underpinning the valuation.

Number of Control deficiencies	Pages 30-31
Significant control deficiencies	0
Other control deficiencies	4
Prior year control deficiencies remediated	0

Uncorrected Audit Misstatements		Page 29
Understatement/ (overstatement)	**£k**	**%**
Revenues	-	-
Surplus for the year	-	-
Total assets	(1,039)	0.05
Total taxpayers' equity	-	-
Disclosure Note	-	-

Other areas	
Churchgate classification	We have assessed that the recognition of Churchgate as PPE is appropriate.

Status of audit work

Our audit is not yet complete with below outstanding matters:

- Resolution of pensions work queries
- Review comments on Statement of Accounts
- Receipt of final Statement of Accounts
- Signed Management Representation Letter

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Significant risks and Other audit risks

We discussed the significant risks which had the greatest impact on our audit with you when we were planning our audit.

Our risk assessment draws upon our knowledge of the business, the industry and the wider economic environment in which North Hertfordshire District Council operates.

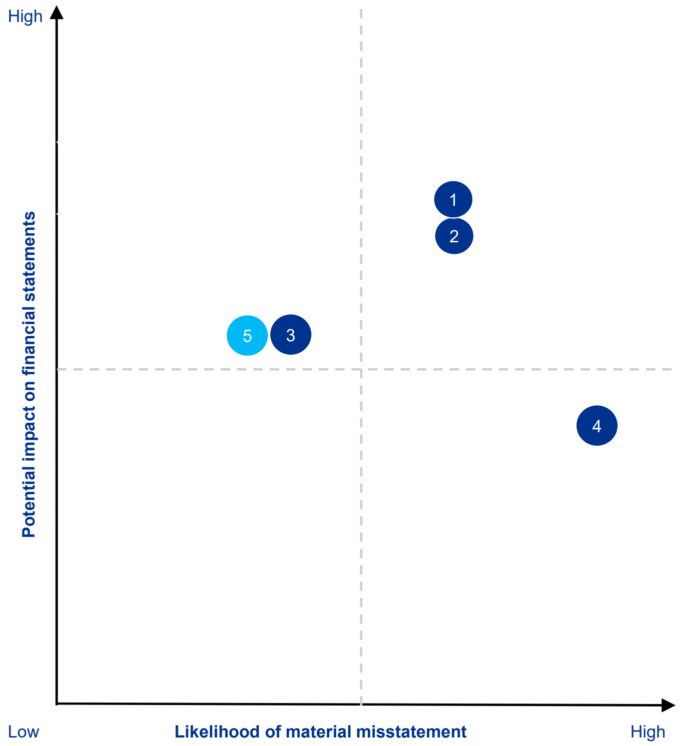
We also use our regular meetings with senior management to update our understanding and take input from local audit teams and internal audit reports.

In the pages overleaf we have reported the work we have completed on significant risks and other audit risks. Where work has not been completed in line with page 6 – we have not re-produced the slides that we presented in the audit plan.

Significant risks	
1.	Valuation of land and buildings
2.	Valuation of investment property
3.	Management override of controls
4.	Valuation of post retirement benefit obligations

Other audit risks	
5.	Recognition of surplus on the net pension asset

Key:
- # Significant financial statement audit risks
- Increasing or decreasing risk compared with planning
- # Key audit matter and significant financial statement audit risk
- # Other audit risk
- # Significant financial statement audit risks



ISA required communications for all entities

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Audit risks and our audit approach (cont.)

1 Valuation of post retirement benefit obligations

An inappropriate amount is estimated and recorded for the defined benefit obligation

Cautious | Neutral | Optimistic

Key: Prior year | Current year

Significant audit risk

- The valuation of the post retirement benefit obligations involves the selection of appropriate actuarial assumptions, most notably the discount rate applied to the scheme liabilities, inflation rates and mortality rates. The selection of these assumptions is inherently subjective and small changes in the assumptions and estimates used to value the Council's pension liability could have a significant effect on the financial position of the Councill.
- The effect of these matters is that, as part of our risk assessment, we determined that post retirement benefits obligation has a high degree of estimation uncertainty. The financial statements disclose the assumptions used by the Council in completing the year end valuation of the pension deficit and the year on year movements.
- We have identified this in relation to the following pension scheme memberships: Local Government Pension Scheme
- Also, recent changes to market conditions have meant that more councils are finding themselves moving into surplus in their Local Government Pension Scheme (or surpluses have grown and have become material). The requirements of the accounting standards on recognition of these surplus are complicated and requires actuarial involvement.

Our response

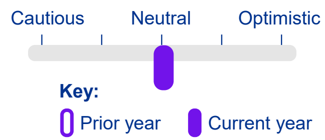
We have performed the following procedures designed to specifically address this significant risk.

- Understood the processes the Council have in place to set the assumptions used in the valuation;
- Evaluated the competency, objectivity of the actuaries to confirm their qualifications and the basis for their calculations;
- Performed inquiries of the accounting actuaries to assess the methodology and key assumptions made, including actual figures where estimates have been used by the actuaries, such as the rate of return on pension fund assets;
- Agreed the data provided by the audited entity to the Scheme Administrator for use within the calculation of the scheme valuation;
- Evaluated the design and implementation of controls in place for the Council to determine the appropriateness of the assumptions used by the actuaries in valuing the liability;
- Challenged, with the support of our own actuarial specialists, the key assumptions applied, being the discount rate, inflation rate and mortality/life expectancy against externally derived data;
- Confirmed that the accounting treatment and entries applied by the Group are in line with IFRS and the CIPFA Code of Practice;
- Considered the adequacy of the Council's disclosures in respect of the sensitivity of the deficit or surplus to these assumptions;
- Where applicable, assessed the level of surplus that should be recognised by the entity; and
- Assessed the impact of a new triennial valuation model and/or any special events, where applicable.

Audit risks and our audit approach (cont.)

1 Valuation of post retirement benefit obligations (cont.)

An inappropriate amount is estimated and recorded for the defined benefit obligation



Our findings

We have the following audit findings to report to you:

- We are mandated to consider the design of controls around approval of the pension assumptions because these relate to a significant audit risk. The control currently in place is a management review control ('MRC'). Such controls are now subject to enhanced scrutiny by auditors and must comply with a series of prescriptive criteria to be considered effective. From discussion with management, it has been determined that although the actuarial assumptions are assessed on a high level, the review is not performed on a detailed enough basis to reliably and consistently address the risk that the assumptions used in the valuation may not be appropriate. Additionally, management do not produce control documentation to evidence the performance of this review, therefore the MRC has been deemed ineffective. Whilst the control as designed does not meet the requirements of a management review control as outlined in the auditing standards, it is sufficient for purpose at NHDC and we have not raised a recommendation to address this finding.
- We evaluated the capability, competency and objectivity of the actuaries to confirm their qualifications and the basis for their work with no issues noted. Our inquiries with the LGPS Actuaries did not identify any unusual transactions.
- We considered the assumptions used in valuing the defined benefit obligation and found the assumptions to be balanced compared to our central actuarial benchmarks. See page 11 for details.
- Individually all assumptions are balanced except mortality future improvements, which is considered as cautious but within our reasonable range. This is driven by management's specialist considering 1.50% as an appropriate long-term trend rate as compared to our central rate of 1.25%.
- There is no change in methodology used when setting the actuarial assumptions except for the mortality assumptions, which are set in line with the most recent triennial funding valuation and allowance for future improvement has been updated from CMI 2021 model to the CMI 2022 model to reflect the latest available industry data. Our actuaries have assessed the change and believe it is reasonable.
- The Actuarial Funding Valuation for the Fund, with an effective valuation date of 31 March 2022, was completed and signed in the prior accounting period. Given this is the first year of audit for KPMG, we have considered the following areas and noted no issues:
  - Funding position and agreed contributions
  - Areas of uncertainty around data or benefits
  - The completeness, existence and accuracy of benefits paids
  - Valuation adjustments

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Audit risks and our audit approach (cont.)

1 Valuation of post retirement benefit obligations (cont.)

An inappropriate amount is estimated and recorded for the defined benefit obligation

Cautious Neutral Optimistic

Key: Prior year Current year

Our findings

- We have verified the cashflows data i.e., input data used within the calculation of the scheme valuation by obtaining the direct confirmation from auditors of the pension fund and noted an overstatement in contributions paid during the year. Refer to page 29 for more details.
- Our work on below areas are still ongoing:
  - Assessment of the special events i.e., pass through arrangements
  - Adequacy of the Council's disclosures and the accounting treatment that entity applies to

ISA required communications for all entities

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Audit risks and our audit approach (cont.)

3 Valuation of post retirement benefit obligations (cont.)

An inappropriate amount is estimated and recorded for the defined benefit obligation

Level of prudence compared to KPMG central assumptions

Audit misstatement | *Cautious* | *Balanced* | *Optimistic* | *Audit misstatement*

Reasonable range

Overall assessment of assumptions for audit consideration							*Balanced*	
Underlying assessment of individual assumptions		**Methodology**	**Consistent methodology to prior year?**	**Compliant methodology with accounting standard?**	**Employer**	**KPMG central**	**Assessment**	**Significant assumption**
Discount rate		AA yield curve	✓	✓	4.80%	4.81%		✓
CPI inflation		Deduction to inflation curve with adjustment for recent inflation experience	✓	✓	2.80%	2.85%		✓
Pension increases		In line with CPI	✓	✓	2.80%	2.88%		
Salary increases		CPI + 1%, In line with most recent Fund valuation	✓	✓	CPI plus 1%	In line with long-term remuneration policy		
Mortality	Base tables	In line with most recent Fund valuation	✓ See slide 4	✓	Fund-specific based on Club Vita Curves	In line with best-estimate Fund experience		✓
	Future improvements	In line with most recent Fund valuation, updated to use latest CMI model	✓ See slide 4	✓	CMI 2022 projections model, 1.5% long-term trend rate, initial addition parameter of 0.25% and default other parameters	CMI 2022,1.25% long-term trend rate and default other parameters		✓
Other demographics		In line with most recent Fund valuation	✓	✓	Member can take 52% of the maximum additional tax-free cash up to HMRC limits	In line with Fund experience		

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Audit risks and our audit approach (cont.)

2 Recognition of surplus on the net pension asset

Management's assessment of the level of recognisable surplus may not be in line with requirements

Other audit risk

- Recent changes to market conditions have meant that more Local Government entities are finding themselves moving into surplus in their Local Government pension scheme. As at 31 March 2023, NHDC found their share of LGPS in a surplus position.
- Participations in surplus pose an additional risk to Councils, as the entity will need to assess the level of surplus that it can recognise. The requirements of accounting standards on recognition of these surpluses are complicated and requires actuarial involvement.
- This will need to be assessed each year, and the conclusion can change as it depends upon market conditions at the year end and any changes in the contributions committed to under the rates and adjustments certificate.

Our response

We have performed the following procedures:

- Tested the data and valuations provided by the actuary in their FRS 102 report for completeness and consistency with the other information provided by the Council;
- Considered, and if necessary, challenged the Council's estimate of the recognisable surplus; and
- Considered the adequacy of the Council's disclosures in respect of the assumptions or judgements made in determining the level of recognisable surplus.

ISA required communications for all entities

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Audit risks and our audit approach (cont.)

2 Recognition of surplus on the net pension asset

Management's assessment of the level of recognisable surplus may not be in line with requirements

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- Participations in surplus pose an additional risk to Councils, as the entity will need to assess the level of surplus that it can recognise. The requirements of accounting standards on recognition of these surpluses are complicated and requires actuarial involvement.
- This will need to be assessed each year, and the conclusion can change as it depends upon market conditions at the year end and any changes in the contributions committed to under the rates and adjustments certificate.

Our findings

- In the 2023/24 draft accounts published for audit the Council recognised a net pension liability balance of £13.3m. In line with IAS19 the Council has restricted the pension surplus to nil and recorded an additional liability of £13m in respect of a minimum funding requirement. Under IAS 19, if the surplus is greater than asset ceiling, the surplus may need to be restricted. Furthermore, an additional liability in respect of a minimum funding requirement may need to be recognised.
- However, the estimated projection period (20 years) used in the calculation of the additional liability differs from the KPMG Actuaries of what is a reasonable projection period (18 years). A shorter projection period results in a lower calculated liability balance. Under the KPMG methodology the net defined benefit obligation at balance sheet would be lower by £845k. We have highlighted this as an audit misstatement. Refer to page 29 for more details.
- Our work on below areas are still ongoing:
  - Adequacy of the Council's disclosures and the accounting treatment that entity applies to

ISA required communications for all entities

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Key accounting estimates and management judgements – Overview

Our view of management judgement

Our views on management judgments with respect to accounting estimates are based solely on the work performed in the context of our audit of the financial statements as a whole. We express no assurance on individual financial statement captions.

Cautious | Neutral | Optimistic

Asset/liability class	Our view of management judgement	Balance (£m)	YoY change (£m)	Our view of disclosure of judgements & estimates	Further comments
	Cautious / Neutral / Optimistic			Needs improvement / Neutral / Best practice	
Post retirement benefit obligation	Neutral	£143m	-£0m	Neutral	We have assessed the accounting results, including the individual balance sheet, P&L, OCI elements and the sensitivity of the Defined Benefit Obligation (DBO) to changes in key assumptions. Overall, the DBO estimate has been found to be balanced.
Pension assets	Neutral	£151m	+£11m	Neutral	The fair value of an employer's assets in the fund for the purpose of IAS19 is determined using a roll forward methodology and noted to be balanced.

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Other significant matters

Control deficiencies

While we are disclaiming our audit opinion we are still required to identify our audit findings based on the work performed.

We obtain an understanding of internal control to design appropriate audit procedures, but not to express an opinion on the effectiveness of the Council's internal control.

Our audit procedures have not identified any significant control deficiencies. We have highlighted the deficiencies identified as part of our financial statements audit. Further details of these findings are included on page 30.

Key:

Red	These are significant control deficiencies which increase the likelihood and potential magnitude of a material misstatement in the financial statements. We have not identified any significant control deficiencies in the current year.
Amber	These are matters of sufficient importance to note such as weaknesses which were subsequently corrected and matters that could be significant in the future if left unaddressed. We have not identified of such deficiencies in the current year.
Green	These are less significant weaknesses but which we considered to be of sufficient importance to merit management's attention. We have raised 5 related observations in the current year.

Management review of actuarial assumptions

We identified that there is no criteria or threshold developed for investigation/identification of outliers for pension assumptions. Therefore, it does not allow for an objective criteria to perform their review on and therefore it is ineffective. Management see this process as an annual occurrence and although they do review the output of the actuary, there is no evidence of the review. Thus, there is not sufficiently well-defined process in place for it to meet the criteria of an effective review control.

Late submission of draft accounts

The 2023/24 draft accounts were published on the Council's website for public inspection on the 18 September 2024. This was 3 months after the statutory deadline of 31 May 2024.

IT policies

We found that key policies supporting IT operations such as privileged access policy, information security policy, and phishing incident response plan were in the process of being developed. A change management policy had not been drafted.

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Other matters

Narrative report

While we are disclaiming our audit opinion and not reporting on the narrative report, we have identified the following based on the work performed:

- We have not identified any inconsistencies between the contents of the Narrative Report and the financial statements.
- We have not identified any material inconsistencies between the knowledge acquired during our audit and the statements of the Council.

As Finance, Audit and Risk Committee members you confirm that you consider that the Narrative Report and financial statements taken as a whole are fair, balanced and understandable and provides the information necessary for regulators and other stakeholders to assess the Council's performance, model and strategy.

However, we note that we have not obtained sufficient appropriate audit evidence to issue an unmodified audit opinion. Due to this, and the possible consequential effect on the related disclosures in the Narrative Report, we are unable to determine whether there are material misstatements in the Narrative Report.

Annual Governance Statement

While we are disclaiming our audit opinion and not reporting on the Annual Governance Statement, we have identified the following based on the work performed:

- We have completed the work to consider it complies with Delivering Good Governance in Local Government: A Framework published by CIPFA/SOLACE; and
- It is not misleading and is consistent with other information we are aware of from our audit of the financial statements.

However note that we have not obtained sufficient appropriate audit evidence to issue an unmodified audit opinion. Due to this, and the possible consequential effect on the related disclosures in the Annual Governance Statement, we are unable to determine whether there are material misstatements in the Annual Governance Statement.

Whole of Government Accounts

As required by the National Audit Office (NAO) we carry out specified procedures on the Whole of Government Accounts (WGA) consolidation pack.

We have confirmed that, for North Hertfordshire District Council the threshold at which detailed testing is required has not been exceeded. We have not completed our work in respect of the WGA consolidation pack, until we have completed this work, we are unable to certify the we have completed the audit of the financial statements.

Independence and Objectivity

ISA 260 also requires us to make an annual declaration that we are in a position of sufficient independence and objectivity to act as your auditors, which we completed at planning and no further work or matters have arisen since then.

Audit Fees

Our PSAA 2023/24 audit scale fee for the audit was £180,718 plus VAT.

Value for money

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Value for money

We are required under the Audit Code of Practice to confirm whether we have identified any significant weaknesses in the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources irrespective of the statutory backstop as explained on page 4.

In discharging these responsibilities we include a statement within the opinion on your accounts to confirm whether we have identified any significant weaknesses. We also prepare a commentary on your arrangements that is included within our Auditor's Annual Report, which is required to be published on your website alongside your annual report and accounts.

Commentary on arrangements

We have prepared our Auditor's Annual Report and a copy of the report is included within the papers for the Committee alongside this report. The report is required to be published on your website alongside the publication of the annual report and accounts.

Response to risks of significant weaknesses in arrangements to secure value for money

As noted on the right, we have identified two risks of a significant weakness in the Council's arrangements to secure value for money. On the page(s) overleaf we have set out the risk(s), our response and findings.

Performance improvement observations

As part of our work, we have identified any performance improvement observations. Refer to page 30.

Summary of findings

We have set out in the table below the outcomes from our procedures against each of the domains of value for money:

Domain	Risk assessment	Summary of arrangements
Financial sustainability	No significant risks identified	No significant weaknesses identified
Governance	No significant risks identified	No significant weaknesses identified
Improving economy, efficiency and effectiveness	2 significant risks identified	No significant weaknesses identified

03
North Hertfordshire District Council Appendices

Year ended 31 March 2024

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22 January 2025

Appendices

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Local Audit - Reset and Recovery

Background

It has been widely reported the level of delays in Local audit had grown to an unacceptable level. As a result, Central Government has been working with the Financial Reporting Council (FRC), as incoming shadow system leader and other system partners to develop proposals to address issues in the local audit. These consist of three stages:

Phase 1: **Reset** involving clearing backlog of historical audit opinions.

Phase 2: **Recovery** from Phase 1 in a way that does not cause a recurrence of the backlog by using backstop dates to allow assurance to be rebuilt over multiple audit cycle.

Phase 3: **Reform** involving address systemic challenge in the local audit system and embedding timely financial reporting and audit.

Implementation of Reset and Recovery

The Accounts and Audit (Amendment) Regulations 2024, introduced backstop dates by which local bodies must publish audited accounts and the NAO have also issued the revised 'Code of Audit Practice 2024 **Code of Audit Practice** that requires auditors to give an opinion in time to enable local bodies to comply with the backstop date. The table overleaf identifies the backstop dates and the status of your audits where impacted.

The NAO has also published Local Audit Rest And Recovery Implementation Guidance (LARRIGs), which have been prepared and published with the endorsement of the FRC and are intended to support auditors in meeting their requirements under the Act https://www.nao.org.uk/code-audit-practice/guidance-and-information-for-auditors

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Local Audit - Reset and Recovery

Financial year	Date
Up to 2022/23	13 December 2024
2023/24	28 February 2025
2024/25	27 February 2026
2025/26	31 January 2027
2026/27	30 November 2027
2027/28	30 November 2028

Recovery period and audit work

The implication of receiving a disclaimed audit opinion for the financial year 2022/23 means that for the financial year 2023/24 we have not been able to rely on the opening balances from 2022/23.

To obtain sufficient appropriate audit evidence over opening balances, auditing standards identify two approaches. One of those is to use the working papers and other information available on the prior year audit file, which as noted above has not been possible as the outgoing auditor has not been able to complete their audit. An alternative approach is the performance of specific audit procedures to obtain evidence regarding opening balances.

The LARRIGs, in particular LARRIG 05 *Rebuilding assurance following a disclaimed audit opinion,* was only finally published in September 2024 and further guidance, mentioned in the LARRIG in the format of a case study was only released in December 2024.

We also note there is an ongoing sector wide process, convened by the Financial Reporting Council (FRC) with other stakeholders to determine the appropriate level of work to perform to obtain sufficient appropriate audit evidence over opening balances. This, along with the backstop date for 2022/23 being only 2 months prior to that of the 2023/24 period, has limited the extent of building back assurance that has been possible in 2023/24.

During our audit of 2023/24 we have completed certain work on the closing balances for 2023/24 and in year transactions (see page 5) and this will contribute to rebuilding assurance.

The table overleaf identifies an indicative pathway to returning to an unmodified opinion. However, it must be noted this is only an indicative pathway and the speed of progress will depend on a range of factors including the level of work required to provide assurance on opening balances, in particular PPE balances and reserves balances.

DRAFT

Local Audit – Reset and Recovery

Rebuilding assurance

Given the importance and complexity of reserves balances and management, a detailed risk assessment will be undertaken to understand the level of work required to obtain sufficient appropriate audit evidence on the reserves balances. As noted on the previous page, there is an ongoing sector wide process with other stakeholders to determine the appropriate level of work to perform to obtain sufficient appropriate audit evidence over opening balances.

We note there may be other factors which impact on the speed of this work – such as the support provided by the audited entity and availability and quality of audit evidence. Where such support is not provided and the availability and quality of audit evidence is not present this will significantly impact on the time taken to build back assurance and the likely cost of such a process in terms of audit fees. As we complete our debrief with management, we can discuss how assurance can be gained on individual account balances and ultimately lead to a position that unmodified opinions can be issued in future years.

Indicative pathway based is reproduced from the LARRIGs

2023/2024	Disclaimer of Opinion	Auditors will begin work to rebuild assurance, gaining sufficient assurance over some, but not all, closing balances. No assurance will be possible over brought forward balances from 2022-23 or comparatives, therefore this will lead the audit to be disclaimed as it cannot be concluded that the financial statements are free from material and pervasive misstatement.
2024/2025	Disclaimer of Opinion / Qualified (Except For)	Auditors will now have obtained sufficient evidence over most, if not all, closing balances in 2024-25, but does not yet have assurance over the brought forward balances that were not audited in 2023-24. This will likely lead the auditor to disclaim, however where auditors have gained assurance over in-year movements, they may be able to issue a qualified opinion instead.
2025/2026	Qualified (Except For)	Auditors should have assurance over the opening and closing balances plus in year movements, but may not have sufficient assurance over the comparative figures. This will likely lead to a qualification by limitation of scope to exclude assurance over the comparative figures – a material, but not pervasive misstatement.
2026/2027 2027/2028	Unmodified	It is expected that most audits, will have assurance over opening balances, closing balances, in-year movements and prior year comparatives. This will result in an unmodified opinion being issued.

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Required communications

Our response to these required communications reflects the status of the audit at the point of the backstop.

Type		Response
Our draft management representation letter	OK	We have not requested any specific representations in addition to those areas normally covered by our standard representation letter for the year ended 31 March 2024
Adjusted audit differences	OK	We have not identified any adjusted audit differences.
Unadjusted audit differences		We have identified two unadjusted audit differences. See page 29 for further information.
Related parties	OK	We have been unable to complete our work on related parties for the reasons on pages 4.
Other matters warranting attention by the Audit Committee	OK	There were no matters to report arising from the audit that, in our professional judgment, are significant to the oversight of the financial reporting process.
Control deficiencies	OK	We communicated to management in writing all deficiencies in internal control over financial reporting of a lesser magnitude than significant deficiencies identified during the audit.
Actual or suspected fraud, noncompliance with laws or regulations or illegal acts	OK	No actual or suspected fraud involving the Council management, employees with significant roles in internal control, or where fraud results in a material misstatement in the financial statements identified during the audit.
Issue a report in the public interest	OK	We are required to consider if we should issue a public interest report on any matters which come to our attention during the audit. We have not identified any such matters.

Type		Response
Significant difficulties	OK	No significant difficulties were encountered during the audit
Modifications to auditor's report	x	Our audit opinion will be disclaimed. See page 4 and 5 for further details.
Disagreements with management or scope limitations	OK	The engagement team had no disagreements with management and no scope limitations were imposed by management during the audit.
Other information	OK	No material inconsistencies were identified related to other information in the annual report, Strategic and Directors' reports. The Strategic report is fair, balanced and comprehensive, and complies with the law.
Breaches of independence	OK	No matters to report. The engagement team and others in the firm, as appropriate, the firm and, when applicable, KPMG member firms have complied with relevant ethical requirements regarding independence.
Accounting practices	OK	Over the course of our audit, we have evaluated the appropriateness of the Council's accounting policies, accounting estimates and financial statement disclosures. In general, we believe these are appropriate.
Significant matters discussed or subject to correspondence with management	OK	The implication of the backstop date were discussed, or subject to correspondence, with management.
Certify the audit as complete	OK	We have not yet certified the audit as complete because our work on WGA is outstanding.
Provide a statement to the NAO on your consolidation schedule	OK	We will issue our report to the National Audit Office following the completion of our work.

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Fees

Audit fee

Our fees for the year ending 31 March 2024 are set out in the PSAA Scale Fees communication and are shown below.

Entity	2023/24 (£'000)
Statutory audit	£180.7
ISA315	£11.6
VFM Significant Risks	TBC
Additional procedures in respect of identified pension misstatements	TBC
Technical consultation regarding the classification of Churchgate	TBC
TOTAL	**TBC**

Billing arrangements

- Fees have been billed in accordance with the milestone completion phasing that has been communicated by the PSAA.
- As per PSAA's Scale Fees Consultation, the scale fees did not include new requirements of ISA315 revised (risk of material misstatement); or ISA 240 (auditor's responsibilities relating to fraud.
- Additional audit procedures were required to be completed during the course of our audit. These additional fees will be subject to the fees variation process as outlined by the PSAA.

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Confirmation of Independence

We confirm that, in our professional judgement, KPMG LLP is independent within the meaning of regulatory and professional requirements and that the objectivity of the Partner and audit staff is not impaired.

To the Audit and Risk Committee members

Assessment of our objectivity and independence as auditor of North Hertfordshire District Council

Professional ethical standards require us to provide to you at the planning stage of the audit a written disclosure of relationships (including the provision of non-audit services) that bear on KPMG LLP's objectivity and independence, the threats to KPMG LLP's independence that
these create, any safeguards that have been put in place and why they address such threats, together with any other information necessary to enable KPMG LLP's objectivity and independence to be assessed.

This letter is intended to comply with this requirement and facilitate a subsequent discussion with you on audit independence and addresses:

- General procedures to safeguard independence and objectivity;
- Independence and objectivity considerations relating to the provision of non-audit services; and
- Independence and objectivity considerations relating to other matters.

General procedures to safeguard independence and objectivity

KPMG LLP is committed to being and being seen to be independent. As part of our ethics and independence policies, all KPMG LLP partners/directors and staff annually confirm their compliance with our ethics and independence policies and procedures including in particular that they have no prohibited shareholdings. Our ethics and independence policies and procedures are fully consistent with the requirements of the FRC Ethical Standard. As a result we have underlying safeguards in place to maintain independence through:

- Instilling professional values.
- Communications.
- Internal accountability.
- Risk management.
- Independent reviews.

We are satisfied that our general procedures support our independence and objectivity except for those detailed below where additional safeguards are in place

Independence and objectivity considerations relating to the provision of non-audit services

Summary of non-audit services

There are no non-audit services applicable.

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Confirmation of Independence (cont.)

Disclosure	Description of scope of services	Principal threats to Independence	Safeguards Applied	Basis of fee	Value of Services Delivered in the year ended 31 March 2024 £	Value of Services Committed but not yet delivered £
1	Housing benefit grant certification for year ending 31 March 2024	Management Self review Self interest	• Standard language on non-assumption of management responsibilities is included in our engagement letter. • The engagement contract makes clear that we will not perform any management functions. • The work is performed after the audit is completed and the work is not relied on within the audit file. • Our work does not involve judgement and are statements of fact based on agreed upon procedures.	Fixed	N/A – KPMG were not the financial statement auditors at 31 March 2023	£32,300

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Confirmation of Independence (cont.)

Summary of fees

We have considered the fees charged by us to the Group and its affiliates for professional services provided by us during the reporting period.

Fee ratio

The ratio of non-audit fees to audit fees for the year is anticipated to be 0:1. We do not consider that the total non-audit fees create a self-interest threat since the absolute level of fees is not significant to our firm as a whole.

	2023/24
	£'000
Scale Fee and agreed fee variations	£180.7
ISA315	£11.6
VFM Significant Risks	TBC
Additional procedures in respect of identified pension misstatements	TBC
Technical consultation regarding the classification of Churchgate	TBC
Total Fees	**TBC**

Application of the FRC Ethical Standard 2019

Your previous auditors will have communicated to you the effect of the application of the FRC Ethical Standard 2019. That standard became effective for the first period commencing on or after 15 March 2020, except for the restrictions on non-audit and additional services that became effective immediately at that date, subject to grandfathering provisions.

AGN 01 states that when the auditor provides non-audit services, the total fees for such services to the audited entity and its controlled entities in any one year should not exceed 70% of the total fee for all audit work carried out in respect of the audited entity and its controlled entities for that year.

We confirm that as at 15 March 2020 we were not providing any non-audit or additional services that required to be grandfathered.

Independence and objectivity considerations relating to other matters

There are no other matters that, in our professional judgment, bear on our independence which need to be disclosed to the Audit and Risk Committee.

Confirmation of audit independence

We confirm that as of the date of this letter, in our professional judgment, KPMG LLP is independent within the meaning of regulatory and professional requirements and the objectivity of the Director and audit staff is not impaired.

This report is intended solely for the information of the Audit and Risk Committee of the Group and should not be used for any other purposes.

We would be very happy to discuss the matters identified above (or any other matters relating to our objectivity and independence) should you wish to do so.

Yours faithfully

KPMG LLP

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Uncorrected audit misstatements

Given we are disclaiming our audit opinion as described on page 4 there may be other audit misstatements our audit procedures would have identified if we completed our audit procedures as initially planned. In this section, we have reported uncorrected audit misstatements that we have identified.

Under UK auditing standards (ISA (UK) 260) we are required to provide the Finance, Audit and Risk Committee with a summary of uncorrected audit differences (including disclosure misstatements) identified during the course of our audit, other than those which are 'clearly trivial', which are not reflected in the financial statements. In line with ISA (UK) 450 we request that you correct uncorrected misstatements. However, they will have no effect on the opinion in our auditor's report, individually or in aggregate. As communicated previously with the Finance, Audit and Risk Committee, details of all adjustments greater than £102k are shown below:

Uncorrected audit differences (£'000s)

No.	Detail	CIES Dr/(cr)	Balance Sheet Dr/(cr)	Comments
1	Dr Other Comprehensive Income: Re-measurement of the net defined liability	£194	-	**Overstatement in employer contributions** We have verified the cashflows data i.e., input data used within the calculation of the scheme valuation by obtaining the direct confirmation from auditors of the pension fund and noted an overstatement in contributions paid during the year. Note that because of the application of the asset ceiling, which restricts the recognition of the pension surplus within the fund to £nil, this adjustment would not impact on the net liability balance recognised on the balance sheet.
	Cr Gross Plan assets	-	(£194)	
	Dr Changes in the effect of the asset ceiling	-	£194	
	Cr Other Comprehensive Income: Re-measurement of the net defined liability	(£194)	-	
2	Cr Other Comprehensive Income: Re-measurement of the net defined liability	(£845)	-	**Overstatement of net defined liability due to different projection periods used in the minimum funding calculations** The estimated projection period (20 years) used in the calculation of the additional liability differs from the KPMG Actuaries of what is a reasonable projection period (18 years). A shorter projection period results in a lower calculated net liability balance.
	Dr Defined Benefit Obligation	-	£845	

ISA required communications for all entities

DRAFT

Uncorrected audit misstatements (cont.)

Uncorrected audit differences (£'000s)				
No.	Detail	CIES Dr/(cr)	Balance Sheet Dr/(cr)	Comments
3	Dr Cost of Services	£250	-	**Understatement in pension service costs**
	Cr Defined Benefit Obligation	-	(£250)	The Authority's actuary has determined an annual service cost charge of £2,462k. Based on the high level scheme information available, KPMG have derived a best estimate charge of £2,700k. As the difference is outside of our acceptable range and above our reporting threshold we are required to report it. We note that this is a judgemental audit difference and if further information had been provided by the Fund Actuary, KPMG could have determined a more fund specific best estimate which might have reduced this difference.
	Cr Other Comprehensive Income: Re-measurement of the net defined liability	(£250)	-	
	Dr Changes in the effect of the asset ceiling		£250	Note that because of the application of the asset ceiling, which restricts the recognition of the pension surplus within the fund to £nil, this adjustment would not impact on the net liability balance recognised on the balance sheet.
Total		**(£845)**	**£845**	

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Control Deficiencies

Although we are disclaiming our audit opinion we have reported recommendations as a result of our work in the current year are as follows:

Priority rating for recommendations

❶ **Priority one:** issues that are fundamental and material to your system of internal control. We believe that these issues might mean that you do not meet a system objective or reduce (mitigate) a risk.

② **Priority two:** issues that have an important effect on internal controls but do not need immediate action. You may still meet a system objective in full or in part or reduce (mitigate) a risk adequately but the weakness remains in the system.

③ **Priority three:** issues that would, if corrected, improve the internal control in general but are not vital to the overall system. These are generally issues of best practice that we feel would benefit you if you introduced them.

#	Risk	Issue, Impact and Recommendation	Management Response/Officer/Due Date
Financial Statements Audit			
1	③	**Late submission of draft accounts** The 2023/24 draft accounts were published on the Council's website for public inspection on the 18 September 2024. This was 3 months after the statutory deadline of 31 May 2024. We understand this was due to competing pressures for the finance team due to multiple ongoing audits. Following resolution of the historical outstanding financial statement audits, the finance team should develop a work plan for the production of the 2024/25 financial statement audits which allows publication in line with the regulatory requirements. Progress against this work plan should be monitored and reported on to senior leadership. We are raising a control deficiency over this for best practice recommendation for regulatory compliance.	TBC
2	③	**IT policies** We inquired with management to understand the use of IT policies, we noted that key policies supporting IT operations such as privileged access policy, information security policy, and phishing incident response plan were in the process of being developed. A change management policy had not been drafted. These policies have not been previously approved. As the council did not have approved final policies in place at the time of our review our during the majority of the 23/24 financial year we have identified this as a control deficiency. The Council should ensure these policies are finalised as a priority and publicised to ensure ongoing compliance with their requirements.	TBC

DRAFT

Control Deficiencies

Although we are disclaiming our audit opinion we have reported recommendations as a result of our work in the current year are as follows:

#	Risk	Issue, Impact and Recommendation	Management Response/Officer/Due Date
Value for Money Audit			
3	3	**Contract compliance review** From inquiry and review of internal audit as part of our VFM procedures, it was identified that the delivery on the Churchgate lease management contract was not being effectively monitored (e.g. late payments, contract not signed, and compliance queries not being responded to in a timely manner). We recommend the council perform a review of its contract management arrangements to identify the cause of these issues and to revise its processes to avoid similar deficiencies arising in the future.	TBC
4	3	**Member completion of training** As part of our VFM procedures, we noted that Member uptake on training was below the expected completion targets. We recommend a formal plan is developed to assist members in understanding what training is available and when it is expected to be completed by. Completion of this training should then be monitored and reported on. The Council should consider factors which are driving lower uptake, whether they be messaging, reminders or as a content on the training itself. Messaging around potential consequences for non-compliance should be strengthened.	TBC

DRAFT

ISA (UK) 240 Revised: changes embedded in our practices

Ongoing impact of the revisions to ISA (UK) 240

ISA (UK) 240 (revised May 2021, effective for periods commencing on or after 15 December 2021) The auditor's responsibilities relating to fraud in an audit of financial statements included revisions introduced to clarify the auditor's obligations with respect to fraud and enhance the quality of audit work performed in this area. These changes are embedded into our practices and we will continue to maintain an increased focus on applying professional scepticism in our audit approach and to plan and perform the audit in a manner that is not biased towards obtaining evidence that may be corroborative, or towards excluding evidence that may be contradictory.

We will communicate, unless prohibited by law or regulation, with those charged with governance any matters related to fraud that are, in our judgment, relevant to their responsibilities. In doing so, we will consider the matters, if any, to communicate regarding management's process for identifying and responding to the risks of fraud in the entity and our assessment of the risks of material misstatement due to fraud.

Matters related to fraud that are, in our judgement, relevant to the responsibilities of Those Charged with Governance

Our assessment of the risks of material misstatement due to fraud may be found on the audit plan presented on 19 June 2024. We also considered the following matters required by ISA (UK) 240 (revised May 2021, effective for periods commencing on or after 15 December 2021) *The auditor's responsibilities relating to fraud in an audit of financial statements*, to communicate regarding management's process for identifying and responding to the risks of fraud in the entity and our assessment of the risks of material misstatement due to fraud:

- Concerns about the nature, extent and frequency of management's assessments of the controls in place to prevent and detect fraud and of the risk that the financial statements may be misstated.
- A failure by management to address appropriately the identified significant deficiencies in internal control, or to respond appropriately to an identified fraud.
- Our evaluation of the entity's control environment, including questions regarding the competence and integrity of management.
- Actions by management that may be indicative of fraudulent financial reporting, such as management's selection and application of accounting policies that may be indicative of management's effort to manage earnings in order to deceive financial statement users by influencing their perceptions as to the entity's performance and profitability.
- Concerns about the adequacy and completeness of the authorization of transactions that appear to be outside the normal course of business.

DRAFT

ISA (UK) 315 Revised: changes embedded in our practices

Summary

In the prior period, ISA (UK) 315 Revised "Identifying and assessing the risks of material misstatement" was introduced and incorporated significant changes from the previous version of the ISA.

These were introduced to achieve a more rigorous risk identification and assessment process and thereby promote more specificity in the response to the identified risks. The revised ISA was effective for periods commencing on or after **15 December 2021**.

The revised standard expanded on concepts in the existing standards but also introduced new risk assessment process requirements – the changes had a significant impact on our audit methodology and therefore audit approach.

What impact did the revision have on audited entities?

With the changes in the environment, including financial reporting frameworks becoming more complex, technology being used to a greater extent and entities (and their governance structures) becoming more complicated, standard setters recognised that audits need to have a more robust and comprehensive risk identification and assessment mechanism.

The changes result in additional audit awareness and therefore clear and impactful communication to those charged with governance in relation to (i) promoting consistency in effective risk identification and assessment, (ii) modernising the standard by increasing the focus on IT, (iii) enhancing the standard's scalability through a principle based approach, and (iv) focusing auditor attention on exercising professional scepticism throughout risk assessment procedures.

Implementing year 1 findings into the subsequent audit plan

Entering the second year of the standard, the auditors will have demonstrated, and communicated their enhanced insight into their understanding of your wider control environment, notably within the area of IT.

In year 2 the audit team will apply their enhanced learning and insight into providing a targeted audit approach reflective of the specific scenarios of each entity's audit.

A key area of focus for the auditor will be understanding how the entity responded to the observations communicated to those charged with governance in the prior period.

Where an entity has responded to those observations a re-evaluation of the control environment will establish if the responses by entity management have been proportionate and successful in their implementation.

Where no response to the observations has been applied by entity, or the auditor deems the remediation has not been effective, the audit team will understand the context and respond with proportionate application of professional scepticism in planning and performance of the subsequent audit procedures.

What will this mean for our on-going audits?

To meet the on-going requirements of the standard, auditors will each year continue to focus on risk assessment process, including the detailed consideration of the IT environment.

Subsequent year auditor observations on whether entity actions to address any control observations are proportionate and have been successfully implemented will represent an on-going audit deliverable.

Each year the impact of the on-going standard on your audit will be dependent on a combination of prior period observations, changes in the entity control environment and developments during the period. This on-going focus is likely to result in the continuation of enhanced risk assessment procedures and appropriate involvement of technical specialists (particularly IT Audit professionals) in our audits which will, in turn, influence auditor remuneration.

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ISA (UK) 600 Revised: Summary of changes

Low High

Summary

ISA (UK) 600 (Revised): Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors) is effective for periods commencing on or after 15 December 2023.

The new and revised requirements better aligns the standard with recently revised standards such as ISQM 1, ISA (UK) 220 (Revised) and ISA (UK) 315 (Revised). The revisions also strengthen the auditor's responsibilities related to professional skepticism, planning and performing a group audit, two-way communications between the group auditor and component auditors, and documentation.

Area	Summary of changes and impact	Effect on audit effort
Risk-based approach	The nature and extent of risk assessment procedures performed by the group auditor at group level may increase, which may include further inquires of group and/or component management and those charged with governance; analytical procedures, attendance of walkthroughs at components, and inspection and/or observation of additional component information. Consequently, while we will continue to work across the group audit to be as efficient in our interactions with you as possible, group and component management will typically receive additional, and more specific/granular requests, for information from both the group and component auditors.	
Group auditor responsibilities	Through a more targeted audit response to address the group Risks of Material Misstatement, we may perform audit work and communicate with component management at a greater number of components within the group, and we may request less information from component management at certain components where we previously performed full scope audits for the Group audit, if we determine that a full scope audit is no longer necessary. While statutory audit requirements will still apply, this change may be beneficial for overall audit effort where a statutory audit is not required.	
Flexibility in defining components	You may also see changes in the planned scope and timing of the audit in communications to group management and those charged with governance, such as changes to the identification of components and the work to be performed on their financial information, and/or changes to the nature of the group auditor's planned involvement in the work to be performed by component auditors. The impact will be greater where there are more components.	
Quality management	Enhanced leadership, direction, supervision and review responsibilities of the group engagement partner may result in the group engagement partner needing to engage more extensively with group management, your component management and component auditors throughout the audit.	
Robust communication	If the group auditor determines that the increased work effort is needed, this determination will impact how much, and the type of, information you will need to provide to the group auditor or component auditors. The group auditor is required to prescribe required work at a more granular level. This may mean there is increased work for component auditors, particularly in year one, to align the requirements of the group audit and local statutory audits. We will continue to work closely to minimise this.	
Application of materiality and aggregation risk	Changes in component performance materiality may result in changes to the nature, timing and extent of component auditor's work. If so, this may impact how much, and the type of, information you will need to provide to the group auditor or component auditors.	
Revised independence principles	This may make it more challenging to address auditor rotation and other independence requirements for component auditors we may plan to involve in the group audit and mean more matters impacting independence may need to be communicated to you. Potential changes to the component auditor firms engaged to perform work on financial information of components.	

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