

# **North Hertfordshire District Council**

## **Report to the Finance, Audit and Risk Committee**

**External Audit Plan & Strategy, including VFM risk  
assessment**

**For the year ended 31 March 2025**

**31 October 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 12 November 2025 to discuss our audit of the financial statements of North Hertfordshire District Council for the year ended 31 March 2025.

This report provides the Finance, Audit and Risk Committee with an opportunity to review our planned audit approach and scope for the 2024/25 audit. The audit is governed by the provisions of the Local Audit and Accountability Act 2014 and in compliance with the NAO's 2024/25 Code of Audit Practice, auditing standards and other professional requirements. `

This report outlines our VFM risk assessment and planned audit approach. We provide this report to you in advance of the meeting to allow you sufficient time to consider the key matters and formulate your questions.

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## The engagement team

Salma Younis (ACA) is the engagement director on the audit. She has over 20 years of industry experience.

Salma Younis shall lead the engagement and is responsible for the audit opinion.

Other key members of the engagement team include Henry Lau, Manager, and Marshal Ngwarai, Assistant Manager, with 6 years and 8 years of experience respectively.

Yours sincerely,

**Salma Younis,**  
**Director - KPMG LLP**

31 October 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 controls and
- All of our related activities are undertaken in an environment of the utmost level of objectivity, independence, ethics and integrity.

We depend on well planned timing of our audit work to avoid compromising the quality of the audit. This is also heavily dependent on receiving information from management and those charged with governance in a timely manner. We aim to complete all audit work no later than 2 days before audit signing. As you are aware, we will not issue our audit opinion until we have completed all relevant procedures, including audit documentation.

We are committed to providing you with a high-quality service. If you have any concerns or are dissatisfied with any part of KPMG's work, in the first instance you should contact Salma Younis ([salma.younis@kpmg.co.uk](mailto:salma.younis@kpmg.co.uk)), the engagement lead to the Authority, who will try to resolve your complaint. If you are dissatisfied with the response, please contact the national lead partner for all of KPMG's work under our contract with Public Sector Audit Appointments Limited, Tim Cutler ([tim.culter@kpmg.co.uk](mailto:tim.culter@kpmg.co.uk)). After this, if you are still dissatisfied with how your complaint has been handled you can raise your complaint as per the following process [Complaints](#).

# Impact of backstop on our audit

## Ongoing measures to resolve the backlog

As previously reported the Government has introduced measures to resolve the legacy local government financial reporting and audit backlog.

Last year amendments were made to the Accounts and Audit Regulations and NAO's Code of Audit Practice which 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 the Council this had the impact of our disclaimed audit opinion for 2022/23 financial year (as issued by the previous auditors). We issued a disclaimed audit opinion for 2023/24 on 20<sup>th</sup> February 2025 to comply with the backstop date relevant to our audit.

## Impact on our audit of the financial statements

As explained in previous reporting to the Committee the level of rebuilding assurance related to the years prior to our appointment was limited in 2023/24. This was because we concluded there was insufficient time before the February 2025 backstop to complete our audit to obtain sufficient appropriate audit evidence, and, in our view, this was pervasive to the prior year financial statements as a whole.

The impact of the above means that for the financial year 2024/25 elements of the opening balances and 2023/24 comparatives are still impacted by previous disclaimers and as such our audit opinion is likely to be modified in relation to this matter.

Work is ongoing in the sector to develop guidance to help support appropriate audit procedures for audits where further work on is required to build back assurance.

## Value for Money

The amendments to the Accounts and Audit Regulations do not impact on our responsibilities in relation to the Authority's Value for Money arrangements. We are responsible for forming a view on the arrangements that the Authority has in place to secure economy, efficiency and effectiveness in its use of resources and as such our work will proceed as normal. Our commentary for the year-ended 31 March 2025 is provided on pages 15 to 28.

# Overview of planned scope including materiality

## Our materiality levels

We determined materiality for the Council financial statements at a level which could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements. We used a benchmark of expenditure which we consider to be appropriate given the sector in which the entity operates, its ownership and financing structure, and the focus of users.

We considered qualitative factors such as stability of legislation, lack of shareholders and limited debt arrangements when determining materiality for the financial statements as a whole.

To respond to aggregation risk from individually immaterial misstatements, we design our procedures to detect misstatements at a lower level of materiality (£1.1m / 65% of materiality) driven by our expectations of increased level of undetected or uncorrected misstatements in the period.

## We will report misstatements to the Finance, Audit and Risk Committee including:

- Corrected and uncorrected audit misstatements above £85k.
- Errors and omissions in disclosure (corrected and uncorrected) and the effect that they, individually in aggregate, may have on our opinion.
- Other misstatements we include due to the nature of the item.

## Materiality

Materiality for the financial statements as a whole

**£1.7m**

2.5% of total expenditure  
(2023/24: £1.85m  
3% of total expenditure)

Performance Materiality

**£1.1m**

65% of materiality  
(2023/24: £1.2m)

Misstatements reported to the audit committee

**£85k**

(2023/24: £92.5k)

## Materiality

**£1.7m**

2.5% of Council's total 23/24 expenditure £68.3m

# Overview of planned scope including materiality (cont.)

## Timing of our audit and communications

- We will maintain communication led by the engagement partner and manager throughout the audit. We set out below the form, timing and general content of our planned communications:
- Kick-off meeting with management in April 2025 where we discussed management's progress in key areas;
- Finance, Audit and Risk Committee meeting on 12 November 2025 where we present our final audit plan;
- Status meetings with management throughout the audit where we communicate progress on the audit plan, any misstatements, control deficiencies and significant issues;
- Closing meeting with management in January 2026\* where we discuss the auditor's report and any outstanding deliverables;
- Finance, Audit and Risk Committee meeting in February 2026\* where we communicate audit misstatements and significant control deficiencies; and
- Biannual private meetings can also be arranged with the Committee Chair if there is interest.

## Using the work of others and areas requiring specialised skill

We outline below where, in our planned audit response to audit risks, we expect to use the work of others such as Internal Audit or require specialised skill/knowledge to perform planned audit procedures and evaluate results.

Others	Extent of planned involvement or use of work
<b>Internal Audit</b>	We will review the reporting prepared by Internal Audit, however we do not plan to place any reliance on said work.
<b>KPMG Pensions Centre of Excellence (PCoE) and KPMG Actuaries</b>	We involve KPMG Pensions Centre of Excellence and KPMG Actuaries to assist the audit team in assessing the valuation of the Local Government Pension Scheme's gross liability. They will undertake all relevant procedures as outlined on page 9 and liaise directly with management.
<b>KPMG IT Audit Team</b>	We will involve KPMG specialist IT Auditors to undertake walkthroughs and document relevant processes and controls with regard to the Council's General ledger migration, IT environment and any automated controls which could impact on the financial statements audit.

\* Dates for issuing deliverables are preliminary and based on information available. They are therefore subject to change.

# Significant risks, Higher assessed risks and Other audit risks

Our risk assessment draws upon our understanding of the applicable financial reporting framework, knowledge of the business, the sector 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 sector and internal audit reports.

Due to the current levels of uncertainty there is an increased likelihood of significant risks emerging throughout the audit cycle that are not identified (or in existence) at the time we planned our audit. Where such items are identified we will amend our audit approach accordingly and communicate this to the Finance, Audit and Risk Committee.

## Value for money

We are required to provide commentary on the arrangements in place for ensuring Value for Money is achieved at the Council and report on this via our Auditor's Annual Report. This will be published on the Council's website and include a commentary on our view of the appropriateness of the Council's arrangements against each of the three specified domains of Value for Money: financial sustainability; governance; and improving economy, efficiency and effectiveness.

We have outlined the result of our risk assessment procedures from page 15 onwards.

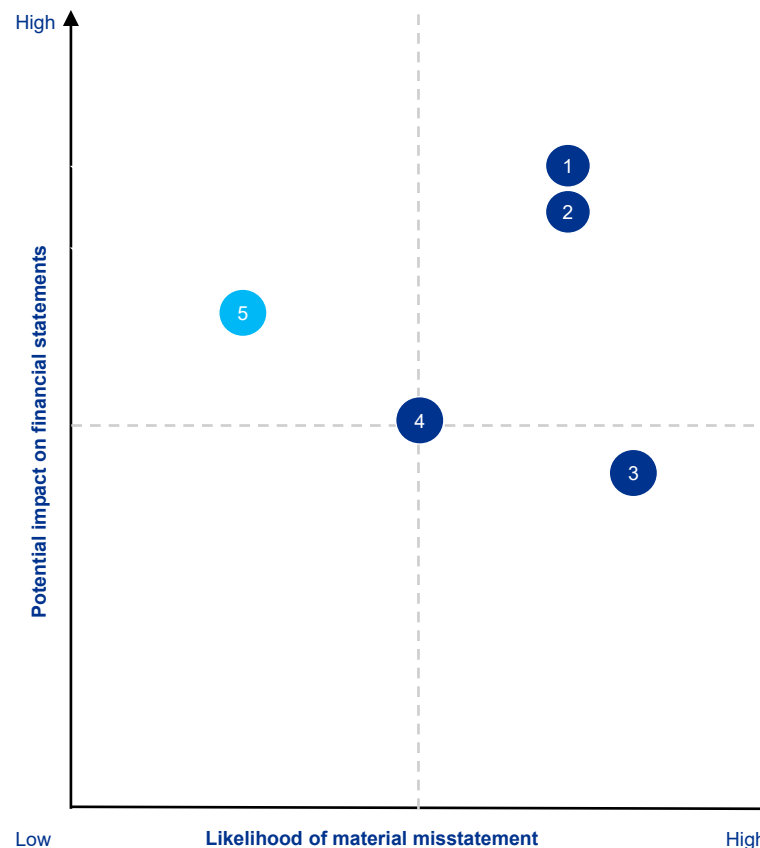
### Significant risks

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

### Other audit risks

5. General ledger migration

Key: # Significant financial statement audit risks  
# Other audit risk



# Audit risks and our audit approach

1

## Valuation of land and buildings

The carrying amount of revalued Land & Buildings differs materially from the fair value



### Significant audit risk

The Code requires that where assets are subject to revaluation, their year end carrying value should reflect the appropriate current value at that date. The Council has adopted a rolling revaluation model which sees all land and buildings revalued over a five-year cycle.

This creates a risk that the carrying value of assets not revalued in year differs materially from the year end current value.

A further risk is presented for those assets that are revalued in the year, which involves significant judgement and estimation on behalf of the engaged valuers (Lambert Smith Hampton for operational assets and Reynolds Butler for surplus assets).

From our risk assessment of the elements within the valuations estimate, we have focused our significant risk over the BCIS indices and location factor for the DRC valuations, and the rental income & yield assumptions used for the EUV valuations.



### Planned response

We will perform the following procedures designed to specifically address the significant risk associated with the valuation:

- We will critically assess the independence, objectivity and expertise of the valuers (Lambert Smith Hampton and Reynolds Butler) used in developing the valuation of the Council's properties at 31 March 2025;
- We will inspect the instructions issued to the valuers for the valuation of land and buildings to verify they are appropriate to produce a valuation consistent with the requirements of the CIPFA Code.
- We will compare the accuracy of the data provided to the valuers for the development of the valuation to underlying information;
- We will evaluate the design and implementation of controls in place for management to review the valuation and the appropriateness of assumptions used;
- We will challenge the appropriateness of the valuation of land and buildings; including any material movements from the previous revaluations. We will challenge key assumptions within the valuation as part of our judgement;
- We will agree the calculations performed of the movements in value of land and buildings and verify that these have been accurately accounted for in line with the requirements of the CIPFA Code;
- We will review the valuation report prepared by the Council's valuers to confirm the appropriateness of the methodology utilised; and
- Disclosures: We will consider the adequacy of the disclosures concerning the key judgements and degree of estimation involved in arriving at the valuation.



# Audit risks and our audit approach (cont.)

2

## Valuation of investment property

The carrying amount of revalued investment property differs materially from the fair value



### Significant audit risk

The Code defines an investment property as one that is used solely to earn rentals or for capital appreciation or both. Property that is used to facilitate the delivery of services or production of goods as well as to earn rentals or for capital appreciation does not meet the definition of an investment property. The portfolio had a value of £27.7m as at 31 March 2025.

There is a risk that investment properties are not being held at fair value, as is required by the Code. At each reporting period, the valuation of the investment property must reflect market conditions. Significant judgement is required to assess fair value and management experts are often engaged to undertake the valuations.

From our risk assessment of the elements within the valuations estimate, we have focused our significant risk over the rental income approach methodology and the yield assumptions.



### Planned response

We will perform the following procedures designed to specifically address the significant risk associated with the valuation:

- We will critically assess the independence, objectivity and expertise of the valuers (Lambert Smith Hampton and Reynolds Butler) used in developing the valuation of the Council's investment property at 31 March 2025;
- We will inspect the instructions issued to the valuers to verify they are appropriate to produce a valuation consistent with the requirements of the CIPFA Code.
- We will compare the accuracy of the data provided to the valuers for the development of the valuation to underlying information;
- We will evaluate the design and implementation of controls in place for management to review the valuation and the appropriateness of assumptions used;
- We will challenge the appropriateness of the valuation; including any material movements from the previous revaluations. We will challenge key assumptions within the valuation as part of our judgement;
- We will agree the calculations performed of the movements and verify that these have been accurately accounted for in line with the requirements of the CIPFA Code;
- We will review the valuation report prepared by the Council's valuers to confirm the appropriateness of the methodology utilised; and
- Disclosures: We will consider the adequacy of the disclosures concerning the key judgements and degree of estimation involved in arriving at the valuation.



# Audit risks and our audit approach (cont.)

3

## Valuation of post retirement benefit obligations

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



### 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 Council.
- 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.



### Planned response

We will perform the following procedures designed to specifically address the significant risk associated with the valuation:

- Understand the processes the Council has in place to set the assumptions used in the valuation;
- Evaluate the competency, objectivity of the actuaries to confirm their qualifications and the basis for their calculations;
- Perform 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;
- Agree the data provided by the audited entity to the Scheme Administrator for use within the calculation of the scheme valuation;
- Evaluate 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;
- Challenge, 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;
- Confirm that the accounting treatment and entries applied by the Group are in line with IFRS and the CIPFA Code of Practice;
- Consider the adequacy of the Council's disclosures in respect of the sensitivity of the deficit or surplus to these assumptions; and
- Where applicable, assess the level of surplus that should be recognised by the entity.

# Audit risks and our audit approach (cont.)

## 4 Management override of controls(a)

Fraud risk related to unpredictable way management override of controls may occur



### Significant audit risk

- Professional standards require us to communicate the fraud risk from management override of controls as significant.
- Management is in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.
- We have not identified any specific additional risks of management override relating to this audit.

*Note: (a) Significant risk that professional standards require us to assess in all cases.*



### Planned response

Our audit methodology incorporates the risk of management override as a default significant risk.

We will perform the following procedures designed to specifically address the significant risk associated with management override of controls:

- Assess accounting estimates for biases by evaluating whether judgements and decisions in making accounting estimates, even if individually reasonable, indicate a possible bias;
- Evaluate the selection and application of accounting policies;
- In line with our methodology, evaluate the design and implementation of controls over journal entries and post closing adjustments;
- Assess the appropriateness of changes compared to the prior year to the methods and underlying assumptions used to prepare accounting estimates;
- Assess the business rationale and the appropriateness of the accounting for significant transactions that are outside the Council's normal course of business, or are otherwise unusual; and
- We will analyse all journals through the year using data and analytics and focus our testing on those with a higher risk, such as journals impacting revenue, cash or borrowings.

# Audit risks and our audit approach (cont.)

5

## General Ledger Migration



### Other audit risk

**Risk: The data migrated from the old to new general ledger system are incomplete or inaccurate**

The Council migrated its general ledger software in August 2024.

This migration poses a risk of incomplete or inaccurate data having been migrated over and therefore a risk of there being inaccurate ledger balances and inaccurate preparation of the year-end financial statements.

As the timing of the migration was during the financial year, there is also an increased risk relating to the control environment as different processes will have in operation before and after the migration.



### Planned response

We will perform the following procedures:

- We will understand and evaluate the design and implementation of controls in place around the migration to ensure the complete and accurate transfer of data;
- We will consider the impact the migration will have on our understanding of the business processes and perform additional risk assessment procedures to ensure that we have appropriately and sufficiently documented its impact;
- We will understand the changes to the IT environment and involve KPMG IT audit specialists where applicable;
- We will test the migration of data to ensure completeness and accuracy of the transferred data; and
- We will verify the accuracy of the opening trial balance of the new general ledger system and reconcile it to the closing trial balance of the old general ledger system to confirm that the ledger balances have accuracy transferred across.

# Audit risks and our audit approach

## Revenue – Rebuttal of Significant Risk

Professional standards require us to make a rebuttable presumption that the fraud risk from revenue recognition is a significant risk. Due to the nature of the revenue within the sector we have rebutted this significant risk. We have set out the rationale for the rebuttal of key types of income in the table below.

Description of Income	Nature of Income	Rationale for Rebuttal
<b>Council tax</b>	This is the income received from local residents paid in accordance with an annual bill based on the banding of the property concerned.	The income is highly predictable and is broadly known at the beginning of the year, due to the number of properties in the area and the fixed price that is approved annually based on a band D property. We do not deem there to be any incentive or opportunity to manipulate the income.
<b>Business rates</b>	Revenue received from local businesses paid in accordance with an annual demand based on the rateable value of the business concerned.	The income is highly predictable and is broadly known at the beginning of the year, due to the number of businesses in the area and the fixed amount that is approved annually. We do not deem there to be any incentive or opportunity to manipulate the income.
<b>Fees and charges</b>	Revenue recognised from receipt of fixed fee services, in line with the fees and charges schedules agreed and approved annually.	The income stream represents high volume, low value sales, with simple recognition. Fees and charges values are agreed annually. We do not deem there to be any incentive or opportunity to materially manipulate the income.
<b>Grant income</b>	Predictable income receipted primarily from central government, including for housing benefits.	Grant income at a local authority typically involves a small number of high value items and an immaterial residual population. These high value items frequently have simple recognition criteria and can be traced easily to third party documentation, most often from central government source data. There is limited incentive or opportunity to manipulate these figures.

## Expenditure – rebuttal of Significant Risk

Practice Note 10 states that the risk of material misstatement due to fraudulent financial reporting may arise from the manipulation of expenditure recognition is required to be considered. Having considered the risk factors relevant to the Council and the nature of expenditure within the Council, we have determined that a significant risk relating to expenditure recognition is not required.

Specifically, the financial position of the Council, (whilst under pressure) is not indicative of a position that would provide an incentive to manipulate expenditure recognition, and the nature of expenditure has not identified any specific risk factors.

# Mandatory communications - additional reporting

## Going concern

Under NAO guidance, including Practice Note 10 - A local authority's financial statements shall be prepared on a going concern basis; this is, the accounts should be prepared on the assumption that the functions of the authority will continue in operational existence for the foreseeable future. Transfers of services under combinations of public sector bodies (such as local government reorganization) do not negate the presumption of going concern.






However, financial sustainability is a core area of focus for our Value for Money opinion.

## Additional reporting

Your audit is undertaken to comply with the Local Audit and Accountability Act 2014 which gives the NAO the responsibility to prepare an Audit Code (the Code), which places responsibilities in addition to those derived from audit standards on us. We also have responsibilities which come specifically from acting as a component auditor to the NAO. In considering these matters at the planning stage we indicate whether:

Work is completed throughout our audit and we can confirm the matters are progressing satisfactorily 	We have identified issues that we may need to report 	Work is completed at a later stage of our audit so we have nothing to report 
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We have summarised the status of all these various requirements at the time of planning our audit below and will update you as our work progresses:

Type	Status	Response
Our declaration of independence		No matters to report. The engagement team and others in the firm, as appropriate, have complied with relevant ethical requirements regarding independence.
Issue a report in the public interest		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 to date.
Provide a statement to the NAO on your consolidation schedule		This "Whole of Government Accounts" requirement is fulfilled when we complete any work required of us by the NAO to assist their audit of the consolidated accounts of DLUHC.
Provide a summary of risks of significant weakness in arrangements to provide value for money		We are required to report significant weaknesses in arrangements. Work to be completed at a later stage.
Certify the audit as complete		We are required to certify the audit as complete when we have fulfilled all of our responsibilities relating to the accounts and use of resources as well as those other matters highlighted above.

# Mandatory communications

Type	Statements
<b>Management's responsibilities (and, where appropriate, those charged with governance)</b>	<p>Prepare financial statements in accordance with the applicable financial reporting framework that are free from material misstatement, whether due to fraud or error.</p> <p>Provide the auditor with access to all information relevant to the preparation of the financial statements, additional information requested and unrestricted access to persons within the entity.</p>
<b>Auditor's responsibilities</b>	Our responsibilities set out through the NAO Code (communicated to you by the PSAA) and can be also found on their website, which include our responsibilities to form and express an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities.
<b>Auditor's responsibilities – Fraud</b>	This report communicates how we plan to identify, assess and obtain sufficient appropriate evidence regarding the risks of material misstatement of the financial statements due to fraud and to implement appropriate responses to fraud or suspected fraud identified during the audit.
<b>Auditor's responsibilities – Other information</b>	Our responsibilities are communicated to you by the PSAA and can be also found on their website, which communicates our responsibilities with respect to other information in documents containing audited financial statements. We will report to you on material inconsistencies and misstatements in other information.
<b>Independence</b>	Our independence confirmation at page 33 discloses matters relating to our independence and objectivity including any relationships that may bear on the firm's independence and the integrity and objectivity of the audit engagement partner and audit staff.

# North Hertfordshire District Council

## Value for money risk assessment

Year ended 31 March 2025



# Value for money

## **Our value for money reporting requirements have been designed to follow the guidance in the Audit Code of Practice.**

Our responsibility is to conclude on significant weaknesses in value for money arrangements.

The main output is a narrative on each of the three domains, summarising the work performed, any significant weaknesses and any recommendations for improvement.

We have set out the key methodology and reporting requirements on this slide and provided an overview of the process and reporting on the following page.

## **Risk assessment processes**

Our responsibility is to assess whether there are any significant weaknesses in the Council's arrangements to secure value for money. Our risk assessment will consider whether there are any significant risks that the Council does not have appropriate arrangements in place.

In undertaking our risk assessment we will be required to obtain an understanding of the key processes the Council has in place to ensure this, including financial management, risk management and partnership working arrangements. We will complete this through review of the Council's documentation in these areas and performing inquiries of management as well as reviewing reports, such as internal audit assessments.

## **Reporting**

Our approach to value for money reporting aligns to the NAO guidance and includes:

- A summary of our commentary on the arrangements in place against each of the three value for money criteria, setting out our view of the arrangements in place compared to industry standards;
- A summary of any further work undertaken against identified significant risks and the findings from this work; and
- Recommendations raised as a result of any significant weaknesses identified and follow up of previous recommendations.

The Council will be required to publish the commentary on its website at the same time as publishing its annual report online.

### **Financial sustainability**

*How the body manages its resources to ensure it can continue to deliver its services.*

### **Governance**

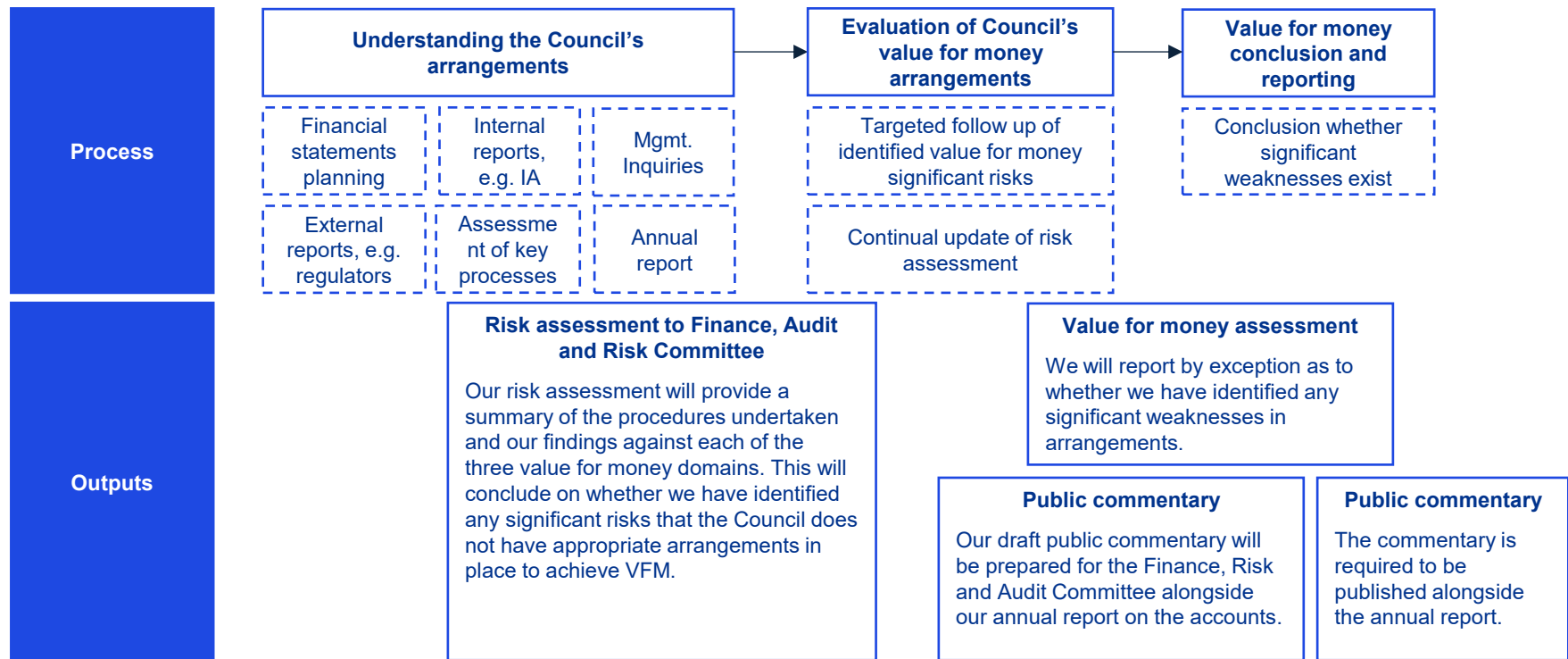
*How the body ensures that it makes informed decisions and properly manages its risks.*

### **Improving economy, efficiency and effectiveness**

*How the body uses information about its costs and performance to improve the way it manages and delivers its services.*

# Value for money

## Approach we take to completing our work to form and report our conclusion:



# Summary of risk assessment

## Summary of risk assessment

As set out in our methodology we have evaluated the design of controls in place for a number of the Authority's systems, reviewed reports from external organisations and internal audit and performed inquiries of management. These procedures are consistent with prior year.

Based on these procedures the table below summarises our assessment of whether there is a significant risk that appropriate arrangements are not in place to achieve value for money at the Authority for each of the relevant domains:

Domain	Significant risk identified?
Financial sustainability	No significant risks identified
Governance	One risk of significant weakness identified
Improving economy, efficiency and effectiveness	One risk of significant weakness identified

We have provided a summary of the procedures performed and our key findings from these on pages 19 to 27.

We have identified risks of significant weaknesses associated with the domains Governance and Improving economy, efficiency and effectiveness.

## Response to significant risk

The table below sets out the details of the risks that has been identified and the procedures we intend to perform in order to respond to the risk. We will report on our conclusion from these procedures as part of Auditor's Annual Report to the Finance, Audit and Risk Committee by 30 November 2025:

Description of risk	<b>Governance - Significant risk on the Authority's Preparation and Publication of the Statement of Accounts</b>
Procedures to be performed	<ul style="list-style-type: none"> <li>We will further assess the Authority's arrangements to monitor and ensure compliance with its statutory financial reporting responsibilities.</li> </ul>
Description of risk	<b>Improving economy, efficiency and effectiveness - Significant risk on the maintenance of appropriate staffing levels within the Authority, both through recruitment and retention.</b>
Procedures to be performed	<ul style="list-style-type: none"> <li>We will further assess management's response to tracking and managing the risk in regard to staffing levels.</li> <li>We will further assess management's response to mitigate and address the risk in regard to staffing levels through alternative staffing sources.</li> </ul>

# Value for money arrangements

## Financial sustainability

In assessing whether there was a significant risk of financial sustainability we reviewed:

- The processes for setting the 2024/25 financial plan to ensure that it is achievable and based on realistic assumptions;
- How the 2024/25 efficiency plan was developed and monitoring of delivery against the requirements;
- Processes for ensuring consistency between the financial plan set for 2024/25 and the workforce and operational plans;
- The process for assessing risks to financial sustainability;
- Processes in place for managing identified financial sustainability risks; and;
- Performance for the year to date against the financial plan.

### Summary of risk assessment

- The Authority has followed its governance processes for setting a balanced budget and regularly updating its Medium-Term Financial Strategy (MTFS). The Authority has a detailed process for setting its annual budget. The process for 24/25 budget setting began in September 2023 with expected income calculated to determine the required level of savings needed for a balanced budget. Budget proposals from budget managers then goes through the Leadership Team and Political Liaison Board, and then to informal budget workshops for comments and questions. The budget is reviewed by the Cabinet and Finance, Audit and Risk Committee before a final draft budget, including financial risks, went to Full Council for final approval on 29 February 2024.
- The 24/25 budget and MTFS are underpinned by assumptions that we deemed reasonable and are well supported. It is our view that this is a comprehensive process with evidence of challenge and review.
- Required efficiencies to deliver a balanced budget are approved as part of the budget set at the end of February. Efficiency requirements are identified and communicated in advance through the Leadership Team. The quarterly monitoring reports reported at the Cabinet and Finance, Audit and Risk Committee provides key stakeholders with the latest overall financial position and the performance of specific efficiencies. Where efficiencies are falling behind plan, meetings are held with the relevant Budget Managers to identify actions to be taken to resolve the underperformance, behind, and timing of any impacts.
- The Authority's workforce and operational plans are incorporated with the Council Plan 2024-2028. The Council Plan was approved by the Council on 19 September 2024 and sets out the Authority's four key priorities: Thriving Communities, Accessible services, Responsible growth and Sustainability.

# Value for money arrangements

## Financial sustainability

In assessing whether there was a significant risk of financial sustainability we reviewed:

- The processes for setting the 2024/25 financial plan to ensure that it is achievable and based on realistic assumptions;
- How the 2024/25 efficiency plan was developed and monitoring of delivery against the requirements;
- Processes for ensuring consistency between the financial plan set for 2024/25 and the workforce and operational plans;
- The process for assessing risks to financial sustainability;
- Processes in place for managing identified financial sustainability risks; and;
- Performance for the year to date against the financial plan.

### Summary of risk assessment continued

- To support the delivery of the Council Plan, the Authority has developed a Council Delivery Plan. This sets out the key projects that will be carried out during the year to support the delivery of the Council Plan. It also sets out the risks to achieving those goals and the performance indicators used to monitor expected outcomes.
- The Council Plan is supported by the MTFS which ensures consistency between the Authority's financial plan and the Authority's workforce and operational plans.
- The Authority's process for assessing risks to financial sustainability is underpinned by the Authority's Risk Management Framework. There are two key elements to each risk statement: the impact and the likelihood which are each scored on a scale of low, medium and high. In addition to financial risks, the Risk Management Framework also includes risks relating too Strategic, Operational, Information, Reputation, People, Regulatory and Environment.
- The Authority's risk management approach is to initially identify the Authority's aims and objectives. The Authority will then identify and describe risks to these aims and objectives and assess the initial level of risk based on impact and likelihood. The Authority will develop actions to reduce the impact and likelihood of the risk to a required level.
- Each risk is assigned to a risk owner. Risk owners are required to conduct a regular review of their risks on the Authority's risk management software Ideagen Risk Management.
- The Authority's summary position on revenue income and expenditure at the end of the financial year 2024/25 was presented to the Cabinet on 24 June 2025 in the Revenue Budget Outturn 2024-25 report.
- The net outturn of £17,932k represents a decrease of £817k from the net working budget of £18,749k.

# Value for money arrangements

## Financial sustainability

In assessing whether there was a significant risk of financial sustainability we reviewed:

- The processes for setting the 2024/25 financial plan to ensure that it is achievable and based on realistic assumptions;
- How the 2024/25 efficiency plan was developed and monitoring of delivery against the requirements;
- Processes for ensuring consistency between the financial plan set for 2024/25 and the workforce and operational plans;
- The process for assessing risks to financial sustainability;
- Processes in place for managing identified financial sustainability risks; and;
- Performance for the year to date against the financial plan.

### Summary of risk assessment continued

- The original approved budget for 2024/25 (and therefore working budget) included efficiencies totalling £699k, which were agreed by Council in February 2024. At the end of the year a net total of £515k of efficiencies have been achieved in 2024/25, representing a net underachievement of planned efficiencies of £184k.
- The budget includes planned use of previous Business Rates gains and General Fund reserves. In previous years, these have not been used and returned to General Fund. However, in 2024/25 there has been an actual use of the reserve, but at a lower level than budgeted. As the use of reserves was planned and budgeted and the Authority has a high level of reserves compared to the risk the Authority faces, use of reserves is not deemed a significant risk for the Council.

### Risk assessment conclusion

- Based on the risk assessment procedures performed we have not identified a significant risk associated with financial sustainability.

# Value for money arrangements

## Governance

In assessing whether there was a significant risk relating to governance we reviewed:

- Processes for the identification, monitoring and management of risk;
- The design of the governance structures in place at the Authority;
- Controls in place to prevent and detect fraud;
- The review and approval of the 2024/25 financial plan by the Authority, including how financial risks were communicated;
- How compliance with laws and regulations is monitored;
- Processes in place to monitor officer compliance with expected standards of behaviour, including recording of interests, gifts and hospitality; and
- How the Authority ensures decisions receive appropriate scrutiny.

### Summary of risk assessment

- The Authority's process for assessing risk is underpinned by the Authority's Risk Management Framework. There are two key elements to each risk statement: the impact and the likelihood which are each scored on a scale of low, medium and high. Furthermore, risk are categorised into Strategic, Operational, Information, Reputation, Financial, People, Regulatory or Environment.
- The Authority's risk management approach is to initially identify the Authority's aims and objectives. The Authority will then identify and describe risks to these aims and objectives and assess the initial level of risk based on impact and likelihood. The Authority will develop actions to reduce the impact and likelihood of the risk to a required level.
- The Authority has a Risk Scoring Matrix to assess whether the level of risk. The matrix uses a "traffic light" approach to show high (red), medium (amber) and low (green) risks. The risk score is calculated as impact x likelihood so between 1 - 9. The Authority actively monitors risks scoring 4 or higher on the Risk Scoring Matrix.
- Each risk is assigned to a risk owner. Risk owners are required to conduct a regular review of their risks on the Authority's risk management software Ideagen Risk Management.
- Regular reporting of Corporate Risks goes to the Risk and Performance Management Group, Leadership Team, Overview and Scrutiny and Cabinet enables senior managers and Members to be more fully aware of the extent of the risks and progression of recorded actions, along with any proposed archiving/closures.
- Risk registers are maintained on Ideagen Risk Management. This enables the Authority to monitor and review risks and produce meaningful management reports.
- The Council's Constitution sets out how the Council operates, how decisions are made and the procedures which are followed to ensure that decisions are efficient, transparent and accountable to local people. The Constitution defines the governance structures in place at the Authority.



# Value for money arrangements

## Governance

In assessing whether there was a significant risk relating to governance we reviewed:

- Processes for the identification, monitoring and management of risk;
- The design of the governance structures in place at the Authority;
- Controls in place to prevent and detect fraud;
- The review and approval of the 2024/25 financial plan by the Authority, including how financial risks were communicated;
- How compliance with laws and regulations is monitored;
- Processes in place to monitor officer compliance with expected standards of behaviour, including recording of interests, gifts and hospitality; and
- How the Authority ensures decisions receive appropriate scrutiny.

### Summary of risk assessment continued

- The governance structures is headed by the Full Council which comprises of all 51 elected Members. The Full Council is supported by the Cabinet which consists of the Leader of the Council and at least two but not more than nine Councillors appointed as Executive Members by the Leader.
- Other governance structures at the Authority includes the Overview and Scrutiny Committee, the Standards Committee, Regulatory Committees, Community Forums and the Finance, Audit and Risk Committee. All committees required by Regulations are included within the governance structure.
- During the Council meeting on 27 February 2025, members approved the restructure of the Leadership Team. The key changes included rebranding the Managing Director role to become the Chief Executive role and reallocation of key areas of responsibilities between each of the Directorates.
- The Authority's controls to prevent and detect fraud are detailed within the Authority's Fraud Prevention Policy. The policy evidences that the Council has an effective counter fraud and anti-corruption arrangements in place and is maintained in accordance with the Code of Practice on Managing the Risk of Fraud and Corruption. Additionally, the Authority are part of a Shared Anti-Fraud Service, hosted by Hertfordshire County Council. The Finance, Audit and Risk Committee receives quarterly reports from the Shared Anti-Fraud Service.
- The budget is reviewed by the Cabinet and Finance, Audit and Risk Committee before a final draft budget, including financial risks, went to Full Council for final approval on 29 February 2024.
- The responsibility for ensuring that the Authority is compliant with laws and regulations falls under the remit of the Director: Governance (Monitoring Officer). The Monitoring Officer attends the Public Law Partnership (an Eastern legal partnership covering 27 local authorities), and quarterly Governance Special Interest meetings where any legal and governance updates are discussed and provided. The Director attends other Monitoring Officer know-how sessions regularly provided by Lawyers in Local Government and is also part of the Association of Democratic Services Officers forum. Compliance with laws and regulations is monitored by legal staff and the Monitoring Officer weekly, and actions are subsequently identified on Service Action plans.

# Value for money arrangements

## Governance

In assessing whether there was a significant risk relating to governance we reviewed:

- Processes for the identification, monitoring and management of risk;
- The design of the governance structures in place at the Authority;
- Controls in place to prevent and detect fraud;
- The review and approval of the 2024/25 financial plan by the Authority, including how financial risks were communicated;
- How compliance with laws and regulations is monitored;
- Processes in place to monitor officer compliance with expected standards of behaviour, including recording of interests, gifts and hospitality; and
- How the Authority ensures decisions receive appropriate scrutiny.

### Summary of risk assessment continued

- Policy changes and new policies would either be considered by Leadership Team (e.g. for human resources related policies), Cabinet (e.g. where more strategic policies) or Council (e.g. financial regulations, procurement rules). The Monitoring Officer is part of Leadership Team so would be able to input into that consideration. All Committee reports include a legal implication section, which is reviewed by a legal officer.
- Monthly briefings are provided by the Monitoring Officer in writing and orally to Group Leaders, identifying up and coming legislation and enactments and possible impacts on the Authority. There is also a Statutory Officer Group, which meets quarterly, or more often as required and legal issues are standing items on the agenda.
- The Authority has a Code of Conduct for Councillors. Conflicts of interest is included in the Code of Conduct for Councillors. The Code of Conduct defines the standards of behaviour for councillors and all employees. All councillors and employees are made aware of the relevant code of conduct at the beginning of their employment.
- Financial Regulations forms part of the Constitution of the Council. These Financial regulations provide the framework for managing the authority's financial affairs. The regulations applies to every Member and Officer of the Council, but they place specific requirements on certain individuals and committees. The Financial Regulations provides an appropriate escalation framework for making key decisions including escalation to the Council or relevant Committees as necessary.

# Value for money arrangements

## Governance

In assessing whether there was a significant risk relating to governance we reviewed:

- Processes for the identification, monitoring and management of risk;
- The design of the governance structures in place at the Authority;
- Controls in place to prevent and detect fraud;
- The review and approval of the 2024/25 financial plan by the Authority, including how financial risks were communicated;
- How compliance with laws and regulations is monitored;
- Processes in place to monitor officer compliance with expected standards of behaviour, including recording of interests, gifts and hospitality; and
- How the Authority ensures decisions receive appropriate scrutiny.

### Summary of risk assessment continued

- The Authority has Contract Procurement Rules as part of the Constitution. These Rules were revised on 24 February 2025. All business cases include an implications section which includes finance, risk and legal. For projects that will form part of the Council Delivery Plan, the impact of performance and KPIs are also considered. For all decisions, the level of information will be in line to the scale and type of decision. For significant decisions then will be presented to Leadership Team and/ or Political Liaison Board. Legal and regulatory requirements are incorporated into business cases via mandatory use of the project plan templates. The reports also includes a section to document equality, social value, HR, environmental and diversity considerations as well.
- Under Regulation 9 of the Accounts and Audit Regulations 2015, the Authority is required to publish its draft annual Statement of Accounts by 31 May each year. The Government introduced amendments to the Accounts and Audit Regulations which required the Authority to publish its unaudited 2024/25 financial statements and accompanying information on or before 30 June 2025.
- We acknowledge that the Authority has been affected by the mid-year general ledger migration and audit backlog.
- The Authority missed this deadline and published its unaudited Statement of Accounts for 2024/25 on 10 July 2025 to discharge the statutory responsibilities under the Accounts and Audit Regulations 2015.

### Risk assessment conclusion

- Based on the risk assessment procedures performed we have identified a significant risk associated with governance on the Authority's Preparation and Publication of the Statement of Accounts.
- We will further assess the Authority's arrangements to monitor and ensure compliance with its statutory financial reporting responsibilities.

# Value for money arrangements

## Improving economy, efficiency and effectiveness

In assessing whether there was a significant risk relating to improving economy, efficiency and effectiveness we reviewed:

- The processes in place for assessing the level of value for money being achieved and where there are opportunities for these to be improved;
- The development of efficiency plans and how the implementation of these is monitored;
- How the performance of services is monitored and actions identified in response to areas of poor performance;
- How the Authority has engaged with partners in development of the organisation and system wide plans and arrangements;
- The engagement with wider partnerships and how the performance of those partnerships is monitored and reported; and
- The monitoring of outsourced services to verify that they are delivering expected standards.

### Summary of risk assessment

- The Authority have previously carried out cost reviews and looked at levels of service against statutory requirements. This has included the use of benchmarking data from comparable Councils. The Senior Leadership Team will look to other Local Authorities for examples of best practice and learn from those examples where possible. However, the limitations and cost of such benchmarking data mean that this is not now regularly collected or used by the Authority as it doesn't represent a significant benefit for the cost.
- The Authority's processes for the development, implementation and monitoring of efficiency plans is as described on the previous pages on Financial Sustainability.
- To monitor the performance of services, budget managers receives a monthly budget report which includes details on spend and projections from finance. Group accountants will meet to budget managers at least quarterly to discussion reasons and mitigation for adverse variances. Budget managers provide explanations for variances which are presented in the Formal Reporting papers which are presented quarterly to the Senior Leadership Team, Cabinet and Finance, Audit and Risk Committee.
- After the end (31st March 2024) of the leisure contract, the contractor, Stevenage Leisure Limited (SLL) went into liquidation. It was expected that SLL would not pay back all the gym equipment loaned by the Authority as that had been heavily impacted by Covid-19 and repayments had been suspended. The Authority has put forward their legal position but are yet to receive a response from the liquidators.

# Value for money arrangements

## Improving economy, efficiency and effectiveness

In assessing whether there was a significant risk relating to improving economy, efficiency and effectiveness we reviewed:

- The processes in place for assessing the level of value for money being achieved and where there are opportunities for these to be improved;
- The development of efficiency plans and how the implementation of these is monitored;
- How the performance of services is monitored and actions identified in response to areas of poor performance;
- How the Authority has engaged with partners in development of the organisation and system wide plans and arrangements;
- The engagement with wider partnerships and how the performance of those partnerships is monitored and reported; and
- The monitoring of outsourced services to verify that they are delivering expected standards.

### Summary of risk assessment

- In December 2021, the Authority made an agreement with a High Needs accommodation provider, initially resulting in subsidy loss for the Authority. The provider registered as a Housing Association in May 2023, aiming to access higher Housing Benefit rates and to eliminate subsidy loss to the Authority. However, the provider's Regulator of Social Housing status remained 'for-profit' despite assurances from the provider that it would change, leading to the Authority to suspend benefit payments in March 2025. There are ongoing proceedings between the Authority and the provider, following the Authority withholding payment of benefits.
- At the time of entering the agreement, the Authority did not specify a date by which the provider needed to achieve this status, nor did it set this requirement in writing.
- We understand there to be a number of staffing shortages at the Council which can impact on the Council's ability to deliver projects on time and leading to a requirement to prioritise key services. Our risk assessment procedures found this to be a consistent concern across the Senior Management Team and a key risk on the Council's risk register. The Council has pursued alternative approaches to address the difficulties experienced in recruitment e.g. apprenticeship and training schemes, secondment of staff, buying staff time from other Authorities within the area and agencies. Two factors have been noted regarding the difficulties in recruitment and retention – a) salaries when compared to the nearby London local government market and b) salaries and prospects in the private sector. Given the pervasive nature of this messaging in our inquiries, we have noted a significant risk in this matter.
- The Council shares services across the Hertfordshire area where practical and appropriate to the needs of the Council. For example, the Internal Audit function and Anti-Fraud Service are both sourced from Hertfordshire County Council shared services.

# Value for money arrangements

## Improving economy, efficiency and effectiveness

In assessing whether there was a significant risk relating to improving economy, efficiency and effectiveness we reviewed:

- The processes in place for assessing the level of value for money being achieved and where there are opportunities for these to be improved;
- The development of efficiency plans and how the implementation of these is monitored;
- How the performance of services is monitored and actions identified in response to areas of poor performance;
- How the Authority has engaged with partners in development of the organisation and system wide plans and arrangements;
- The engagement with wider partnerships and how the performance of those partnerships is monitored and reported; and
- The monitoring of outsourced services to verify that they are delivering expected standards.

### Summary of risk assessment continued

#### Risk assessment conclusion

- Based on the risk assessment procedures performed we have identified a significant risk associated with improving economy, efficiency and effectiveness on the maintenance of appropriate staffing levels within the Authority, both through recruitment and retention.
- We will further assess management's response to tracking and managing the risk in regard to staffing levels and to mitigate and address the risk in regard to staffing levels through alternative staffing sources.
- Whilst we have not identified a significant risk of a weakness in relation to the ongoing proceedings with the high needs accommodation provider, we have identified a performance improvement observation.

# Performance improvement observations

The performance improvement observations raised as a result of our risk assessment procedures are included below:

Priority rating for observations			
1	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
1	2	<p><b>Partnership arrangements</b></p> <p>In December 2021, the Authority made an agreement with a High Needs accommodation provider, initially resulting in subsidy loss for the Authority. The provider registered as a Housing Association in May 2023, aiming to access higher Housing Benefit rates and to eliminate subsidy loss to the Authority. However, the provider's Regulator of Social Housing status remained 'for-profit' despite assurances from the provider that it would change, leading to the Authority to suspend benefit payments in March 2025. There are ongoing proceedings between the Authority and the provider, following the Authority withholding payment of benefits.</p> <p>At the time of entering the agreement, the Authority did not specify a date by which the provider needed to achieve this status, nor did it set this requirement in writing.</p> <p><b>Recommendation</b></p> <p>Management are taking a report to Cabinet in November on this matter. We recommend that any learning identified is taken on board to avoid similar issues in the future.</p>	<p><b>Management Response:</b> We are taking a report to Cabinet in November to provide full details and seek a decision on next steps.</p> <p><b>Responsible Officer:</b> Directors for Resources and Regulatory</p> <p><b>Due Date:</b> November 2025</p>



# Appendices

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# Audit team and rotation

Your audit team has been drawn from our specialist local government audit department and is led by key members of staff who will be supported by auditors and specialists as necessary to complete our work. We also ensure that we consider rotation of your audit director and firm.



Salma Younis is the director responsible for our audit. She will lead our audit work, attend the Finance, Audit and Risk Committee and be responsible for the opinions that we issue.



Henry Lau is the manager responsible for our audit. He will co-ordinate our audit work, attend the Finance, Audit and Risk Committee and ensure we are co-ordinated across our accounts and VFM work.



Marshal Ngwarai is the in-charge responsible for our audit. He will be responsible for our on-site fieldwork. He will complete work on more complex sections of the audit.




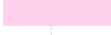





To comply with professional standard we need to ensure that you appropriately rotate your external audit director. There are no other members of your team which we will need to consider this requirement for:



This will be Salma's first year as your engagement lead. She is required to rotate every five years, extendable to seven with PSAA approval.

# Audit timeline

We have developed our audit timeline based on management's financial reporting timetable. If we need to make significant changes to the audit timeline below, then we will communicate the reasons to you on a timely basis.

	2025									2026			
Activity	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr
Risk assessment and planning				Inquiries of those charged with governance from April 2025									
VFM Assessment													
Audit plan discussed and approved													
Year-end audit fieldwork*													
Clearance meeting*													
Approval of accounts by FARC*													
Audit report issued by Feb 2026													
Audit debrief*													

\* Dates for issuing deliverables are preliminary and based on information available at time of reporting. They are therefore subject to change.

# Fees

## Audit fee

Our fees for the year ended 31 March 2025 are set out in the PSAA Scale Fees communication and are shown below.

Entity	2024/25 (£'000)	2023/24 (£'000)
Statutory audit	164,329	149,516
Agreed PY fee variations	-	36,345*
<b>TOTAL</b>	<b>164,329</b>	<b>185,861</b>

*\*subject to PSAA final review and confirmation*

The fees also assume no significant risks are identified as part of the Value for Money risk assessment. Additional fees in relation to these areas will be subject to the fees variation process as outlined by the PSAA.

## Billing arrangements

Fees will be billed in accordance with the milestone completion phasing that has been communicated by the PSAA.

## Basis of fee information

Our fees are subject to the following assumptions:

- The Council's audit evidence files are completed to an appropriate standard (we will liaise with you separately on this);
- Draft statutory accounts are presented to us for audit subject to audit and tax adjustments;
- Supporting schedules to figures in the accounts are supplied;
- The Council's audit evidence files are completed to an appropriate standard (we will liaise with management separately on this);
- A trial balance together with reconciled control accounts are presented to us;
- All deadlines agreed with us are met;
- We find no weaknesses in controls that cause us to significantly extend procedures beyond those planned;
- Management will be available to us as necessary throughout the audit process; and
- There will be no changes in deadlines or reporting requirements.

We will provide a list of schedules to be prepared by management stating the due dates together with pro-formas as necessary.

Our ability to deliver the services outlined to the agreed timetable and fee will depend on these schedules being available on the due dates in the agreed form and content.

Any variations to the above plan will be subject to the PSAA fee variation process.

# 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 Director and audit staff is not impaired.

## To the Finance, 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*

Facts and matters related to the provision of non-audit services and the safeguards put in place that bear upon our independence and objectivity, are set out on the table overleaf.

# 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 2025 £	Value of Services Committed but not yet delivered £
1	Housing benefit grant certification	Management Self review Self interest	<ul style="list-style-type: none"> <li>Standard language on non-assumption of management responsibilities is included in our engagement letter.</li> <li>The engagement contract makes clear that we will not perform any management functions.</li> <li>The work is performed after the audit is completed and the work is not relied on within the audit file.</li> <li>Our work does not involve judgement and are statements of fact based on agreed upon procedures.</li> <li>Work performed by a different team.</li> </ul>	Fixed	£32,300	TBC

# Confirmation of Independence (cont.)

Summary of fees

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

	2024/25
	£'000
Statutory audit	164.3
Other Assurance Services	32.3
Total Fees	196.6

Fee ratio

The ratio of non-audit fees to audit fees for the year is anticipated to be 0.2: 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.

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 partner 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



# Understanding of IT

Effect on audit effort



## Summary

**The release of ISA 315 (UK) revised brought an increased focus on Understanding of IT in the audit, and it continues to be an area of focus.**

Stakeholders now expect auditors to not only understand IT in detail, but also to consider the impact of the findings from their risk assessment procedures on their planned audit approach.

### Why is Understanding of IT so important?

Businesses continue to embrace increasingly complex and sophisticated IT systems and place more and more reliance on automated IT processing not simply for a competitive advantage, but also for "business as usual" operations.

This increased reliance means that to effectively audit accounts, balances and transactions, auditors are required to understand and challenge more around how those IT system and process work.

Therefore, Understanding of IT is a crucial building block of our audit strategy and influences our planned audit approach at every stage.

This is true regardless of whether controls reliance is planned or the audit is expected to be fully substantive in nature.

### What kind of things might we identify?

As part of our risk assessment procedures, we perform:

- An assessment of the formality, or otherwise, of certain financially relevant IT processes
- An evaluation of the design and implementation of related general IT controls
- An evaluation of the design and implementation of automated process level controls

As a result of these procedures, we may identify IT control deficiencies or IT process informalities that may have an impact on our planned audit approach.

Additionally, we may identify findings related to the wider control environment or threats to the accuracy or completeness of the information used by both entity management and auditors alike.

### What does this mean for our audits?

Auditors are being asked to consider the findings from their risk assessment procedures over IT in relation to the planned audit approach.

The findings may impact any area of the audit, however there are three main areas of focus where we anticipate that most impact as a result of identifying IT deficiencies or IT process informality;

- Increased risk to data integrity
- Additional fraud risk factors
- Additional high-risk criteria to be used in journals analysis

It is important to understand that these findings may have an impact regardless of planned reliance on automated controls and general IT controls.

# Appendix F ISA (UK) 600 Revised: Summary of changes



## 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
<b>Risk-based approach</b>	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.	
<b>Group auditor responsibilities</b>	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.	
<b>Flexibility in defining components</b>	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.	
<b>Quality management</b>	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.	
<b>Robust communication</b>	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.	
<b>Application of materiality and aggregation risk</b>	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.	
<b>Revised independence principles</b>	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.	

# FRC's areas of focus

The FRC released their **Annual Review of Corporate Reporting 2023/24** ('the Review') in **September 2024** having already issued three thematic reviews during the year.

The Review and thematic reviews identify where the FRC believes companies can improve their reporting. These slides give a high level summary of the key topics covered. We encourage management and those charged with governance to read further on those areas which are significant to their entity.



## Key expectations for 2024/25 annual reports

### Overview

The Review identifies that the quality of reporting across FTSE 350 companies has been maintained this year, but there is a widening gap in standards between FTSE 350 and non-FTSE 350 companies. This is noticeable in the FRC's top two focus areas, 'Impairment of assets' and 'Cash Flow Statements'.

'Provisions and contingencies' has fallen out of the top ten issues for the first time in over five years. This issue is replaced by 'Taskforce for Climate-related Financial Disclosures (TCFD) and climate-related narrative reporting'.

The FRC re-iterates that companies should apply careful judgement to tell a consistent and coherent story whilst ensuring the annual report is clear, concise and company-specific.

### Pre-issuance checks and restatements

The FRC expects companies to have in place a sufficiently robust self-review process to identify common technical compliance issues. The FRC continues to be frustrated by the increasing level of restatements affecting the presentation of primary statements. This indicates that thorough, 'step-back' reviews are not happening in all cases.

### Risks and uncertainties

Geopolitical tensions continue and low growth remains a concern in many economies, particularly with respect to going concern, impairment and recognition/recoverability of tax assets and liabilities. The FRC continue to push for enhanced disclosures of risks and uncertainties. Disclosures should be sufficient to allow users to understand the position taken in the financial statements, and how this position has been impacted by the wider risks and uncertainties discussed elsewhere in the annual report.

### Financial reporting framework

The FRC reminds preparers to consider the overarching requirements of the UK financial reporting framework in determining the information to be presented. In particular the requirements for a true and fair view, along with a fair, balanced, and comprehensive review of the company's development, position, performance, and future prospects.

The FRC does not expect companies to provide information that is not relevant and material to users, and companies should exercise judgement in determining what information to include.

Companies should also consider including disclosures beyond the specific requirements of the accounting standards where this is necessary to enable users to understand the impact of particular transactions or other events and conditions on the entities financial position, performance and cash flows.



# FRC's areas of focus (cont.)



## Impairment of assets

Impairment remains a key topic of concern, exacerbated in the current year by an increase in restatements of parent company investments in subsidiaries.

Disclosures should provide adequate information about key inputs and assumptions, which should be consistent with events, operations and risks noted elsewhere in the annual report and be supported by a reasonably possible sensitivity analysis as required.

Forecasts should reflect the asset in its current condition when using a value in use approach and should not extend beyond five years without explanation.

Preparers should consider whether there is an indicator of impairment in the parent when its net assets exceed the group's market capitalisation. They should also consider how intercompany loans are factored into these impairment assessments.

## Cash flow statements

Cash flow statements remain the most common cause of prior year restatements.

Companies must carefully consider the classification of cash flows and whether cash and cash equivalents meet the definitions and criteria in the standard. The FRC encourage a clear disclosure of the rationale for the treatment of cash flows for key transactions.

Cash flow netting is a frequent cause of restatements and this was highlighted in the ['Offsetting in the financial statements'](#) thematic.

Preparers should ensure the descriptions and amounts of cash flows are consistent with those reported elsewhere and that non-cash transactions are excluded but reported elsewhere if material.

## Climate

This is a top-ten issue for the first time this year, following the implementation of TCFD.

Companies should clearly state the extent of compliance with TCFD, the reasons for any non-compliance and the steps and timeframe for remedying that non-compliance. Where a company is also applying the Companies Act 2006 Climate-related Financial Disclosures, these are mandatory and cannot be 'explained', further the required location in the annual report differs.

Companies are reminded of the importance of focusing only on material climate-related information. Disclosures should be concise and company specific and provide sufficient detail without obscuring material information.

It is also important that there is consistency within the annual report, and that material climate related matters are addressed within the financial statements.

## Financial instruments

The number of queries on this topic remains high, with Expected Credit Loss (ECL) provisions being a common topic outside of the FTSE 350 and for non-financial and parent companies.

Disclosures on ECL provisions should explain the significant assumptions applied, including concentrations of risk where material. These disclosures should be consistent with circumstances described elsewhere in the annual report.

Companies should ensure sufficient explanation is provided of material financial instruments, including company-specific accounting policies.

Lastly, the FRC reminds companies that cash and overdraft balances should be offset only when the qualifying criteria have been met.

## Judgements and estimates

Disclosures over judgements and estimates are improving, however these remain vital to allow users to understand the position taken by the company. This is particularly important during periods of economic and geopolitical uncertainty.

These disclosures should describe the significant judgements and uncertainties with sufficient, appropriate detail and in simple language.

Estimation uncertainty with a significant risk of a material adjustment within one year should be distinguished from other estimates.

Further, sensitivities and the range of possible outcomes should be provided to allow users to understand the significant judgements and estimates.

# FRC's areas of focus (cont.)

## Revenue

Disclosures should be specific and, for each material revenue stream, give details of the timing and basis of revenue recognition, and the methodology applied. Where this results in a significant judgement, this should be clear.

## Presentation

Disclosures should be consistent with information elsewhere in the annual report and cover company-specific material accounting policy information.

A thorough review should be performed for common non-compliance areas of IAS 1.

## Income taxes

Evidence supporting the recognition of deferred tax assets should be disclosed in sufficient detail and be consistent with information reported elsewhere in the annual report.

The effect of Pillar Two income taxes should be disclosed where applicable.

## Strategic report and Companies Act

The strategic report must be 'fair, balanced and comprehensive'. Including covering all aspects of performance, economic uncertainty and significant movements in the primary statements.

Companies should ensure they comply with all the statutory requirements for making distributions and repurchasing shares.

## Fair value measurement

Explanations of the valuation techniques and assumptions used should be clear and specific to the company.

Significant unobservable inputs should be quantified and the sensitivity of the fair value to reasonably possible changes in these inputs should provide meaningful information to readers.

## Thematic reviews

The FRC has issued three thematic reviews this year: 'Reporting by the UK's largest private companies' (see below), 'Offsetting in the financial statements', and 'IFRS 17 Insurance contracts – Disclosures in the first year of application'. The FRC have also performed Retail sector research (see below).

### UK's largest private companies

The quality of reporting by these entities was found to be mixed, particularly in explaining complex or judgemental matters. The FRC would expect a critical review of the draft annual report to consider:

- internal consistency
- whether the report as a whole is clear, concise, and understandable; notably with respect to the strategic report
- whether it omits immaterial information, or
- whether additional information is necessary for the users understanding particularly with respect to revenue, judgments and estimates and provisions

### Retail sector focus



Retail is a priority sector for the FRC and the research considered issues of particular relevance to the sector including:

- Impairment testing and the impact of online sales and related infrastructure
- Alternative performance measures including like for like (LFL) and adjusted e.g. pre-IFRS 16 measures
- Leased property and the disclosure of lease term judgements, particularly for expired leases.
- Supplier income arrangements and the clarity of accounting policies and significant judgements around measurement and presentation of these.

## 2024/25 review priorities

The FRC has indicated that its 2024/25 reviews will focus on the following sectors which are considered by the FRC to be higher risk by virtue of economic or other pressures:

 Industrial metals and mining  
 Retail

 Construction and materials  
 Gas, water and multi-utilities

 Food producers  
 Financial Services



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