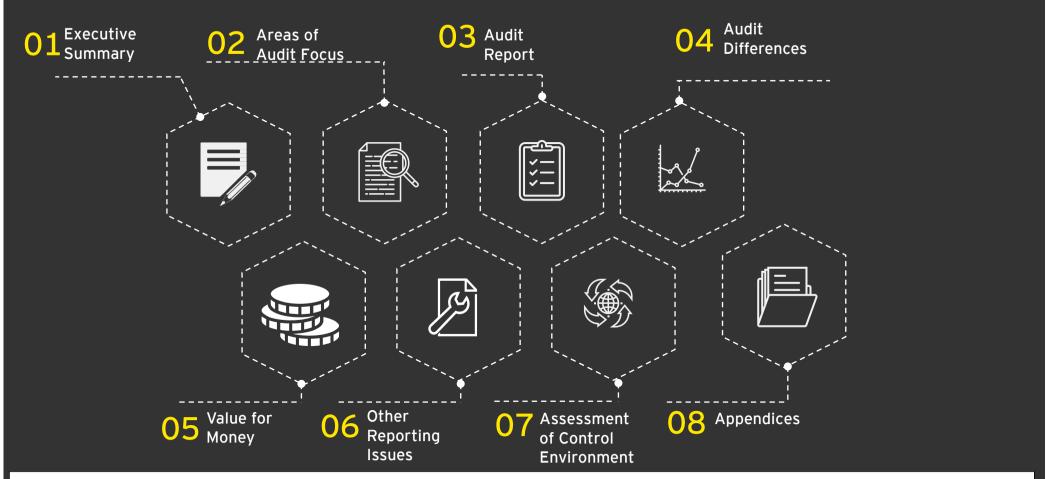


# **Contents**



In April 2015 Public Sector Audit Appointments Ltd (PSAA) issued "Statement of responsibilities of auditors and audited bodies". It is available from the via the PSAA website (www.PSAA.co.uk).

The Statement of responsibilities serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas.

The "Terms of Appointment (updated February 2017)" issued by the PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and in legislation, and covers matters of practice and procedure which are of a recurring nature.

This report is made solely to the Finance, Audit and Risk Committee, other members of the Authority and management of North Hertfordshire District Council in accordance with the statement of responsibilities. Our work has been undertaken so that we might state to the Finance, Audit and Risk Committee, other members of the Authority and management of North Hertfordshire District Council those matters we are required to state to them in this report and for no other purpose. To the fullest extent permitted by law we do not accept or assume responsibility to anyone other than the Finance, Audit and Risk Committee, other members of the Authority and management of North Hertfordshire District Council for this report or for the opinions we have formed. It should not be provided to any third-party without obtaining our written consent.





# **Executive Summary**

## Overview of the audit

## Scope and materiality

In our Audit Plan presented to the 23 January 2017 Finance, Audit and Risk Committee meeting, we gave you an overview of how we intended to carry out our responsibilities as your auditor. We carried out our audit in accordance with this plan.

We planned our procedures using a materiality of £1,421,500. We reassessed this using the actual year-end figures, which has increased the amount to £1,426,500. The threshold for reporting audit differences has increased marginally from £71,075 is £71,325. The basis of our assessment of materiality has remained consistent with prior years at 2% of gross revenue expenditure.

We also identified areas where misstatement at a lower level than materiality might influence the reader and developed a specific audit strategy for them. They include:

- ► Remuneration disclosures including any severance payments, exit packages and termination benefits. We applied a lower threshold for errors (£10,000) and any error that would affect the banding (where applicable to the note).
- Related party transactions, the accounting standard requires us to consider the disclosure from the point of materiality to either side of the transaction we therefore considered this on a case by case basis.
- ► Members' allowances, we would expect an error of over £1,000 which is the rounding point used in the accounts.

### Status of the audit

The Council published its unaudited accounts on 26 June, four days before the 30 June deadline. We have substantially completed our audit of North Hertfordshire District Council's financial statements for the year ended 31 March 2017 and have performed the procedures outlined in our Audit plan. Subject to satisfactory completion of the following outstanding items we expect to issue an unqualified opinion on the Authority's financial statements in the form which appears at section 3 of this report. However until work is complete, further amendments may arise:

- Review of the final version of the financial statements.
- Completion of subsequent events review
- Receipt of the signed management representation letter.

We expect to issue the audit certificate at the same time as the audit opinion.

#### Audit differences

We have also identified three audit differences with an aggregated impact of £2.79 million which reduce the revaluation of non current assets figure in the other comprehensive income section of the comprehensive income and expenditure statement. Due to the way that local government capital accounting transactions are processed there is no net impact on the overall general fund balance.



# **Executive Summary**

### Areas of audit focus

Our Audit Plan identified key areas of focus for our audit of North Hertfordshire District Council's financial statements. This report sets out our observations and conclusions, including our views on areas which might be conservative, and where there is potential risk and exposure. We summarise our consideration of these matters, and any others identified, in the "Key Audit Issues" section of this report.

Since our audit plan was issued we have decided to recognise the risk of inappropriate recognition of revenue expenditure as capital expenditure as a significant risk under the heading 'Revenue recognition' in section 2 below rather than as a sub set of the 'Management override' significant risk which is also shown in section 2 below. We ask you to review these and any other matters in this report to ensure there are no other considerations or matters that could have an impact on these issues, you agree with the resolution of the issue, and there are no other significant issues to be considered.

There are no matters, apart from those reported by management or disclosed in this report, which we believe should be brought to your attention.

### Value for money

We have considered your arrangements to take informed decisions; deploy resources in a sustainable manner; and work with partners and other third parties. We have no matters to report about your arrangements to secure economy efficiency and effectiveness in your use of resources.

### Other reporting issues

We have reviewed the information presented in the Annual Governance Statement for consistency with our knowledge of the Authority. We have no matters to report as a result of this work. We have performed the procedures required by the National Audit Office (NAO) on the Whole of Government Accounts and anticipate making our submission on the same date that we sign our audit report. We have no other matters to report.

#### Control observations

We have not identified any significant deficiencies in the design or operation of an internal control that might result in a material misstatement in your financial statements and which is unknown to you.

## Independence

Please refer to Appendix B for our update on Independence.







# Audit issues and approach: Revenue Recognition

## **Revenue Recognition**

### What are our conclusions?

Our testing has not identified any material misstatements from revenue expenditure being inappropriately classified as capital expenditure.

### What is the risk?

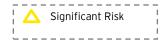
#### Risk of fraud in revenue recognition

Under ISA240 there is a presumed risk that revenue may be misstated due to improper recognition of revenue. In this public sector this requirement is modified by Practice Note 10, issued by the Financial Reporting council, which states that auditors should also consider the risk that material misstatements may occur by manipulating expenditure recognition.

### What did we do?

We assessed that we were able to rebut the presumed fraud risk of revenue income/expenditure not being appropriately recognised with one exception: the risk that revenue expenditure could be charged against capital resources rather than to the general fund.

We tested a sample of asset additions to ensure that these met the definition of being capital rather than revenue expenditure.





# Audit issues and approach: Management override

## Management override

### What are our conclusions?

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

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

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

### What is the risk?

### Risk of management override

As identified in ISA 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and to prepare fraudulent financial statements by overriding controls that otherwise seem to be operating effectively. We identify and respond to this fraud risk on every audit engagement.



### What did we do?

- ► We tested the appropriateness of journal entries recorded in the general ledger and other adjustments made in preparing the financial statements.
- We reviewed the following accounting estimates for evidence of management bias: pension valuations, property valuations, provisions and creditor accruals.
- We evaluated the business rationale for any significant unusual transactions.
- We tested a sample of accruals, prepayments and provisions to check whether they had been recorded at an appropriate value;
- We undertook cut off testing for income and expenditure to ensure that material amounts had not been omitted from the financial statements that related to 2016/17.





## Further details on procedures / work performed

In undertaking our work on management override of controls we have considered the balances included in the Council's financial statements that are the most susceptible to judgement or estimation techniques. The key estimates are considered to be:

- The valuation of Property, Plant and Equipment due to the significance of this on the financial statements we have included this as a higher inherent risk in our audit strategy and include a separate section to report on this below.
- Valuation of pension liabilities due to the significance of this on the financial statements we have included this as a higher inherent risk in our audit strategy and include a separate section to report on this below.

Specifically in relation to other estimates:

- The provisions balance in the financial statements is £966,000 at 31 March 2017, the largest being the business rates appeal provision at £928,000. We challenged management on the reasonableness of their approach for calculating this provision. We had no issues from our audit work on provisions;
- Creditor accruals these were £3.9 million covering both revenue and capital accruals. Our testing of accruals did not identify any significant issues.

We evaluated the remainder of the Council's estimates, including bad debt provision and depreciation, as low risk of material misstatement. We have no issues to report.



## Accounting for Property, Plant and Equipment

The fair values of Property, Plant and Equipment (PPE) represent a significant balance in the Council's accounts and are subject to valuation changes, impairment reviews and depreciation charges. Management is required to make material judgemental inputs and apply estimation techniques to calculate the year-end balances recorded in the balance sheet.

The Council engages an internal expert valuer who applies a number of complex assumptions. Annually, PPE are assessed to identify whether there is any indication of impairment (i.e. a reduction in their carrying value). As the Council's asset base is significant, and the outputs from the valuer are subjective, there is a risk that the fair value of PPE may be under or overstated or the associated accounting entries incorrectly posted. ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.

This risk relates to assets that are revalued, being 'Other land and Buildings' and 'Surplus assets'. Vehicles, plant and equipment, infrastructure assets and community assets are held at cost. Our approach has focused on:

- Considering the work performed by the Council's valuer, including the adequacy of the scope of the work performed, their professional capabilities and the results of their work;
- Reviewing and sample testing the key asset information used in the valuation (e.g. floor plans to support valuations based on price per square metre);
- Considering the annual cycle of valuations to ensure that assets have been valued within a 5 year rolling programme as required by the Code. We have also considered how any specific changes to assets (which would impact its value) have been communicated to the valuer;
- Enquiring of the valuer the arrangements for assets not subject to valuation in 2016/17 to confirm that the remaining asset base is not materially misstated;
- ▶ Challenging management in respect of issues raised by the valuer in his report regarding specific asset valuations and assets not valued, and
- Testing that the accounting entries have been correctly processed in the financial statements, including the treatment of impairments.

We have not identified any material issues in the valuations based on our work.





### Pension Valuations and Disclosures

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

The Council's current pension fund deficit is a material and sensitive item and the Code requires that this liability be disclosed on the Council's balance sheet. At 31 March 2017 this totalled £49.3 million (£47.8 million at 31 March 2016).

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

Accounting for this scheme involves significant estimation and judgement and therefore management engages an actuary to undertake the calculations on their behalf. ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.

Our approach has focused on:

- Liaising with the auditors of Hertfordshire Pension Fund, to obtain assurances over the information supplied to the actuary in relation to North Hertfordshire District Council;
- Assessing the work of the Pension Fund actuary (Hymans) including the assumptions they have used by relying on the work of PWC Consulting Actuaries commissioned by Public Sector Auditor Appointments for all Local Government sector auditors. Our assessment uses the work of the EY actuarial team who review the work of the PWC Consulting Actuaries; and
- Reviewing and testing the accounting entries and disclosures made within the Council's financial statements in relation to IAS19.

We have no issues to report in completing our work. Assumptions used by the actuary and adopted by the Council are considered to be generally acceptable. The sensitivities surrounding these assumptions have been correctly disclosed in Note 3 to the financial statements, and in Note 43, pension schemes.



### Our opinion on the financial statements

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

### Opinion on the Authority's financial statements

We have audited the financial statements of North Hertfordshire District Council for the year ended 31 March 2017 under the Local Audit and Accountability Act 2014. The financial statements comprise the:

- Movement in Reserves Statement.
- Comprehensive Income and Expenditure Statement,
- Balance Sheet.
- Cash Flow Statement,
- the related notes 1 to 46 to the Authority accounts, and the Expenditure and Funding Analysis
- Collection Fund and the related notes 1 to 4

The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.

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

### Respective responsibilities of the Head of Finance, Performance and Asset Management and auditor

As explained more fully in the Statement of the Head of Finance, Performance and Asset Management's Responsibilities set out on page 1 the Head of Finance, Performance and Asset Management is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17, and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

### Our opinion on the financial statements

#### Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Authority's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Head of Finance, Performance and Asset Management; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Statement of Accounts 2016/17 to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

#### Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the financial position of North Hertfordshire District Council as at 31 March 2017 and of its expenditure and income for the year then ended; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.

### Opinion on other matters

In our opinion, the information given in the Statement of Accounts 2016/17 for the financial year for which the financial statements are prepared is consistent with the financial statements.

### Matters on which we report by exception

We report to you if:

- in our opinion the annual governance statement is misleading or inconsistent with other information forthcoming from the audit or our knowledge of the Council;
- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014;
- we make written recommendations to the audited body under Section 24 of the Local Audit and Accountability Act 2014;
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014;
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014; or
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014.

We have nothing to report in these respects.



### Our opinion on the financial statements

Conclusion on North Hertfordshire District Council's arrangements for securing economy, efficiency and effectiveness in the use of resources

### Authority's responsibilities

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

### Auditor's responsibilities

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the National Audit Office (NAO) requires us to report to you our conclusion relating to proper arrangements.

We report if significant matters have come to our attention which prevent us from concluding that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

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

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General (C&AG) in November 2016, as to whether the Authority had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined this criterion as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether North Hertfordshire District Council put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2017.

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

#### Conclusion

On the basis of our work, having regard to the guidance issued by the C&AG in November 2016, we are satisfied that, in all significant respects, North Hertfordshire District Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2017.



## Our opinion on the financial statements

### Certificate

We certify that we have completed the audit of the accounts of North Hertfordshire District Council in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice issued by the National Audit Office.

Suresh Patel

for and on behalf of Ernst & Young LLP, Appointed Auditor

Luton

xx/xx/2017

The maintenance and integrity of the North Hertfordshire District Council web site is the responsibility of the Authority; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the web site.

Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.



# **Audit Differences**

# Audit differences

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

## Summary of adjusted differences

We have included all known amounts greater than £71,325 relating to North Hertfordshire District Council in our summary of misstatements table below.

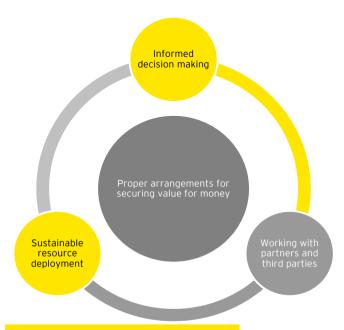
We highlight the following misstatements in the financial statements or disclosures identified during the audit. These have been corrected by management. The adjustments affect the line in the comprehensive income and expenditure statement for 'Surplus on revaluation of non-current assets' which is in the 'Other comprehensive income and expenditure' section of the statement. All have the effect of reducing the £8.6 million shown on this line in the draft statement of accounts however due to the nature of local government capital accounting none affect the Council's closing general fund balance:

- £115,000 impairment which was netted off the revaluation gains figure shown in the other comprehensive income section in the comprehensive income and expenditure statement, which should have been charged in the cost of services section instead;
- ▶ £883,000 reduction in asset value and revaluation gain in order to recognise the impact of a ransom strip;
- £1,807,000 adjustment for item acquired for £1 from North Hertfordshire Homes, which was valued at £1.8 million. This was taken to the revaluation reserve and shown as part of the revaluation gain of £8.6 million in the other comprehensive income section, we considered that it was more in the nature of a donated asset and should have been shown in the taxation and non-specific grant income and expenditure, as part of the calculation of the deficit on provision of services.

There were no uncorrected misstatements. A number of amendments to disclosures were identified during the audit which were amended by officers.



# Value for Money



### Economy, efficiency and effectiveness

We must consider whether you have 'proper arrangements' to secure economy, efficiency and effectiveness in your use of resources. This is known as our value for money conclusion.

Proper arrangements are defined by statutory guidance issued by the National Audit Office. They comprise your arrangements to:

- take informed decisions:
- deploy resources in a sustainable manner; and
- work with partners and other third parties.

In considering your proper arrangements, we use the CIPFA/SOLACE framework for local government to ensure that our assessment is made against an already existing mandatory framework which you use in documents such as your Annual Governance Statement.

### Overall conclusion

In our audit plan we recognised a significant risk in respect of the value for money conclusion due to the Authority's need to make significant savings of £2.75 million over the life of its medium term financial strategy from 2017 to 2022. We have concluded the work set out in our audit plan and we anticipate issuing an unqualified conclusion in respect of your arrangements to secure economy, efficiency and effectiveness in your use of resources.



## **VFM** risks

We are only required to determine whether there is any risk that we consider significant within the Code of Audit Practice, where risk is defined as: "A matter is significant if, in the auditor's professional view, it is reasonable to conclude that the matter would be of interest to the audited body or the wider public"

Our risk assessment supports the planning of enough work to deliver a safe conclusion on your arrangements to secure value for money, and enables us to determine the nature and extent of any further work needed. If we do not identify a significant risk we do not need to carry out further work.

The table below presents the findings of our work in response to the risks areas in our Audit Plan.

What is the significant VFM risk?	What did we say we would do?	What are our findings?
The need to find significant savings of £2.75 million over the life of the medium term financial strategy 2017 to 2022 is considered to be a significant risk. The Council has built in funding from the New Homes Bonus of between £1.1m and £1.9m over the years 2017/18 to 2020/21 into its budget. The details of this scheme are subject to changes that could adversely affect the Council's planning. This risk is primarily focused on the arrangements for deploying resources in a sustainable manner	Review the adequacy of the Council's budget monitoring process, comparing budget to outturn.	There are established processes for reporting to Cabinet on both revenue and capital spend in year. The Council has a track record of achieving its budget and in 2016/17 was able to add £1.1 million to its general fund balance. The paper to the Cabinet meeting held on 13 June 2017 showed that the underspend was spread across numerous budgets and that one of the most significant contributors to the underspend was the number of posts being held vacant as managers consider the possibility of alternative service provision.
	Review the robustness of any assumptions used in medium term financial planning.	We reviewed the various assumptions made at the time of the 2017/18 budget setting. Obviously there is a risk that further changes will be made to revenue streams e.g. New Homes Bonus (NHB), however the Council has included assumptions about the duration of the grant and likely number of new homes in line with information available to it. There could be a risk to the Council's financial planning if the rules around NHB change and this needs to be kept under review. Payroll costs represent a significant proportion of the Council's costs and provision is made for increments and for a 1% pay award which is in line with current expectations. Non pay inflation is allowed for in line with contractual terms. We conclude that the assumptions being used are appropriate.

What is the significant VFM risk?	What did we say we would do?	What are our findings?
	Review the Council's approach to prioritising resources whilst maintaining services.	The Council took up the offer of a 4 year settlement and in response has published its sustainability plan. This recognises the need to deliver services that residents need on a 'business as usual' basis despite the reduction in available funding, by ongoing review of how services are provided for example waste/cleansing service, use of assets e.g. letting space in newly refurbished assets, and review of parking to ensure in line with corporate objectives.
	Review the September 2016 MTFS and select a small sample of savings and efficiency targets and seek to understand how the Council is planning to meet these targets, and challenge the realism of assumptions and planned actions.	We reviewed three projects: 1) Hitchin Town Hall café income generation 2) Review of parking strategy and 3) Waste, recycling and street cleansing. Only the first project, showed evidence of clearly not being deliverable to the extent originally planned however the efficiencies planned across other projects should enable the Council to achieve the total spend in the MTFS. There is clear monitoring and reporting of progress on each projects. There is evidence of involvement of third parties in providing relevant information to inform assumptions, in addition the Finance team have been involved in developing the financial scale of efficiencies. We conclude that the arrangements are adequate overall.





# Other reporting issues

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

We must give an opinion on the consistency of the financial and non-financial information in the Statement of Accounts 2016/17 with the audited financial statements. We must also review the Annual Governance Statement for completeness of disclosures, consistency with other information from our work, and whether it complies with relevant guidance.

Financial information in the Statement of Accounts 2016/17 including the Narrative Statement that is published with the financial statements was consistent with the audited financial statements.

We have reviewed the Annual Governance Statement and can confirm it is consistent with other information from our audit of the financial statements.

We have no other matters to report.

### Whole of Government Accounts

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

We have no issues to raise.

### Other powers and duties

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

We also have a duty to make written recommendations to the Authority, copied to the Secretary of State, and take action in accordance with our responsibilities under the Local Audit and Accountability Act 2014. We did not identify any issues.



# Other reporting issues

### Other matters

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

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

We have no significant matters to report.





07

Assessment of Control Environment

# **Assessment of Control Environment**

# Assessment of control environment

### Financial controls

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

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

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

We have not identified any significant deficiencies in the design or operation of an internal control that might result in a material misstatement in your financial statements of which you are not aware.





# Appendix A

# Required communications with the Finance, Audit and Risk Committee

There are certain communications that we must provide to the Finance, Audit and Risk Committees of UK clients. We have done this by:

		Our Reporting to you
Required communications	What is reported?	When and where
Terms of engagement	Confirmation by the Finance, Audit and Risk Committee of acceptance of terms of engagement as written in the engagement letter signed by both parties.	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies.
Planning and audit approach	Communication of the planned scope and timing of the audit, including any limitations.	23 January 2017 Audit Plan
Significant findings from the audit	<ul> <li>Our view of the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures</li> <li>Any significant difficulties encountered during the audit</li> <li>Any significant matters arising from the audit that were discussed with management</li> <li>Written representations we have requested</li> <li>Expected modifications to the audit report</li> <li>Any other matters significant to overseeing the financial reporting process</li> </ul>	September 2017 Audit Results Report
Going concern	Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including:  ► Whether the events or conditions constitute a material uncertainty  ► Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements  ► The adequacy of related disclosures in the financial statements	No conditions or events were identified, either individually or together to raise any doubt about North Hertfordshire District Council 's ability to continue for the 12 months from the date of our report
Misstatements	<ul> <li>Uncorrected misstatements and their effect on our audit opinion</li> <li>The effect of uncorrected misstatements related to prior periods</li> <li>A request that any uncorrected misstatement be corrected</li> <li>Significant corrected misstatements, in writing</li> </ul>	September 2017 Audit Results Report



# Appendix A

		Our Reporting to you
Required communications	What is reported?	When and where
Fraud	<ul> <li>Asking the Finance, Audit and Risk Committee whether they have knowledge of any actual, suspected or alleged fraud affecting the Authority</li> <li>Unless all those charged with governance are involved in managing the entity, any fraud identified or information obtained indicating that a fraud may exist involving:         <ul> <li>(a) management;</li> <li>(b) employees with significant roles in internal control; or</li> <li>(c) others where the fraud results in a material misstatement in the financial statements.</li> </ul> </li> <li>A discussion of any other matters related to fraud, relevant to Finance, Audit and Risk Committee responsibility.</li> </ul>	We have asked management and those charged with governance about arrangements to prevent or detect fraud. We have not become aware of any fraud or illegal acts during our audit
Related parties	Significant matters arising during the audit in connection with the Authority's related parties including, where applicable:  ► Non-disclosure by management  ► Inappropriate authorisation and approval of transactions  ► Disagreement over disclosures  ► Non-compliance with laws and/or regulations  ► Difficulty in identifying the party that ultimately controls the entity	We have no matters to report
Subsequent events	Where appropriate, asking the Finance, Audit and Risk Committee whether any subsequent events have occurred that might affect the financial statements.	We have asked management and those charged with governance. We have no matters to report at this time.
Other information	▶ Where material inconsistencies are identified in other information included in the document containing the financial statements, but management refuses to make the revision.	We have no matters to report
External confirmations	<ul> <li>Management's refusal for us to request confirmations</li> <li>We were unable to obtain relevant and reliable audit evidence from other procedures.</li> </ul>	We expect to have received all requested confirmations
Consideration of laws and/or regulations	<ul> <li>Audit findings of non-compliance where it is material and believed to be intentional. This communication is subject to compliance with legislation on "tipping off"</li> <li>Asking the Finance, Audit and Risk Committee about possible instances of non-compliance with laws and/or regulations that may have a material effect on the financial statements, and known to the Finance, Audit and Risk Committee.</li> </ul>	We have asked management and those charged with governance. We have not identified any material instances or noncompliance with laws and regulations



# Appendix A

		Our Reporting to you
Required communications	What is reported?	When and where
Significant deficiencies in internal controls identified during the audit	► Significant deficiencies in internal controls identified during the audit.	September 2017 Audit Results Report
Independence	Communication of all significant facts and matters that have a bearing on EY's objectivity and independence.  Communicating key elements of the audit engagement partner's consideration of independence and objectivity such as:  ► The principal threats  ► Safeguards adopted and their effectiveness  ► An overall assessment of threats and safeguards  ► Information on the firm's general policies and processes for maintaining objectivity and independence  Communications whenever significant judgments are made about threats to objectivity or independence and the appropriateness of safeguards,	23 January 2017 Audit Plan September 2017 Audit Results Report
Fee Reporting	Breakdown of fee information when the audit plan is agreed Breakdown of fee information at the completion of the audit Any non-audit work	23 January 2017 Audit Plan September 2017 Audit Results Report
Certification work	Summary of certification work	Certification Report



# Appendix B

# Independence



We confirm that there are no changes in our assessment of independence since our confirmation in our audit planning board report dated 23 January 2017.

We complied with the APB Ethical Standards and the requirements of the PSAA's Terms of Appointment. In our professional judgement the firm is independent and the objectivity of the audit engagement partner and audit staff has not been compromised within the meaning of regulatory and professional requirements.

We consider that our independence in this context is a matter which you should review, as well as us. It is important that management and the Finance, Audit and Risk Committee consider the facts known to you and come to a view. If you would like to discuss any matters concerning our independence, we will be pleased to do this at the meeting of the Finance, Audit and Risk Committee on 21 September 2017.

As part of our reporting on our independence, we set out below a summary of the fees paid for the year ended 31 March 2017.

We confirm that we have not undertaken non-audit work outside the PSAA Code requirements.

Description	Final Fee 2016/17	Planned Fee 2016/17	Scale Fee 2016/17	Final Fee 2015/16
Total Audit Fee - code work	£52,037	£52,037	£52,037	£52,037
Grant certification fee	TBC	£5,648	£5,648	£7,524

Our grant certification work is in progress we will report the outturn fee in our certification report

# Appendix C

# Accounting and regulatory update

## Accounting update

Since the date of our last report to the Finance, Audit and Risk Committee, new accounting standards and interpretations have been issued. The following table provides a high level summary of those that have the potential to have the most significant impact on you:

Name	Summary of key measures	Impact on North Hertfordshire District Counci
IFRS 15 Revenue from Contracts with Customers	Applicable for local authority accounts from the 2018/19 financial year. This new standard deals with accounting for all contracts with customers except:  Leases; Financial instruments; Insurance contracts; and for local authorities; Council Tax and NDR income.  The key requirements of the standard cover the identification of performance obligations under customer contracts and the linking of income to the meeting of those performance obligations.  There are transitional arrangements within the standard; however as the 2018/19 Accounting Code of Practice for Local Authorities has yet to be issued it is unclear what the impact on local authority accounting will be.	Some initial thoughts on the approach to adopting IFRS 15 have been issued by CIPFA. However, until the Code is issued there remains some uncertainty. However, what is clear is that for all material income sources from customers the Council will have to:  • Disaggregate revenue into appropriate categories  • Identify relevant performance obligations and allocate income to each  • Summarise significant judgements
IFRS 16 Leases	IFRS 16 will be applicable for local authority accounts from the 2019/20 financial year. Whilst the definition of a lease remains similar to the current leasing standard; IAS 17, for local authorities who lease in a large number of assets the new standard will have a significant impact, with nearly all current leases being included on the balance sheet.  There are transitional arrangements within the standard, although as the 2019/20 Accounting Code of Practice for Local Authorities has yet to be issued it is unclear what the impact on local authority accounting will be or whether any statutory overrides will be introduced.	Until the 2019/20 Accounting Code is issued and any statutory overrides are confirmed there remains some uncertainty in this area.  However, what is clear is that the Council will need to undertake a detailed exercise to classify all of its leases and therefore must ensure that all lease arrangements are fully documented.



# Appendix C

# Accounting and regulatory update (continued)

## Progress report on implementation of new standards and regulations

In previous reports to the Finance, Audit and Risk Committee, we highlighted the issue of new accounting standards and regulatory developments. The following table summarises progress on implementation:

Name	Summary of key measures	Impact on North Hertfordshire District Council
Earlier deadline for production and audit of the financial statements from 2017/18	► The Accounts and Audit Regulations 2015 introduced a significant change in statutory deadlines from the 2017/18 financial year. From that year the timetable for the preparation and approval of accounts will be brought forward with draft accounts needing to be prepared by 31 May and the publication of the audited accounts by 31 July.	These changes provide challenges for both the preparers and the auditors of the financial statements, as the Council will need to bring forward its timetable for the delivery of the statement of accounts. The draft statement was available to us for audit slightly ahead of the end of June this year but officers will need to advance this further for 2017/18.  We recognise that the working papers prepared for the audit are of a good standard although we will have some suggestions for how they could be further improved for next year. We received prompt response to our audit queries for this year's audit. Given the pressure on auditors to complete audits within a more compressed timescale the co-operation from authorities in preparing clear working papers and prompt responses to queries will be vital.  As auditors, nationally we have:  • Issued a thought piece on early closedown  • As part of the strategic Alliance with CIPFA jointly presented accounts closedown workshops across England, Scotland and Wales  • Presented at CIPFA early closedown events and on the subject at the Local Government Accounting Conferences in July 2017  Locally we have:  • Agreed areas for early testing with the Council.  • Set up a forum in October for chief accountants to meet with us to share ideas on how procedures can be streamlined.  We look forward to continuing this productive working relation in 2017/18.



# Management representation letter

### Management Rep Letter

Ernst & Young 400 Capability Green Luton LU1 3LU

**Dear Sirs** 

This letter of representations is provided in connection with your audit of the financial statements of North Hertfordshire District Council ("the Council") for the year ended 31 March 2017. We recognise that obtaining representations from us concerning the information contained in this letter is a significant procedure in enabling you to form an opinion as to whether the financial statements give a true and fair view of the Council financial position of North Hertfordshire District Council as of 31 March 2017 and of its income and expenditure for the year then ended in accordance with CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17

We understand that the purpose of your audit of our financial statements is to express an opinion thereon and that your audit was conducted in accordance with International Standards on Auditing (UK and Ireland), which involves an examination of the accounting system, internal control and related data to the extent you considered necessary in the circumstances, and is not designed to identify - nor necessarily be expected to disclose - all fraud, shortages, errors and other irregularities, should any exist.

Accordingly, we make the following representations, which are true to the best of our knowledge and belief, having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:



### A. Financial Statements and Financial Records

We have fulfilled our responsibilities, under the relevant statutory authorities, for the preparation of the financial statements in accordance with the Accounts and Audit Regulations 2015 and CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.

- 1. We acknowledge, as members of management of the Council, our responsibility for the fair presentation of the financial statements. We believe the financial statements referred to above give a true and fair view of the financial position, financial performance (or results of operations) and cash flows of the Council in accordance with [the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17. We have approved the financial statements.
- 2. The significant accounting policies adopted in the preparation of the financial statements are appropriately described in the financial statements.
- 3. As members of management of the Council, we believe that the Council has a system of internal controls adequate to enable the preparation of accurate financial statements in accordance with *[the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17, that are free from material misstatement, whether due to fraud or error.*
- 4. There are no unadjusted audit differences identified during the current audit and pertaining to the latest period presented.

#### B. Fraud

- 1. We acknowledge that we are responsible for the design, implementation and maintenance of internal controls to prevent and detect fraud.
- 2. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
- 3. We have no knowledge of any fraud or suspected fraud involving management or other employees who have a significant role in the Council's internal controls over financial reporting. In addition, we have no knowledge of any fraud or suspected fraud involving other employees in which the fraud could have a material effect on the financial statements. We have no knowledge of any allegations of financial improprieties, including fraud or suspected fraud, (regardless of the source or form and including without limitation, any allegations by "whistleblowers") which could result in a misstatement of the financial statements or otherwise affect the financial reporting of the Council.

## C. Compliance with Laws and Regulations

1. We have disclosed to you all identified or suspected non-compliance with laws and regulations whose effects should be considered when preparing the financial statements.



### D. Information Provided and Completeness of Information and Transactions

- 1. We have provided you with:
  - Access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;
  - Additional information that you have requested from us for the purpose of the audit; and
  - Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
- 2. All material transactions have been recorded in the accounting records and are reflected in the financial statements.
- 3. We have made available to you all minutes of the meetings of the Council and committees (or summaries of actions of recent meetings for which minutes have not yet been prepared) held through the year to the most recent meeting on the following date:
  - a. Council 31 August 2017
  - b. Cabinet 25 July 2017
  - c. Finance, Audit and Risk 12 June 2017
- 4. We confirm the completeness of information provided regarding the identification of related parties. We have disclosed to you the identity of the Council's related parties and all related party relationships and transactions of which we are aware, including sales, purchases, loans, transfers of assets, liabilities and services, leasing arrangements, guarantees, non-monetary transactions and transactions for no consideration for the period ended, as well as related balances due to or from such parties at the year end. These transactions have been appropriately accounted for and disclosed in the financial statements.
- 5. We believe that the significant assumptions we used in making accounting estimates, including those measured at fair value, are reasonable.
- 6. We have disclosed to you, and the Council has complied with, all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance, including all covenants, conditions or other requirements of all outstanding debt.

### E. Liabilities and Contingencies

- 1. All liabilities and contingencies, including those associated with guarantees, whether written or oral, have been disclosed to you and are appropriately reflected in the financial statements.
- We have informed you of all outstanding and possible litigation and claims, whether or not they have been discussed with legal counsel.



3. We have recorded and/or disclosed, as appropriate, all liabilities related litigation and claims, both actual and contingent, and have disclosed in Note 20 to the financial statements all guarantees that we have given to third parties.

## F. Subsequent Events

1. Other than as described in Note 7 to the financial statements, there have been no events subsequent to period end which require adjustment of or disclosure in the financial statements or notes thereto.

### G. Other information

- 1. We acknowledge our responsibility for the preparation of the other information. The other information comprises the narrative statement.
- 2. We confirm that the content contained within the other information is consistent with the financial statements.

### H. Use of the Work of a Specialist

1. We agree with the findings of the specialists that we engaged to evaluate the valuation of Property, Plant and Equipment, Investment Properties, and Pension Liabilities and have adequately considered the qualifications of the specialists in determining the amounts and disclosures included in the financial statements and the underlying accounting records. We did not give or cause any instructions to be given to the specialists with respect to the values or amounts derived in an attempt to bias their work, and we are not otherwise aware of any matters that have had an effect on the independence or objectivity of the specialists.

### I. Property Valuation and Business Rates Appeals Estimates

- 1. We believe that the measurement processes, including related assumptions and models, used to determine the accounting estimates have been consistently applied and are appropriate in the context of CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.
- 2. We confirm that the significant assumptions used in making the valuation of Property estimate appropriately reflects our intent and ability to utilize these assets on behalf of the entity.
- 3. We confirm that the disclosures made in the financial statements with respect to the accounting estimates are complete and made in accordance with CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.
- 4. We confirm that no adjustments are required to the accounting estimates and disclosures in the financial statements due to subsequent events.



#### J. Retirement benefits

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

### K. Expenditure Funding Analysis

- 1. We have reviewed the new requirements (as set out in the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17), in relation to the preparation of the Expenditure Funding Analysis to replace the previous segmental reporting analysis, and confirm that all required amendments to the Comprehensive Income and Expenditure Statement and Movement in Reserves Statement, as well as the requirements to prepare the Expenditure Funding Analysis and related notes have been correctly reflected in the financial statements, including retrospectively reflecting this in the financial statements.
  - 2. We confirm that the financial statements reflect the operating segments reported internally to the Council.

Yours faithfully,
Line de de Cine de la Deutemanne de de de de Management
Head of Finance, Performance and Asset Management
Chairman of the Finance, Audit and Risk Committee

### EY | Assurance | Tax | Transactions | Advisory

#### About EY

EY is a global leader in assurance, tax, transaction and advisory services. The insights and quality services we deliver help build trust and confidence in the capital markets and in economies the world over. We develop outstanding leaders who team to deliver on our promises to all of our stakeholders. In so doing, we play a critical role in building a better working world for our people, for our clients and for our communities.

EY refers to the global organization, and may refer to one or more, of the member firms of Ernst & Young Global Limited, each of which is a separate legal entity. Ernst & Young Global Limited, a UK company limited by guarantee, does not provide services to clients. For more information about our organization, please visit ey.com.

© 2017 EYGM Limited. All Rights Reserved.

#### ED None

This material has been prepared for general informational purposes only and is not intended to be relied upon as accounting, tax, or other professional advice. Please refer to your advisors for specific advice.

ey.com