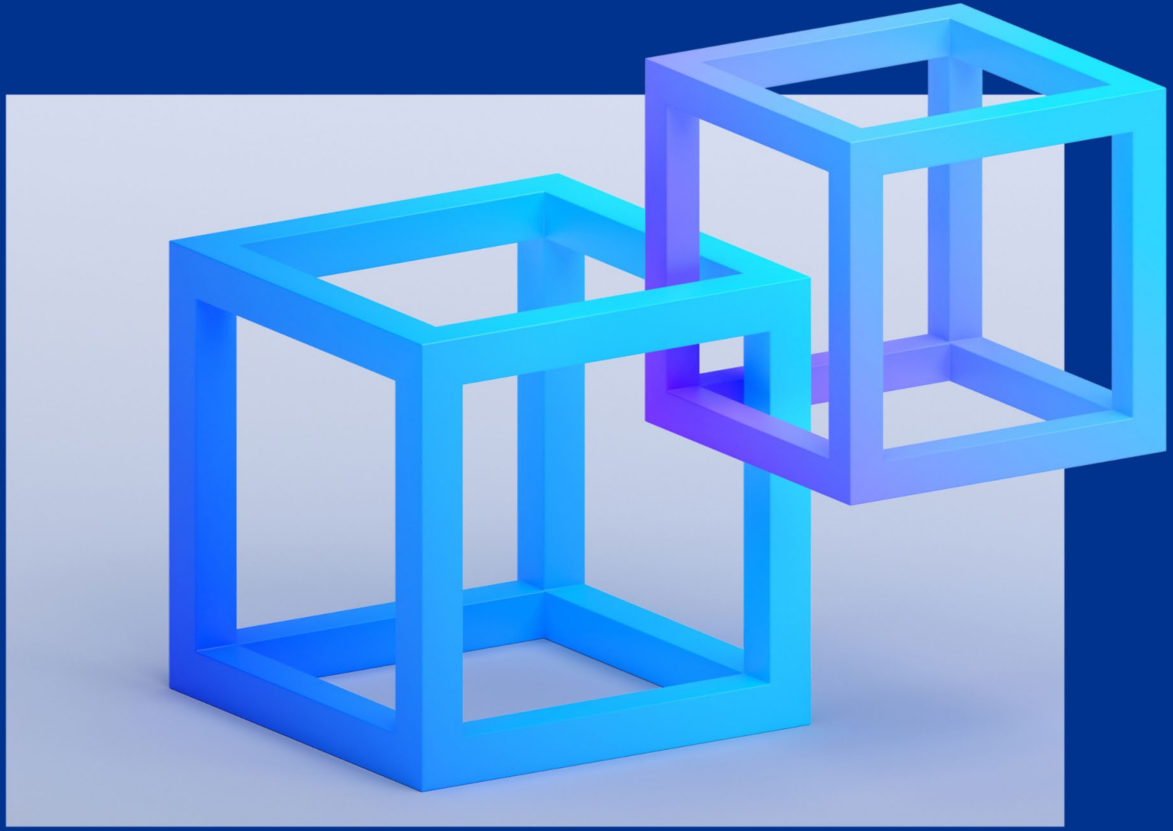
KPMG

North Hertfordshire District Council



Report to the Finance, Audit & Risk Committee

Rebuilding assurance update

For the year ending 31 March 2026

September 2026

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 the 9th September 2026 to discuss our audit of the financial statements of North Hertfordshire District Council, as at and for the year ending 31 March 2026 and in particular the results from our Rebuilding Assurance risk assessment

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.

This report should be read in conjunction with our External Audit Plan and Strategy for the year ended 31 March 2026, which was presented to the Finance, Audit and Risk Committee. In that report we referred to our work in completing our Rebuilding Assurance Risk Assessment. This report provides further information in respect of our work.

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:

- An audit is 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 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), the engagement lead for 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.cutler@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.

Restrictions on distribution

This report is intended solely for the information of those charged with governance of the North Hertfordshire District Council and the report is provided on the basis that it should not be distributed to other parties; that it will not be quoted or referred to, in whole or in part, without our prior written consent; and that we accept no responsibility to any third party in relation to it.

Rebuilding assurance

Background

The Government introduced measures to resolve the legacy local government financial reporting and audit backlog. In 2024, amendments were made to the Accounts and Audit Regulations and NAO's Code of Audit Practice which introduced the requirement for audit reports in respect of any open, incomplete audits up to the period ending 31 March 2023 to be published by 13 December 2024. It also introduced a statutory backstop date of 28 February 2025 and 27 February 2026 for the 2023/24 and 2024/25 audits, respectively.

Guidance has been developed to help support appropriate audit procedures for audits where further work is required to build back assurance. In addition to the Local Audit Reset and Recovery Implementation Guidance (LARRIGs) published in 2024 by the NAO, further guidance has also been published by the NAO: LARRIG 06 – Special considerations for rebuilding assurance for specified balances following backstop-related disclaimed audit opinions (e.g. reserves balances where a disclaimer has previously been issued). We note the LARRIGs are prepared and published with the endorsement of the Financial Reporting Council (FRC) and are intended to support the reset and recovery of local audit in England.

For the Authority this had the impact of a disclaimer of opinion issued by your predecessor auditor for the financial year 2022/23. We then issued a disclaimer of opinion for 2023/24 on 20 February 2025 to comply with the statutory backstop date as reported to you previously. For the 2024/25 audit we issued a disclaimed opinion on 27 February 2026.

We note that the Ministry of Housing, Communities and Local Government (MHCLG) has written to all impacted bodies and audit firms (November 2025) to request a brief assessment of each body's capacity to support the build-back audit process once the build-back risk assessment is complete.

The 2025/26 audit

As part of the 2025/26 audit, we have completed our rebuilding assurance risk assessment which included:

- Inquiries regarding changes to the Authority during the disclaimed period.
- Considering the disclaimed period and associated reporting including the statement of accounts, Annual Governance Statements, findings from the disclaimed period audits and any findings from the Section 151 officer in their assessment that the financial statements present a true and fair view.
- Reconciling the planned movement in reserves from budget setting, in-year monitoring and outturn reports and documenting our understanding of planned usage and changes in reserves over the disclaimed period.
- Considering the processes over capital additions/disposals
- A balance sheet financial statement caption by caption assessment of the movement over the disclaimed period overlaid with findings from other risk assessment procedures to determine the appropriate testing strategy to remove the risk of material misstatement in line with the LARRIGs.

As a result of the risk assessment, we have designed an appropriate response to address the risks identified and the audit year we will complete the work. This is set out on page 4 of this report.

We have also included an appendix (pages 6–7) with key elements of the MHCLG capacity assessment requested by MHCLG. We note this includes a categorisation of your audit as requested by MHCLG. The categories identified by MHCLG are:

- A - audits expected to be relatively straightforward and able to sustain an ISA-compliant approach without significant difficulty.
- B - audits that are in theory capable of supporting an ISA-compliant approach but where significant operational difficulties are likely
- C - the audited entity has adequate systems to provide the necessary evidence in principle, but practical constraints mean that ISA-compliant build-back is unlikely by the end of 2027/28
- D – major systemic problems with financial management, governance or accounting systems.

Fee

We note our fees for the risk assessment phase of work are £26,500 (plus VAT). These have been agreed with the Director-Resources and are now subject to PSAA approval.

The fees for the substantive phase are likely to be in the range of £15,000 to £25,000. This will be confirmed once the work commences later in the year.

We note our fees are subject to fee assumptions set out in our External Audit Plan and Strategy. We also note our fees will be subject to the PSAA fee variation process and PSAA approval.

MHCLG has announced grant funding for audit build-back.

Rebuilding assurance: Risk assessment results

LARRIG 06 sets out guidance to auditors of English local authorities in circumstances where the auditor's opinion on the prior year financial statements has been disclaimed because of backstop arrangements included in the Accounts and Audit (Amendment) Regulations 2024. Specifically, its purpose is to assist auditors in the process of rebuilding assurance for specific classes of transactions, account balances, and disclosures that warrant special consideration beyond the general principles set out in LARRIG 05.

Specifically, we have completed the following risk assessment procedures:

- Entity and process level risk assessment procedures;
- Review of Statements of Accounts from disclaimed years;
- An assessment of the revenue budget setting and monitoring, including reserves, and capital during the disclaimed period; and
- Inquiries regarding changes to the Authority during the disclaimed period.

The risk assessment has identified risks of material misstatement. We need to complete procedures to address these risks. The table below identifies the risks of material misstatement, the procedures to address them and the likely audit year in which we will complete the work.

#	Account Caption	Risk of material misstatement identified	Procedures to address the risk of material misstatement	Audit year we have planned the procedures *
1	Property plant and equipment	Revaluation adjustments regarding assets subject to revaluation in the disclaimed periods are not appropriately identified or classified.	• Agree the Fixed Asset Register to the General ledger and Statement of Accounts for the financial years 2022/23 and 2023/24; and • Agree revalued asset values back to the external valuation report and supporting workings for the financial years 2022/23 and 2023/24.	2025/26
2	Property plant and equipment	Additions to property, plant and equipment are recorded inappropriately when: the expenditure is not eligible for capitalisation, the assets are not accurately recorded, the entity does not have the rights to the assets, or the assets do not exist.	For a sample of additions capitalised in the year ended 31 March 2023 and 31 March 2024, we will: • Confirm the entity has the rights to the assets and that they exist; • Confirm the additions meet the criteria to be capitalised and have been capitalised in the correct period; and • Confirm the useful economic lives applied to the assets are in line with the Council's accounting policy, which drives the depreciation calculation.	2025/26

* This is subject to the Authority providing the required information in a timely manner.

Rebuilding assurance: Risk assessment results

#	Account Caption	Risk of material misstatement identified	Procedures to address the risk of material misstatement	Audit year we have planned the procedures *
3	Unusable Reserves	Transfers to or from unusable reserves are not appropriately identified and classified or are not accurately recorded.	For the years ending 31 March 2023 and 31 March 2024 we will: • Confirm the entries in the Capital Adjustment Account, Revaluation Reserve, Pensions Reserve, and other Unusable Reserves are consistent with the Movement in Reserves Statement (i.e. in and out of General Fund). This involves ensuring that the "accounting entries" in the Comprehensive Income and Expenditure Statement are reversed out and replaced by the funding "entries". This test confirms movements to the General Fund and the unusable reserves, are consistent. • Confirm that Capital Expenditure additions to the Capital Financing Requirement (CFR) agree materially to the capital expenditure outturn. • Confirm whether the Revenue Expenditure Funded from Capital Under Statute (REFCUS) expenditure impacts the Capital Financing Requirement and if the Minimum Revenue Provision (MRP) is in line with Policy, and whether there have been any changes in the disclaimed period. • Confirm whether voluntary MRP has been approved through the Finance, Audit & Risk Committee. • Assess completeness of balances such as MRP, which move usable funds to unusable funds to support the understanding of any understatement of MRP.	2025/26
4	Earmarked Reserves	Transfers to or from earmarked reserves are not appropriately identified and classified or are not accurately recorded.	For the years ending 31 March 2023 and 31 March 2024 we will: • Confirm that movements in Earmarked Reserves are consistent with the Movement in Reserves Statement (i.e. transfers to and from the General Fund). Verify that reserve movements are supported by approved decisions and agree to the underlying reserve schedules.	2025/26

*This is subject to the Authority providing the required information in a timely manner.

MHCLG – Capacity assessment template

We have included below and overleaf key elements of the capacity assessment as requested by MHCLG (Categories as per page 3).

Expected timing of build-back work

Audit area	Audit for the year ending 31 March						Unable to rebuild	
	2025	2026	2027	2028	2029	Later	Cat C	Cat D
Risk assessment		x					N/A	N/A
Statutory reserves		x						
Property assets		x						
Non-property investment assets								
Pension deficit/surplus								
Long-term debtors and creditors								
Working balances								
Pension fund (if applicable)								
Other audit work								

Expected audit opinions

Audit area	Audit for the year ending 31 March						Unable to rebuild	
	2025	2026	2027	2028	2029	Later	Cat C	Cat D
Audit opinion 1 Transfer to qualified opinion		x					N/A	N/A
Transfer to unmodified (clean) opinion			x*					

*subject to outcome of audit work performed in 2025/26 and 2026/27

MHCLG – Capacity assessment template

Overall assessment

The categories below are those MHCLG has described and requested for categorisation.

Audits that **are capable** of supporting an ISA-compliant approach to return to an unmodified opinion within the build-back period (up to and including audit year 2027/28):

A - audits expected to be relatively straightforward and able to sustain an ISA-compliant approach without significant difficulty.

B - audits that are in theory capable of supporting an ISA-compliant approach, but where significant operational difficulties are likely, e.g. inability to obtain some key records or evidence of the operation of some key controls, or where the audited body needs to re-establish the internal mechanisms to support the audit process.

- Difficulty obtaining evidence such as key documents, evidence of operation of key controls, or explanations of historic transactions
- Complex arrangements such as subsidiaries, joint ventures or specialised assets
- Scale of the audit work required, e.g. due to number of years outstanding
- Constraints on auditor's capacity.

Audits that are **not capable** of supporting an ISA-compliant approach by the end of the build-back period (up to and including audit year 2027/28)

C - the audited entity has adequate systems to provide the necessary evidence in principle, but practical constraints mean that ISA-compliant build-back is unlikely by the end of 2027/28. Practical constraints may relate to accessibility of evidence, organisational capacity, or the scale and complexity of the audit.

D – major systemic problems with financial management, governance or accounting systems. There are pervasive weaknesses in systems of financial reporting and internal control such that the auditor judges the conditions do not exist for an ISA-compliant audit to be completed in the foreseeable future.

We have categorised your audit as Category A - audits expected to be relatively straightforward and able to sustain an ISA-compliant approach without significant difficulty.

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