

Public Document Pack



Chairman and Members of the
Audit and Governance Committee

Your contact: Michele Aves
Tel: 01279 502177
Date: 1 April 2022

cc. All other recipients of the Audit
and Governance Committee agenda

Dear Councillor,

AUDIT AND GOVERNANCE COMMITTEE - 5 APRIL 2022 SUPPLEMENTARY AGENDA

Please find attached the following reports which were marked "to follow" on the agenda for the above meeting:

7. Receipt of the External Auditor's Annual Governance Report (Pages 3 - 58)
9. Approval of the Statement of Accounts – Please note that this report is not available, the Head of Strategic Finance and Property will address this matter at the meeting.
13. Financial Management Quarter 3 Forecast to Year End - Quarterly Corporate Budget (Pages 59 - 74)

Please bring these papers with you to the meeting next Tuesday

Yours faithfully

Michele Aves
Democratic Services Officer

East Herts Council

[Michele Aves@eastherts.gov.uk](mailto:Michele.Aves@eastherts.gov.uk)

MEETING : AUDIT AND GOVERNANCE COMMITTEE
VENUE : COUNCIL CHAMBER, WALLFIELDS, HERTFORD
DATE : TUESDAY 5 APRIL 2022
TIME : 7.00 PM

East Herts Council Report

Audit and Governance Committee

Date of meeting: 5 April 2022

**Report by: Steven Linnett, Head of Strategic Finance & Property
(s.151 Officer)**

**Report title: Receipt of the External Auditor's Provisional Audit
Results Report 2020/21**

Ward(s) affected: All

Summary – The external auditor will present their Provisional Audit Results Report 2020/21 to the Committee setting out the provisional results of their delayed audit of the 2020/21 statement of

RECOMMENDATIONS FOR AUDIT AND GOVERNANCE COMMITTEE:

- a)** Receive and make any comments on the external auditor's Provisional Audit Results Report 2020/21
- b)** Note that the statement of accounts will need to be approved by the Sub-Committee sometime in the week commencing 25th April.
- c)** Thank the staff in Strategic Finance for producing the budget and Medium Term Financial Plan as well as facilitating the delayed external audit and commencing preparation for the closedown of the 2021/22 financial year

1.0 Proposal(s)

- 1.1** The delayed 2020/21 statement of accounts audit has been has been substantially completed and the external auditor

has issued a Provisional Audit Results Report setting out their audit work on the opinion on the 2020/21 statement of accounts, their assessment of risk and audit findings, indicative fee levels and a target signing off of the statement of accounts by week commencing 25th April which will require the Statement of Accounts Approval Sub-Committee to meet that week to approve the statement of accounts..

- 1.2 The report and proposals are the external auditors and whilst officers are consulted on factual accuracy, they have no ability to change anything in the report.
- 1.3 The external auditor's Provisional Audit Results Report for 2020/21 is attached at Appendix A.
- 1.4 Officers have agreed to amend the accounts due to an error in the Analyse Local software which is used by a majority of local authorities to assist with Business Rates appeals provisions and also to assist with revenue protection. The Analyse Local software incorrectly included yield losses in future years. The accounts have been adjusted and the Collection Fund Earmarked Reserve, which exists to smooth out unusual movements in financial years relating to appeals and provisions in the Collection Fund has been reduced by £325k so that there is a nil effect on the General Fund.
- 1.5 The external auditor has indicated that after this adjustment they expect to give an unqualified audit opinion on the 2020/21 statement of accounts and an unqualified Value for Money conclusion.

2.0 Background

- 2.1 The Accounts and Audit Regulations 2015 (as amended) require local authorities to publish their audited statement of accounts by 30 September 2021. The external auditor was unable to resource the audit and it did not begin until

January 2022. The council was required to publish (which must include publication on the website) a notice stating that it has not been able to publish the statement of accounts and the reasons for this.

- 2.2 Only 9% of local authorities received an audit opinion by 30 September and Members will be aware of the virtual collapse of the local audit system. East Herts is doing comparatively well as a number of neighbouring district councils in Hertfordshire have not yet moved into the position of having Provisional Audit Results Reports being issued.

3.0 Reason(s)

- 3.1 The external auditor is required by auditing standards to present the Committee with their Audit Results Report. The external auditor is presenting their Provisional Audit Results report to this cycle of the full committee to facilitate approval of the statement of accounts later by the Sub Committee by allowing the full committee to consider the findings to date.

4.0 Options

- 4.1 Members can ask questions and make observations to the external auditor but they cannot reject the Provisional Audit Results Report.

5.0 Risks

- 5.1 The delay to the completion of the audit until the end of April means that staff will need to deal with audit queries whilst simultaneously preparing the 2021/22 accounts which may lead to delays and errors.
- 5.2 The production of the budget alongside the audit placed a huge strain on resources and required the Head of Strategic

Finance & Property and senior officers in Finance to work long hours and led to the process being both stressful and less than efficient than in previous years. Senior officers had to roll up their sleeves and undertake a lot of work usually undertaken by junior staff. This is not a sustainable position going forward and there is a risk that audit delays continue causing this to be potential situation for the next 2 years or so.

- 5.3 Since the pandemic staff across the council have left with no other employment to go to because they considerate too stressful to continue at the council and, if audit delays continue for 2 years, there is a risk that staff in Finance may do the same. Local recruitment exercises by neighbouring councils has demonstrated a shortage of quality candidates in finance in Hertfordshire. Therefore, as well as the risk of staff leaving, there is a risk that it will not be possible to recruit suitable staff, particularly qualified staff.

6.0 Implications/Consultations

Community Safety

No

Data Protection

No

Equalities

No

Environmental Sustainability

No

Financial

These are contained in the main body of the report

Health and Safety

No

Human Resources

These are contained in the main body of the report

Human Rights

No

Legal

No

Specific Wards

No

7.0 Background papers, appendices and other relevant material

Appendices:

Appendix A – Provisional Audit Results Report

Background Papers:

None

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Report Author

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

Year ended 31 March 2021

29 March 2022



Audit and Governance Committee Members
East Hertfordshire District Council
Pegs Lane
Hertford
SG13 8EQ

29 March 2022

Dear Audit and Governance Committee Members

We are pleased to attach our Provisional Audit Results Report for the forthcoming meeting of the Audit and Governance Committee on 5 April 2022. This report summarises our preliminary audit conclusion in relation to the audit of East Hertfordshire District Council (the Council) for 2020/21.

We have substantially completed our audit of the Council's accounts for the year ended 31 March 2021. Please refer to the "Executive Summary" for further details on status of the work. In the timetable in our Audit Planning Report dated 30 June 2021, we aimed to issue our Audit Results Report in December 2021. Unfortunately, due to the need to make staffing changes as well as the impact of ongoing 2018/19 and 2019/20 audits and Covid19, we had to make changes to the proposed timetable. We rescheduled the 2020/21 audit to start in January 2022. We discussed these changes with the finance team in advance of our initial scheduled start date. Whilst we have significantly completed our audit procedures, our work is still in progress at the date of drafting this report. We aim to finalise our audit before the end of April 2022. We will circulate a further update on our audit results if anything significant arises during finalisation of our audit procedures, including final reviews.

We expect to issue an unqualified audit opinion on the financial statements in the form at Section 3. We also have no matters to report on your arrangements to secure economy, efficiency and effectiveness in your use of resources.

This report is intended solely for the use of the Audit and Governance Committee, other members of the Council, and senior management. It should not be used for any other purpose or given to any other party without obtaining our written consent.

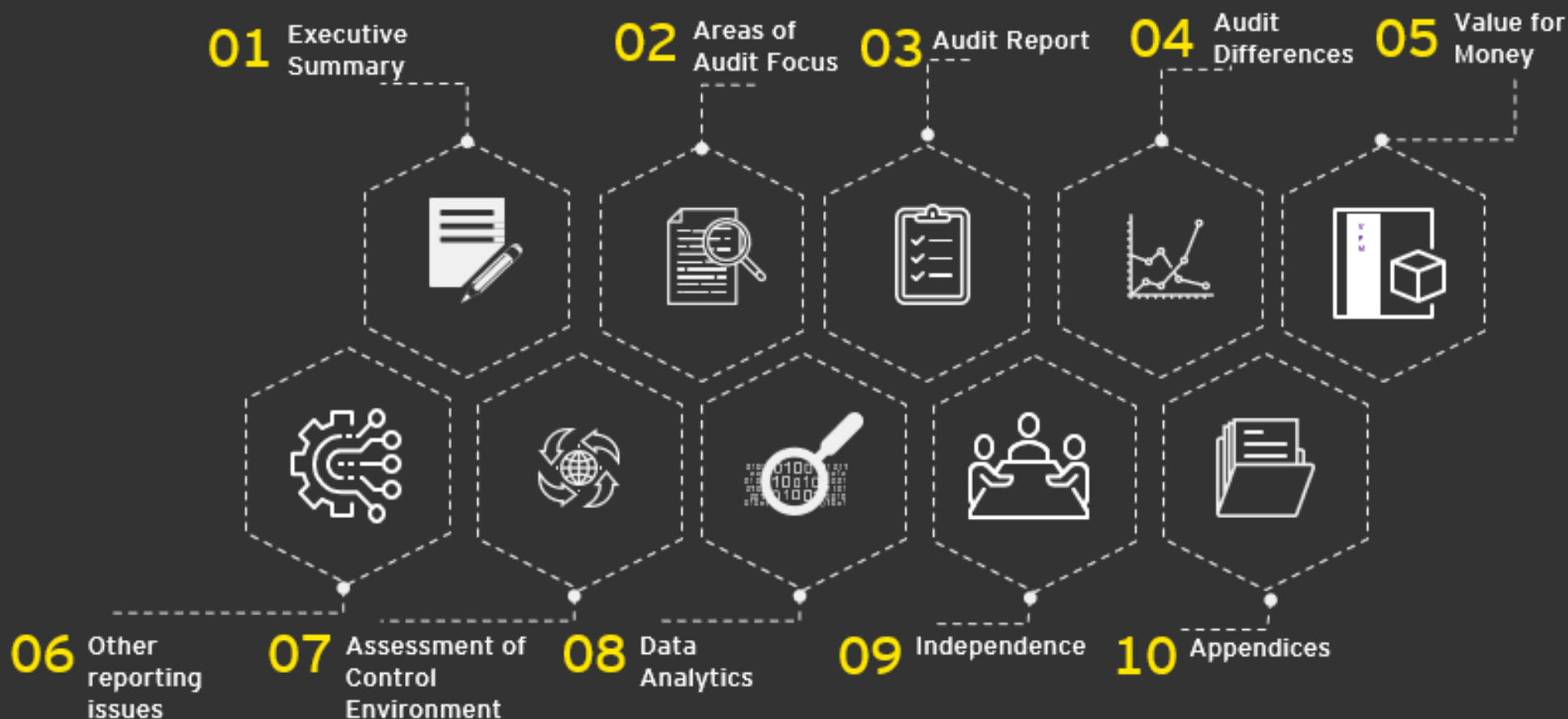
We would like to thank your staff for their help during the engagement.

We welcome the opportunity to discuss the contents of this report with you at the Audit and Governance Committee meeting on 5 April 2022.

Yours sincerely

Debbie Hanson
For and on behalf of Ernst & Young LLP

Contents



Public Sector Audit Appointments Ltd (PSAA) issued the "Statement of responsibilities of auditors and audited bodies". It is available from the PSAA website (<https://www.psaa.co.uk/audit-quality/statement-of-responsibilities/>). The Statement of responsibilities serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas.

The "Terms of Appointment and further guidance (updated April 2018)" 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 Audit and Governance Committee and management of East Hertfordshire District Council in accordance with the statement of responsibilities. Our work has been undertaken so that we might state to the Committee and management of East 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 Audit and Governance Committee and the management of East Hertfordshire District Council for this report or for the opinions we have formed. It should not be provided to any third-party without our prior written consent.



01

Executive Summary



Executive Summary

Scope update

In our Audit Planning Report presented to the July 2021 to Audit and Governance Committee, we provided you with an overview of our audit scope and approach for the audit of the financial statements. We carried out our audit in accordance with this plan, with the following exceptions.

Materiality: In our Audit Planning Report, we communicated that our audit procedures would be performed using a materiality of £1.48 million, with performance materiality, at 75% of overall materiality, of £1.11 million and a threshold for reporting misstatements, at 5% of overall materiality, of £0.074 million. Our materiality threshold was set at 2% of the Council's gross expenditure on provision of services. We have reassessed these thresholds during the course of our audit and are content they remain appropriate.

Information Produced by the Entity (IPE): As a result of Covid-19, we identified an increased risk around the completeness, accuracy, and appropriateness of information produced by the entity due to the inability of the audit team to verify original documents. We undertook the following to address this risk:

- Used the screen sharing function of Microsoft Teams to evidence re-running of reports used to generate the IPE we audited; and
- Agree IPE to scanned documents or other system screenshots.

Changes to the scope of our audit: Subsequent to our Audit Plan dated 30 June 2021, we have made following changes to our risk assessment;

In our Audit Planning Report, we communicated that we identified the following risk:

- Risk of fraud in revenue recognition – sales, fees and charges grant income (fraud risk)
- New central government grants and other Covid-19 funding streams (significant risk)
- Minimum Revenue Provision

Accounting for new grants, including the Covid-related grants the council received from loss of income from sales, fees and charges, was identified as fraud/significant risk during planning as at that time there was lack of clarity on the restrictions and conditions in relation to grants received by the Council. However, since this date, details of most of the grants have been confirmed and the Council has undertaken an assessment of the appropriate accounting treatment. We have therefore revisited our risk assessment and reclassified accounting for Covid grants as an area of higher inherent risk as we recognise there remains a risk of error. Hence, we reduced the scope of the grants risk noted above to higher inherent risk

We initially identified a fraud risk in the calculation of Minimum Revenue Provision as the Council had indicated it was planning to update its MRP policy with effect from 1st April 2021. During the audit however, we confirmed that the Council was no longer planning to make any changes to its MRP policy and this therefore no longer presented a risk. We checked the MRP calculation and confirmed that no MRP was charged in 2020/21 and that this was appropriate.

Executive Summary

Status of opinion audit

We have substantially completed our audit of East Hertfordshire District Council's financial statements for the year ended 31 March 2021 and have performed the procedures outlined in our Audit Planning Report, taking into account the changes in our scope as detailed earlier. Subject to satisfactory completion of the outstanding items, we expect to issue an unqualified opinion on the Council's financial statements. However until work is complete, further amendments may arise. As the audit is ongoing and many areas are subject to Manager and Engagement Partner review, we will continue to challenge the remaining evidence provided and the final disclosures in the Accounts which could influence our final audit opinion. A list of outstanding items can be seen at Appendix D.

Audit differences

Corrected and uncorrected differences

We did identify one misstatement greater than performance materiality which was corrected by management. See details in slide 15.

Until we complete all of our audit procedures, as noted in the status of opinion audit above and on subsequent slides, along with our final Engagement Partner review, further adjustments may be identified.

Auditor responsibilities under the new Code of Audit Practice 2020

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

The specified reporting criteria are:

- **Financial sustainability:**
How the East Hertfordshire District Council plans and manages its resources to ensure it can continue to deliver its services;
- **Governance:**
How the East Hertfordshire District Council ensures that it makes informed decisions and properly manages its risks; and
- **Improving economy, efficiency and effectiveness:**
How the East Hertfordshire District Council uses information about its costs and performance to improve the way it manages and delivers its services



Executive Summary

Value for money - progress update

At the time of our Audit Planning Report, we were yet to commence with our value for money (VFM) risk assessment. We have now substantially completed this work and did not identify any risk of significant weakness against the three reporting criteria we are required to consider under the NAO's 2020 Code. However the work remains subject to final review from the Engagement Partner.

As a result, we currently have no matters to report by exception in the auditor's report (see Section 03) or in the Auditor's Annual Report which will be issued to the Council three months after the date of the final 2020/21 audit opinion for the Council.

Independence

Please refer to Section 09 for our update on Independence.

Control observations

During the audit, and to date, 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.

Other reporting issues

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

We have not yet performed the procedures required by the National Audit Office (NAO) on the Whole of Government Accounts submission, as at the date of this report the NAO have not issued their guidance to auditors.

We have no other matters to report.

Executive Summary

Areas of audit focus

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

Fraud Risk	Findings & Conclusions
Misstatements due to fraud or error	We have not identified any evidence that management has overridden controls in order to prepare fraudulent financial statement balances or postings within the financial statements from the work completed to date.
Incorrect capitalisation of revenue expenditure	We have not completed our work in respect of Incorrect capitalisation of revenue expenditure
Area of audit focus	Findings & Conclusions
Valuation of property, plant and equipment and investment properties	We have not completed our work in respect of valuation of PPE and investment properties
Going concern disclosure	We have not completed our work in respect of going concern
Pension liability valuation	We have reviewed the accounting entries and disclosures in the draft financial statements and assessed the work of the actuary. We have substantially completed our planned procedures and have not identified any issues, subject to Engagement Partner review.
Business rates appeals provision	We have substantially completed our work. We have identified a difference above our performance materiality. See details in slide 15. The work remains subject to Engagement Partner review.
Group Accounting	We have not completed our work in respect of group accounting
Recognition of grant income associated with Covid-19 (includes sales fees and charges and other Covid-19 funding streams)	We have substantially completed our work and have not identified any issue as of the date of this report. However the work remains subject to Engagement Partner review.



02

Areas of Audit Focus

Areas of Audit Focus

Significant risk

Misstatements due to fraud or error

What is the risk?

The financial statements as a whole are not free of material misstatements whether caused by fraud or error.

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

What judgements are we focused on?

We focused our testing on accounting estimates which include pension liability, property valuation, and NNDR appeals provision. We also perform mandatory procedures including testing of journal entries. We identified a specific fraud risks relate to the inappropriate capitalisation of expenditure and details of our response to this risk are set out on the next page.

What did we do?

This is a risk that we recognise on all engagements. Our overall response to this for East Hertfordshire District Council was:

- ▶ Assessment to identify fraud risks during the planning stages.
- ▶ Inquired management about risks of fraud and the controls put in place to address those risks.
- ▶ Understood the oversight given by those charged with governance of management's processes over fraud.
- ▶ Considered the effectiveness of management's controls designed to address the risk of fraud.
- ▶ Determined an appropriate strategy to address those identified risks of fraud.
- ▶ Performed mandatory procedures regardless of specifically identified fraud risks, including testing of journal entries and other adjustments in the preparation of the financial statements, assessing accounting estimates for evidence of management bias and evaluating the business rationale for significant and unusual transactions.

We have utilised our data analytics capabilities to assist with our work.

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 transactions during our audit which appeared unusual or outside the Council's normal course of business.

The work remains subject to Engagement Partner review.



Areas of Audit Focus

Significant risk

Inappropriate capitalisation of revenue expenditure

What is the risk?

Linking to our risk of misstatements due to fraud and error above, we have considered the capitalisation of revenue expenditure on property, plant and equipment as a specific area of risk given the extent of the Council's capital programme.

What judgements are we focused on?

Whether expenditure which management have classified expenditure as capital in nature meets the definition of capital in line with IAS16.

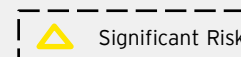
What did we do?

We have undertaken additional procedures to address the specific risk we have identified, which included:

- For significant additions to property, plant and equipment, we have examined invoices, capital expenditure authorisations, leases and other data that support these additions. We have ensure that they have been correctly classified as capital in line with accounting standards and included at the correct value in order to identify any revenue items that have been inappropriately capitalised.
- We have extended our testing of items capitalised in the year by lowering our testing threshold. We have also review a random sample of capital additions below our testing threshold.
- Considered whether there was a risk related to revenue costs being inappropriately classified as Revenue Expenditure Funded from Capital Under Statute (REFCUS). We concluded that, as the amount of REFCUS (at £248k) was below our materiality there was no risk and we did not perform any further testing.
- Journal testing - we have used our testing of journals to identify high risk transactions, such as items originally recorded as revenue expenditure and subsequently capitalised.

What are our conclusions?

At the date of this report we have not been able to complete all of our procedures in respect of inappropriate capitalisation of revenue expenditure.



Areas of Audit Focus

Inherent risks and other areas of audit focus

What is the risk/area of focus?

Valuation of property, plant and equipment (PPE) and investment property

As the Council's asset base is significant (44 million PPE and 9 million investment property), and the outputs from the internal valuer are subject to estimation, there is a higher inherent risk PPE may be under/overstated or the associated accounting entries incorrectly posted. ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of experts and assumptions underlying fair value estimates.

What have we done and our conclusions?

We have:

- ▶ Disaggregated the Council's property, plant and equipment and investment property and adopted different testing strategies.
- ▶ For specialist assets such as leisure facilities which typically are valued on the basis of depreciated replacement cost (DRC) we tested 2 sample of valuations, challenging the Council on key assumptions and base data such as agreeing floor areas back to original documentation, BCIS rates used, land area, land values and obsolescence rates.
- ▶ For non-specialist assets such as offices and car parks, which are typically valued on an Existing Use Valuation (EUV) basis, and investment properties which are based on fair value, we tested 12 samples of PPE and 4 samples of Investment Properties. We also engaged our own expert (EYRE) who tested one sample. We challenged the key assumptions by agreeing the income used to invoices and market rent, traced the number of years in the calculation to lease agreements, and inspected floor plans for site area used.

We have not yet completed our audit work in this area.



Areas of Audit Focus

Inherent risks and other areas of audit focus

What is the risk/area of focus?	What have we done and our conclusions?
Pension liability valuation and disclosures The Council's pension fund deficit is a material estimated balance and the Code requires that this liability be disclosed on the Council's balance sheet. At 31 March 2021, this totalled £35 million (31 March 2020 - £21.6 million). 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.	To address this risk, we have carried out a range of procedures including: ▶ Liaising with the auditors of Hertfordshire Pension Fund, to obtain assurances over the information supplied to the actuary in relation to East Hertfordshire District Council. ▶ Assessing the work of the Pension Fund actuary (Hymans Robertson) including the assumptions they have used by relying on the work of PWC - Consulting Actuaries commissioned by The National Audit Office for all Local Government sector auditors, and considering the reviews of this undertaken by the EY actuarial team; ▶ Reviewing and testing the accounting entries and disclosures made within the Council's financial statements in relation to IAS19. ISA540 (revised) requires auditors to test the method of measurement of accounting estimates to determine whether the model is appropriately designed, consistently applied and mathematically accurate, and that the integrity of the assumptions and the data has been maintained in applying the model. Neither we, nor PWC as consulting actuaries commissioned by the NAO for all local government sector audits, are able to access the detailed models of the actuaries in order to evidence these requirements. Therefore, we modified our planned approach and undertook alternate procedures to create an auditor's estimate, to provide a different method of gaining assurance. We employed the services of an EY Pensions specialist to review the Council's IAS19 reports and run a parallel actuarial model which was compared to that produced by the Council's actuary. We have provided the necessary information to EY pensions team to carry out their procedures, and are currently waiting for the review report from them. We have completed these procedures and not identified any issues, subject to Engagement Partner review.

Areas of Audit Focus

Inherent risks and other areas of audit focus

What is the risk/area of focus?

Going concern disclosures

Covid-19 has created a number of financial pressures throughout Local Government. It is creating financial stress through a combination of increasing service demand leading to increased expenditure in specific services, and reductions in income sources. There is currently not a clear statement of financial support from MHCLG that covers all financial consequences of Covid-19.

In addition, the auditing standard, International Auditing Standard 570 Going Concern, has been revised in response to enforcement cases and well-publicised corporate failures where the auditor's report failed to highlight concerns about the prospects of entities which collapsed shortly after.

The revised standard is effective for audits of financial statements for periods commencing on or after 15 December 2019, which for the Council will be the audit of the 2020/21 financial statements.

CIPFA's Code of Practice on Local Authority Accounting in the United Kingdom 2020/21 states that an Council's financial statements shall be prepared on a going concern basis; the accounts should be prepared on the assumption that the functions of the Council will continue in operational existence for the foreseeable future and can only be discontinued under statutory prescription.

However, ISA 570, as applied by Practice Note 10: Audit of financial statements of public sector bodies in the United Kingdom, still requires auditors to undertake sufficient and appropriate audit procedures to consider whether there is a material uncertainty on going concern that requires reporting by management within the financial statements, and within the auditor's report.

To do this, the auditor must review management's assessment of the going concern basis applying IAS1 Presentation of Financial Statements.

What have we done and our conclusions?

The revised standard requires:

- ▶ auditor's challenge of management's identification of events or conditions impacting going concern, more specific requirements to test management's resulting assessment of going concern, an evaluation of the supporting evidence obtained which includes consideration of the risk of management bias;
- ▶ greater work for us to challenge management's assessment of going concern, thoroughly test the adequacy of the supporting evidence we obtained and evaluate the risk of management bias. Our challenge will be made based on our knowledge of the Council obtained through our audit, which will include additional specific risk assessment considerations which go beyond the current requirements;
- ▶ ensuring compliance with any updated reporting requirements;
- ▶ a stand back requirement to consider all of the evidence obtained, whether corroborative or contradictory, when we draw our conclusions on going concern; and
- ▶ necessary consideration regarding the appropriateness of financial statement disclosures around going concern.

We have requested a documented and detailed consideration to support management's assertion regarding the going concern basis and particularly with a view whether there are any material uncertainties for disclosure and the impact of the ongoing impact of Covid-19 on future financial planning.

We will review the going concern disclosures within the financial statements under IAS1, and associated financial viability disclosures within the Narrative Statement. We will consider whether you have included necessary disclosures regarding any material uncertainties that do exist.

Should the need arises we may need to consult on the Council's disclosures in line with our internal consultation requirements.

Our work on going concern is yet to be concluded, as set out in Appendix D of this report.



Areas of Audit Focus

Inherent risks and other areas of audit focus

What is the risk/area of focus?

Business rates appeals provision

The business rates appeals provision of £4.5 million (31 March 2020 - 2.5 million) includes not only claims up to 31 March 2021, but claims that relate to earlier periods and is subject to estimation.

As appeals are made to the Valuation Office, the Council may not be aware of the level of claims lodged. The Council may also find it difficult to obtain sufficient information to establish a reliable estimate.

Due to the level of estimation, size of the balance and the complexity of this provision we have included it as an area of risk for this year.

What have we done and our conclusions?

We have:

- ▶ Reviewed the Council's methodology underpinning the provision for business rate appeals to ensure it has been calculated on a reasonable basis in line with IAS 37;
- ▶ Ensured the provision is supported by appropriate evidence and that the level of estimation uncertainty is adequately disclosed; and
- ▶ Reviewed the completeness of the provision.

Our work is complete, we have identified an error in the NDR Appeals provision performed by the specialist Analyse Local. An issue has been identified concerning the Analyse Local threats report used in the calculation of the 2020/21 NDR appeals provision. The reports show total yield loss for the 2017 list incorrectly includes yield losses until 2022/23, thereby overstating the provision by £2.4m in the Collection Fund. Management have decided to correct for the error in the Collection Fund Statement and the council accounts.

Areas of Audit Focus

Inherent risks and other areas of audit focus

What is the risk/area of focus?

Group accounting

The Council prepares group accounts due to the consolidation of the Millstream Property Investments Limited financial statements with the single entity Council financial statements. We identified this as an inherent risk as this can be a complex area of accounting.

What have we done and our conclusions?

We have:

- ▶ Reviewed the group assessment prepared by the Council, ensuring that the accounting framework and accounting policies are aligned to the East Hertfordshire District Council Group;
- ▶ Scoped the audit requirements for Millstream Property Investment Limited based on their significance to the Group Accounts. The in-scope accounts identified are investment property and Noncurrent Liabilities. Liaised with the external auditor of Millstream Property Investment Limited to confirm their independence from the component.
- ▶ Ensured the appropriate consolidation procedures and the Code of Practice are applied when preparing the Group Accounts; and
- ▶ Tested a sample of investment properties owned by Millstream Property Investments Limited by comparing the values to market data.
- ▶ Tested a sample of noncurrent loans and recalculated the balances as of 31 March 2021 based on loan agreements.

We have not yet completed our audit work in this area.



Areas of Audit Focus

Inherent risks and other areas of audit focus

What is the risk/area of focus?

Recognition of grant income associated with Covid-19 (includes sales fees and charges and other Covid-19 funding streams)

Central Government has provided a number of new and different Covid-19 related grants to local authorities during the year. There are also funds that have been provided for the Council to distribute to other bodies. Total grants received related to Covid was £60.8 million).

The Council needs to review each of these grants to establish how they should be accounted for. The Council needs to assess whether it is acting as a principal or agent, with the accounting to follow that decision. Where the decision is that the Council is a principal, it must also assess whether there are any initial conditions that may also affect the recognition of the grants as revenue during 2020/21.

What have we done and our conclusions?

We have:

- ▶ Considered the revenue and capital grants received by the Council;
- ▶ Responsive to the risk, carried out testing to ensure the accounting treatment and recognition applied to grant income is appropriate.
- ▶ For a sample of the grant population we have:
 - Reviewed the Council's assessment of whether it is acting as principal or agent;
 - Reviewed whether any initial conditions are attached to grants impacting their recognition;
 - Assessed whether the accounting appropriately follows those judgements.

We have also checked that the Council has adequately disclosed grant income received in the year, under both principal and agent arrangements.

We have completed these procedures and not identified any issues, subject to Engagement Partner review.



03 Audit Report



Audit Report

Draft audit report

Our draft opinion on the financial statements

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

Opinion

We have audited the financial statements of East Hertfordshire District Council for the year ended 31 March 2021 under the Local Audit and Accountability Act 2014. The financial statements comprise the:

- Authority and Group Movement in Reserves Statement,
- Authority and Group Comprehensive Income and Expenditure Statement,
- Authority and Group Balance Sheet,
- Authority and Group Cash Flow Statement
- the related notes 1 to 37
- 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 2020/21.

In our opinion the financial statements:

- give a true and fair view of the financial position of East Hertfordshire District Council as at 31 March 2021 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 2020/21.

Basis for opinion

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

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

Conclusions relating to going concern

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

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

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

Other information

The other information comprises the information included in the Statement of Accounts 2020/21, other than the financial statements and our auditor's report thereon. The Head of Service is responsible for the other information contained within the statement of accounts.

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

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

We have nothing to report in this regard.

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](#);
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act [2014](#);
- we are not satisfied that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2021.

We have nothing to report in these respects.

Audit Report

Our opinion on the financial statements

Responsibility of the Head of Service

As explained more fully in the Statement of the Head of Service's Responsibilities set out on pages [xxx], the Head of Service 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 2020/21, and for being satisfied that they give a true and fair view and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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 for the audit of the financial statements

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

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

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the council and determined that the most significant are:
 - Local Government Act 1972,
 - Local Government Finance Act 1988 (as amended by the Local Government Finance Act 1992),
 - Local Government Act 2003,

- The Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 as amended in 2018 and 2020,
- The Local Audit and Accountability Act 2014, and
- The Accounts and Audit Regulations 2015.

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

- We understood how East Hertfordshire District Council is complying with those frameworks by understanding the incentive, opportunities and motives for non-compliance, including inquiring of management, head of internal audit, those charged with governance and monitoring officer, and obtaining and reading documentation relating to the procedures in place to identify, evaluate and comply with laws and regulations, and whether they are aware of instances of non-compliance. We corroborated this through our reading of the Council's committee minutes, through enquiry of employees to confirm Council policies, and through the inspection of other information. Based on this understanding we designed our audit procedures to identify non-compliance with such laws and regulations. Our procedures had a focus on compliance with the accounting framework through obtaining sufficient audit evidence in line with the level of risk identified and with relevant legislation.
- We assessed the susceptibility of the Council's financial statements to material misstatement, including how fraud might occur by understanding the potential incentives and pressures for management to manipulate the financial statements, and performed procedures to understand the areas in which this would most likely arise. Based on our risk assessment procedures, we identified manipulation of reported financial performance through improper capitalisation of revenue expenditure and management override of controls to be our fraud risks.
- To address our fraud risk of inappropriate capitalisation of revenue expenditure, we tested the Council's capitalised expenditure to ensure the capitalisation criteria were properly met and the expenditure was genuine.
- To address our fraud risk of management override of controls, we tested specific journal entries identified by applying risk criteria to the entire population of journals. For each journal selected, we tested specific transactions back to source documentation to confirm that the journals were authorised and accounted for appropriately.

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

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



Audit Report

Our opinion on the financial statements

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 reporting criteria issued by the Comptroller and Auditor General (C&AG) in April 2021, as to whether East Hertfordshire District Council had proper arrangements for financial sustainability, governance and improving economy, efficiency and effectiveness. The Comptroller and Auditor General determined these criteria as those necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the East 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 2021.

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, East Hertfordshire District Council had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

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

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

Delay in certification of completion of the audit

We cannot formally conclude the audit and issue an audit certificate until we have completed the work necessary to issue our assurance statement in respect of the Authority's Whole of Government Accounts consolidation pack. We are satisfied that this work does not have a material effect on the financial statements or our work on value for money arrangements.

Use of our report

This report is made solely to the members of East 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.

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



04 Audit Differences



Audit Differences

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

Summary of Audit differences as at the date of this report

We highlight misstatements greater than £0.073m which have been identified during the course of our audit.

At the date of this report, we identified one audit difference in the NDR Appeals provision. Our audit work identified an error in the specialist’s calculation of the provision. The reports show total yield loss for the 2017 list incorrectly includes yield losses until 2022/23, thereby overstating the provision by £2.4m in the Collection Fund. Management have decided to correct for the error in the Collection Fund Statement and the council accounts..

We have also identified a small number of minor disclosure differences in notes to the financial statements (casting, referencing, classification etc) which management have agreed to amend

Until we complete all of our audit procedures, as noted in the status of opinion audit above and on subsequent slides, along with our final Manager and Engagement Partner review further adjustments may be identified.



05 Value for Money



Value for Money

The Council's responsibilities for value for money

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

As part of the material published with its financial statements, the Council is required to bring together commentary on its governance framework and how this has operated during the period in a governance statement. In preparing its governance statement, the Council tailors the content to reflect its own individual circumstances, consistent with the requirements of the relevant accounting and reporting framework and having regard to any guidance issued in support of that framework. This includes a requirement to provide commentary on its arrangements for securing value for money from their use of resources.

Risk assessment

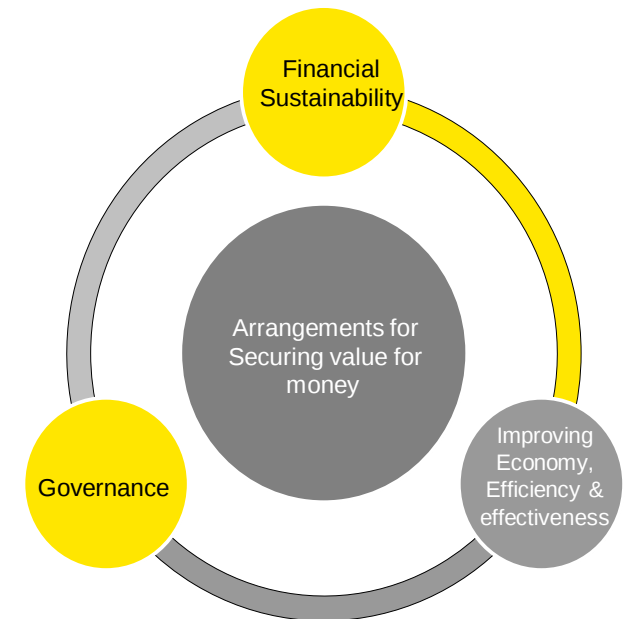
Throughout our audit we have performed a risk assessment in relation to the arrangements in place. This risk assessment looked at whether there was any risk of significant weaknesses in the VFM arrangements.

No significant risks were identified through our risk assessment.

The Council's responsibilities for value for money

We have substantially completed our work on VFM arrangements and did not identify any risk of significant weakness against the three reporting criteria we are required to consider under the NAO's 2020 Code.

We currently have no matters to report by exception in the audit opinion. Our work remains pending final review by the Engagement Partner.



Reporting on VFM

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

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



06 Other reporting issues

Other reporting issues

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

We must give an opinion on the consistency of the financial and non-financial information in the Statement of Accounts for the year ended 2020/21 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 for the year ended 2020/21 and published with the financial statements was consistent with the audited financial statements.

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

Whole of Government Accounts

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

We have not yet been able to perform the procedures required by the NAO on the WGA submission. This is because HM Treasury (HMT) are continuing to review the online 2020/21 WGA Data Collection Tool (DCT) and update the guidance that is available for preparers. Based on the last available update the DCT and guidance was not expected to be available until December 2021. Therefore the 2020/21 WGA component instructions will not be available for auditors to consider until after that. Group Audit Instructions and the timetable for 2020/21 will necessarily follow any changes HMT make to the DCT and process. Although, as in previous years we expect the Council to be below the threshold that required us to undertake any detailed procedures, we are not able to issue our certificate until the Group Audit Instructions are issued, and we have completed any work required.



Other reporting issues

Other reporting issues

Other powers and duties

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

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

Other matters

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

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

We have no matters to report as of the date of this report.



07

Assessment of Control Environment

Assessment of Control Environment

Financial controls

It is the responsibility of the Authority 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 Authority 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, as of the date of this report, that might result in a material misstatement in your financial statements of which you are not aware.



08 Data Analytics



Use of Data Analytics in the Audit

Data analytics

Analytics Driven Audit

Data analytics

We used our data analysers to enable us to capture entire populations of your financial data. These analysers:

- ▶ Help identify specific exceptions and anomalies which can then be the focus of our substantive audit tests; and
- ▶ Give greater likelihood of identifying errors than traditional, random sampling techniques.

In 2020/21, our use of these analysers in the Authority's audit included testing journal entries and employee expenses, to identify and focus our testing on those entries we deem to have the highest inherent risk to the audit.

We capture the data through our formal data requests and the data transfer takes place on a secured EY website. These are in line with our EY data protection policies which are designed to protect the confidentiality, integrity and availability of business and personal information.

Journal Entry Analysis

We obtain downloads of all financial ledger transactions posted in the year. We performed completeness analysis over the data, reconciling the sum of transactions to the movement in the trial balances and financial statements to ensure we have captured all data. Our analysers then review and sort transactions, allowing us to more effectively identify and test journals that we consider to be higher risk.

Payroll Analysis

We also use our analysers in our payroll testing. We obtain all payroll transactions posted in the year from the general ledger. We then analyse the data against a number of specifically designed procedures. These include analysis of payroll costs by month to identify any variances from established expectations, as well as more detailed transactional interrogation.



Journal Entry Testing

What is the risk?

In line with ISA 240 we are required to test the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements.

What judgements are we focused on?

Using our analysers we are able to take a risk based approach to identify journals with a higher risk of management override.

What did we do?

We obtained general ledger journal data for the period and have used our analysers to identify characteristics typically associated with inappropriate journal entries or adjustments, and journals entries that are subject to a higher risk of management override.

We then performed tests on the journals identified to determine if they were appropriate and reasonable.

What are our conclusions?

We have substantially completed our work on journal entries and have found no exceptions to report as of the date of this report. The work remains subject to review by the Engagement Partner.



09

Independence

Confirmation of independence and analysis of audit fees

The duty to prescribe fees is a statutory function delegated to Public Sector Audit Appointments Ltd (PSAA) by the Secretary of State for Communities and Local Government. PSAA has published a scale fee for all relevant bodies. This is defined as the fee required by auditors to meet statutory responsibilities under the Local Audit and Accountability Act 2014 in accordance with the requirements of the Code of Audit Practice and supporting guidance published by the National Audit Office, the financial reporting requirements set out in the Code of Practice on Local Authority Accounting published by CIPFA/LASAAC, and the professional standards applicable to auditors' work. See below the fees charged by EY:

Description	Proposed Fee 2020/21 £	Scale Fee 2020/21 £	Final Fee 2019/20 £
Total Scale Fee - Code work	40,295	40,295	40,295
Final approved scale fee variation for 19/20 (Note 1)			25,840
Changes in work required to address professional and regulatory requirements and scope associated with risk (Note 2)	26,949		
Additional fee to address in-year risks as noted in this report (Note 3)	17,500		
Total indicative audit fees	84,744	40,295	66,135
Housing benefits certification work	11,000		21,140
Total audit fees	95,744	40,295	87,275

All fees exclude VAT

Notes on fees

Note 1: The final fee for 2019/20 has been discussed with management, approved by PSAA and paid.

Note 2: As reported in our Audit Plan, we are currently in discussion with PSAA nationally about an increase in the scale fee. We do not believe that the current scale fee reflects the changes in the audit market and increases in regulation since the most recent PSAA tender exercise. As a result of these factors, we have proposed an increase in the scale fee of £26,949 for 2020/21.

Note 3: For 2020 /21, the scale fee represents the base fee, i.e. not including any additional audit work. However, this will be impacted by a range of factors, as detailed in the Audit Plan, including Covid-19, additional risks identified relating to grants, and additional work required to be performed to meet ISA540 requirements, which have all resulted in additional work. We are not able to quantify the additional work or fee at this stage as our audit is still in progress, but will discuss this with management as our audit concludes and the scope and scale of any additional work can be confirmed.

In addition to the above, PSAA published additional information for 2020/21 audit fees in August 2021, and provided guidance about the range of minimum additional fee in certain areas of audit, e.g. minimum additional fees audits for a district council audit for new VFM arrangements requirements £6,000 - £11,000 and ISA540 (accounting estimates) requirements £2,500. PSAA also revised its hourly rates for calculating the additional fee variations.

Independence

Relationships, services and related threats and safeguards

The FRC Ethical Standard requires that we provide details of all relationships between Ernst & Young (EY) and your Authority, senior management and its affiliates, including all services provided by us and our network to your Authority, senior management and its affiliates, and other services provided to other known connected parties that we consider may reasonably be thought to bear on the our integrity or objectivity, including those that could compromise independence and the related safeguards that are in place and why they address the threats.

There are no relationships from 1 April 2020 to the date of this report, which we consider may reasonably be thought to bear on our independence and objectivity.

Other communications

EY Transparency Report 2021

Ernst & Young (EY) has policies and procedures that instil professional values as part of firm culture and ensure that the highest standards of objectivity, independence and integrity are maintained. Details of the key policies and processes in place within EY for maintaining objectivity and independence can be found in our annual Transparency Report which the firm is required to publish by law. The most recent version of this Report is for the year end 30 June 2021:

https://www.ey.com/en_uk/who-we-are/transparency-report-2021



10 Appendices

Appendix A

Audit approach update

We summarise below our approach to the audit of the balance sheet and any changes to this approach from the prior year audit.

Our audit procedures are designed to be responsive to our assessed risk of material misstatement at the relevant assertion level. Assertions relevant to the balance sheet include:

- ▶ Existence: An asset, liability and equity interest exists at a given date
- ▶ Rights and Obligations: An asset, liability and equity interest pertains to the entity at a given date
- ▶ Completeness: There are no unrecorded assets, liabilities, and equity interests, transactions or events, or undisclosed items
- ▶ Valuation: An asset, liability and equity interest is recorded at an appropriate amount and any resulting valuation or allocation adjustments are appropriately recorded
- ▶ Presentation and Disclosure: Assets, liabilities and equity interests are appropriately aggregated or disaggregated, and classified, described and disclosed in accordance with the applicable financial reporting framework. Disclosures are relevant and understandable in the context of the applicable financial reporting framework

Balance sheet category	Audit Approach in current year	Audit Approach in prior year	Explanation for change
Trade receivables	Substantively tested all relevant assertions	Substantively tested all relevant Assertions	No change
Property, plant and equipment	Fully substantive approach. Engaged with EY Real Estate	Fully substantive approach. Engaged with EY Real Estate	No change
Trade payables	Fully substantive approach	Fully substantive approach	No change
Cash and Investments	Substantively tested all relevant assertions	Substantively tested all relevant assertions	No change
Grants	Fully substantive approach	Fully substantive approach	No change
Pensions	Substantively tested all relevant assertions. We engaged EY Pensions to assist with reviewing actuary model.	Substantively tested all relevant assertions	We engaged our pensions specialists due to the requirements of ISA540 (revised)

Appendix B

Summary of communications

Date	Nature	Summary
28 July 2021	Audit and Governance Committee	The Audit Planning Report, including confirmation of independence, was presented to the audit and governance committee.
26 January 2022	Meeting	The partner in charge and manager of the engagement discussed the audit progress and timetable
5 April 2022	Audit and Governance Committee	The provisional audit results report, including confirmation of independence, will be issued to the audit and governance committee.
Weekly meetings throughout January to April 2022	Meeting	The EY audit team met regularly to discuss the progress of the audit with Council's Finance team

Appendix C

Required communications with the Audit and Governance Committee

There are certain communications that we must provide to the Audit and Governance Committees of UK clients. We have detailed these here together with a reference of when and where they were covered:

		Our Reporting to you
Required communications	 What is reported?	  When and where
Terms of engagement	Confirmation by the Audit and Governance Committee of acceptance of terms of engagement as written in the engagement letter signed by both parties.	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies
Our responsibilities	Reminder of our responsibilities as set out in the engagement letter.	Audit Planning Report - 30 June 2021
Planning and audit approach	Communication of the planned scope and timing of the audit, any limitations and the significant risks identified.	Audit Planning Report - 30 June 2021
Significant findings from the audit	▶ Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures ▶ Significant difficulties, if any, encountered during the audit ▶ Significant matters, if any, arising from the audit that were discussed with management ▶ Written representations that we are seeking ▶ Expected modifications to the audit report ▶ Other matters if any, significant to the oversight of the financial reporting process	Audit results report - 29 March 2022

Appendix C

		Our Reporting to you
Required communications	What is reported?	When and where
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	Audit results report - 29 March 2022
Misstatements	▶ Uncorrected misstatements and their effect on our audit opinion ▶ The effect of uncorrected misstatements related to prior periods ▶ A request that any uncorrected misstatement be corrected ▶ Material misstatements corrected by management	Audit results report - 29 March 2022
Subsequent events	▶ Enquiry of the Audit and Governance Committee where appropriate regarding whether any subsequent events have occurred that might affect the financial statements.	Audit results report - 29 March 2022
Fraud	▶ Enquiries of the Audit and Governance Committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the Authority ▶ Any fraud that we have identified or information we have obtained that indicates that a fraud may exist ▶ Unless all of those charged with governance are involved in managing the Authority, any identified or suspected fraud involving: - Management; - Employees who have significant roles in internal control; or - Others where the fraud results in a material misstatement in the financial statements. ▶ The nature, timing and extent of audit procedures necessary to complete the audit when fraud involving management is suspected ▶ Any other matters related to fraud, relevant to Audit and Governance Committee responsibility.	Audit results report - 29 March 2022

Appendix C

		Our Reporting to you
Required communications	What is reported?	When and where
Related parties	Significant matters arising during the audit in connection with the Authority's related parties including, when applicable: ▶ Non-disclosure by management ▶ Inappropriate authorisation and approval of transactions ▶ Disagreement over disclosures ▶ Non-compliance with laws and regulations ▶ Difficulty in identifying the party that ultimately controls the Authority	Audit results report - 29 March 2022
Independence	Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, objectivity and independence. Communication of 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 about the general policies and process within the firm to maintain objectivity and independence Communications whenever significant judgments are made about threats to objectivity and independence and the appropriateness of safeguards put in place.	Audit Planning Report - 30 June 2021 and Audit results report - 29 March 2022
External confirmations	▶ Management's refusal for us to request confirmations ▶ Inability to obtain relevant and reliable audit evidence from other procedures.	Audit Planning Report - 30 June 2021 and Audit results report - 29 March 2022
Significant deficiencies in internal controls identified during the audit	▶ Significant deficiencies in internal controls identified during the audit.	Audit results report - 29 March 2022

Appendix C

		 Our Reporting to you
Required communications	What is reported?	When and where
Written representations we are requesting from management and/or those charged with governance	▶ Written representations we are requesting from management and/or those charged with governance	Audit results report - 29 March 2022
Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	▶ Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	Audit results report - 29 March 2022
Auditors report	▶ Any circumstances identified that affect the form and content of our auditor's report	Audit results report - 29 March 2022
Fee Reporting	▶ Breakdown of fee information when the audit planning report is agreed ▶ Breakdown of fee information at the completion of the audit ▶ Any non-audit work	Audit Planning Report - 30 June 2021 and Audit results report - 29 March 2022
Value for money commentary	A commentary on the arrangements in place during 2020/21 to achieve value for money, and any recommendations we may make to improve those arrangements.	Auditor's Annual Report - April/May 2022
Consideration of laws and regulations	▶ Subject to compliance with applicable regulations, matters involving identified or suspected non-compliance with laws and regulations, other than those which are clearly inconsequential and the implications thereof. Instances of suspected non-compliance may also include those that are brought to our attention that are expected to occur imminently or for which there is reason to believe that they may occur ▶ Enquiry of the Audit and Governance Committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the Audit and Governance Committee may be aware of	We have asked management and those charged with governance. We have not identified any material instances or non-compliance with laws and regulations.

Appendix D

Outstanding matters

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

Item 	Actions to resolve 	Responsibility 
Property, plant and equipment and investment property valuation	Queries raised on review and responses received from Management. Awaiting conclusions on EY specialist review of Other Land and Building asset.	EY
Group	EY to complete work	EY
Going concern	Awaiting going concern assessment EY to review the assessment upon receipt	EY and Management
Final review from Engagement manager and partner	Ongoing review process. Additional queries might be raised as a result of review.	EY
Subsequent events review	Completion of subsequent events procedures to the date of signing the audit report	EY and Management
Management Representation Letter	Receipt of signed management representation letter	Management
Agreement of Final set of Accounts	Agree all changes made to draft accounts are updated in the final set of accounts.	EY and Management

Until all our audit procedures are complete, we cannot confirm the final form of our audit opinion as new issues may emerge or we may not agree on final detailed disclosures in the Annual Report. A draft of the current opinion is included in Section 03.



Appendix E

DRAFT Management representation letter

Management Representation Letter - DRAFT

Date xxxxxxx

Ernst & Young
Ernst & Young
400 Capability Green
Luton
Bedfordshire
LU1 3LU

This letter of representations is provided in connection with your audit of the consolidated and council financial statements of East Hertfordshire District Council ("the Group and Council") for the year ended 31 March 2021. 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 consolidated and council financial statements give a true and fair view of the Group and Council financial position of East Hertfordshire District Council as of 31 March 2021 and of its financial performance and its cash flows for the year then ended in accordance with, for the Group and Council, the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21.

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

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

A. Financial Statements and Financial Records

1. We have fulfilled our responsibilities, under the relevant statutory authorities, for the preparation of the financial statements in accordance with, for the Group and Council, the Accounts and Audit Regulations 2015 and the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21.
2. We acknowledge, as members of management of the Group and Council, our responsibility for the fair presentation of the consolidated and council financial statements. We believe the consolidated and council financial statements referred to above give a true and fair view of the financial position, financial performance and cash flows of the Group and Council in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21 and are free of material misstatements, including omissions. We have approved the consolidated and council financial statements.
3. The significant accounting policies adopted in the preparation of the Group and Council financial statements are appropriately described in Group and Council financial statements.
4. As members of management of the Group and Council, we believe that the Group and Council have 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 2020/21 for the Council that are free from material misstatement, whether due to fraud or error. We have disclosed to you any significant changes in our processes, controls, policies and procedures that we have made to address the effects of the COVID-19 pandemic on our system of internal controls.

Appendix E

Management representation letter

Management Rep Letter

5. We believe that the effects of any unadjusted audit differences, summarised in the accompanying schedule, accumulated by you during the current audit and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the consolidated and council financial statements taken as a whole. We have not corrected these differences identified and brought to our attention by the auditor because *[specify]*

B. Non-compliance with laws and regulations, including fraud

1. We acknowledge that we are responsible for determining that the Group and Council's activities are conducted in accordance with laws and regulations and that we are responsible for identifying and addressing any non-compliance with applicable laws or regulations, including fraud.
2. We acknowledge that we are responsible for the design, implementation and maintenance of internal controls to prevent and detect fraud.
3. We have disclosed to you the results of our assessment of the risk that the consolidated and council financial statements may be materially misstated as a result of fraud.
4. We have no knowledge of any identified or suspected non-compliance with laws or regulations, including fraud, that may have affected the Group or Council (regardless of the source or form and including without limitation, any allegations by "whistleblowers"), including non-compliance matters:
 - Involving financial statements
 - Related to laws or regulations that have a direct effect on the determination of material amounts and disclosures in the consolidated or council's financial statements
 - Related to laws or regulations that have an indirect effect on amounts and disclosures in the financial statements, but compliance with which may be fundamental to the operations of the Group or Council's activities, its ability to continue in business, or to avoid material penalties
 - Involving management, or employees who have significant roles in internal control, or others

- In relation to any allegations of fraud, suspected fraud or other non-compliance with laws and regulations communicated by employees, former employees, analysts, regulators or others.

C. Information Provided and Completeness of Information and Transactions

1. We have provided you with:
 - Access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;
 - Additional information that you have requested from us for the purpose of the audit; and
 - Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
2. All material transactions have been recorded in the accounting records and all material transactions, events and conditions are reflected in the consolidated and council financial statements, including those related to the COVID-19 pandemic.
3. We have made available to you all minutes of the meetings of the Council and its relevant 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: xx 2021.
4. We confirm the completeness of information provided regarding the identification of related parties. We have disclosed to you the identity of the Group and 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 year 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 consolidated and council financial statements.

Management representation letter

Management Rep Letter

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 Group and Council has complied with, all aspects of contractual agreements that could have a material effect on the consolidated and council financial statements in the event of non-compliance, including all covenants, conditions or other requirements of all outstanding debt.

7. From the date of our last management representation letter, being 26 November 2020, through the date of this letter we have disclosed to you any unauthorized access to our information technology systems that either occurred or to the best of our knowledge is reasonably likely to have occurred based on our investigation, including of reports submitted to us by third parties (including regulatory agencies, law enforcement agencies and security consultants), to the extent that such unauthorized access to our information technology systems is reasonably likely to have a material impact to the financial statements, in each case or in the aggregate.

D. Liabilities and Contingencies

1. All liabilities and contingencies, including those associated with guarantees, whether written or oral, have been disclosed to you and are appropriately reflected in the consolidated and council financial statements.
2. We have informed you of all outstanding and possible litigation and claims, whether or not they have been discussed with legal counsel.
3. We have recorded and/or disclosed, as appropriate, all liabilities related litigation and claims, both actual and contingent, and have disclosed in the consolidated and council financial statements all guarantees that we have given to third parties.

E. Subsequent Events

1. Other than as described in Note xx to the financial statements, there have been no events, including events related to the COVID-19 pandemic, subsequent to period end which require adjustment of or disclosure in the consolidated and council financial statements or notes thereto.

F. Group audits

1. There are no significant restrictions on our ability to distribute the retained profits of the Group because of statutory, contractual, exchange control or other restrictions other than those indicated in the Group financial statements.
2. Necessary adjustments have been made to eliminate all material intra-group unrealised profits on transactions amongst Council and subsidiary undertakings and associated undertakings.

G. Other information

1. We acknowledge our responsibility for the preparation of the other information. The other information comprises the Narrative Report and the Annual Governance Statement.
2. We confirm that the content contained within the other information is consistent with the financial statements.

H. Contingent Liabilities

1. We are unaware of any violations or possible violations of laws or regulations the effects of which should be considered for disclosure in the financial statements or as the basis of recording a contingent loss (other than those disclosed or accrued in the financial statements).

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Management Rep Letter

2. We are unaware of any known or probable instances of non-compliance with the requirements of regulatory or governmental authorities, including their financial reporting requirements, and there have been no communications from regulatory agencies or government representatives concerning investigations or allegations of non-compliance

I. Reserves

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

J. Use of the Work of a Specialist

1. We agree with the findings of the specialists that we engaged to evaluate the *valuation of land and building assets and investment property, defined benefit pension scheme and business rates appeals provision* and have adequately considered the qualifications of the specialists in determining the amounts and disclosures included in the consolidated and council 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 specialist.

K. Property Valuation and Pension Liability Estimate

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 the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21.

2. We confirm that the disclosures made in the financial statements with respect to the accounting estimates are complete, including the effects of the COVID-19 pandemic on property and pension valuation and made in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21.

3. We confirm that no adjustments are required to the accounting estimates and disclosures in the financial statements due to subsequent events, including due to the COVID-19 pandemic.

L. Retirement benefits

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

Yours faithfully,

S151 Officer

Chairman of the Audit and Governance Committee

Appendix F

Accounting and regulatory update - Implementation of IFRS 16 Leases

In previous reports to the Finance, Audit and Risk Committee, we have highlighted the issue of new accounting standards and regulatory developments. IFRS 16 introduces a number of significant changes which go beyond accounting technicalities. For example, the changes have the potential to impact on procurement processes as more information becomes available on the real cost of leases. The key accounting impact is that assets and liabilities in relation to significant lease arrangements previously accounted for as operating leases will need to be recognised on the balance sheet. IFRS 16 requires all substantial leases to be accounted for using the acquisition approach, recognising the rights acquired to use an asset.

Currently, the adoption of IFRS 16 by CIPFA/LASAAC as the basis for preparation of Local Authority Financial Statements has been deferred until 1 April 2022. However, CIPFA is currently consulting on deferring the implementation of IFRS 16 for a further year and reversing the planned changes to the 2022-23 Code. In either case, officers should be acting now to assess the Council's leasing positions and secure the required information to ensure the Council will be fully compliant with the CIPFA Code. The following table summarises some key areas officers should be progressing.

IFRS 16 theme	Summary of key measures
Data collection	Management should: ▶ Put in place a robust process to identify all arrangements that convey the right to control the use of an identified asset for a period of time. The adequacy of this process should be discussed with auditors. ▶ Classify all such leases into low value; short-term; peppercorn; portfolio and individual leases ▶ Identify, collect, log and check all significant data points that affect lease accounting including: the term of the lease; reasonably certain judgements on extension or termination; dates of rent reviews; variable payments; grandfathered decisions; non-lease components; and discount rate to be applied.
Policy choices	The Council needs to agree on certain policy choices. In particular: ▶ Whether to adopt a portfolio approach ▶ What low value threshold to set and agree with auditors ▶ Which asset classes, if any, are management adopting the practical expedient in relation to non-lease components ▶ What is managements policy in relation to discount rates to be used?
Code adaptations for the public sector	Finance teams should understand the Code adaptations for the public sector. The Code contains general adaptations, (e.g. the definition of a lease); transitional interpretations (e.g. no restatement of prior periods) and adaptations that apply post transition (e.g. use of short-term lease exemption).
Transitional accounting arrangements	Finance teams should understand the accounting required on first implementation of IFRS 16. The main impact is on former operating leases where the authority is lessee. However, there can be implications for some finance leases where the council is lessee; and potentially for sub-leases, where the council is a lessor, that were operating leases under the old standard.
Going accounting arrangements	Finance teams need to develop models to be able to properly account for initial recognition and subsequent measurement of right of use assets and associated liabilities. This is more complex than the previous standard due to more regular remeasurements and possible modifications after certain trigger events.
Remeasurements and modifications	Finance teams need to familiarise themselves with when the 'remeasurement' or 'modification' of a lease is required and what to do under each circumstance. A modification can lead to an additional lease being recognised. It is also important to know when remeasurements require a new discount rate is to be applied to the lease.

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ED None

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East Herts Council Report

Audit & Governance Committee

Date of Meeting:

Audit & Governance Committee – 5 April 2022

Report by: Councillor Geoff Williamson, Deputy Leader & Executive Member for Financial Sustainability

Report title: Financial Management Quarter 3 Forecast to Year End - Quarterly Corporate Budget Monitor

Ward(s) affected: ALL

Summary

- To provide a report on financial monitoring for East Herts Council for 2021/22 as at 31st December 2021.
- The net revenue budget for 2021/22 is £11.056m as set out in table 1, this is funded by Council Tax. The forecast outturn as at 31st December 2021 predicts an overspend of £95k at the year end.
- The revised capital budget for 2021/22 is £56.656m, with a forecast underspend of £27.669m, of which £27.603m will be carried forward to 2022/23.

RECOMMENDATIONS FOR AUDIT & GOVERNANCE COMMITTEE:

- a. The net revenue budget forecast overspend of £95k in 2021/22 be noted (table 1);
- b. That the revised capital budget of £56.676m for 2021/22, has a forecast underspend of £27.669m, of which £27.603m will be carried forward to 2022/23 (appendix A) be noted.

1.0 Proposal(s)

1.1 Not applicable

2.0 Background

2.1 This report sets out the financial position for the financial year 2021/22 to date and provides forecasts for the outturn position.

2.2 The Council's revenue budget is made up of 5 areas; these are shown in table 1. The report that follows provides details of the forecast outturn position against these areas.

Table 1 – 2021/22 Revenue Forecast Outturn

Original Budget 2021/22	Forecast outturn	Variance
£'000	£'000	£'000

Net Cost of Services	16,787	16,677	(110)
Corporate Budgets	(16)	(66)	(50)
Net Use of Reserves	2,485	2,446	(39)
Funding	(8,200)	(7,906)	294
Net Revenue Spend	11,056	11,151	95
Funded by Council Tax	(11,056)	(11,056)	-
Overspend / (Underspend)	-	95	95

2.3 The report contains the following sections and Appendices:

Background Report Sections	
2.4	Net Cost of Services
2.18	Corporate budgets
3.0	Reserves
4.0	Funding
5.0	Capital budgets
6.0	Debtors

Appendices	
A	Capital
B	Debtors

2.4 Net Cost of Services

2.5 The Councils net cost of services budget for 2021/22 is £16.787m, which includes carry forwards from previous year's budget of £414k of which £404k is for Shared Business and Technology and £10k for Housing and Health.

2.6 An underspend of £110k is forecast in 2021/22. Table 2 overleaf shows this current forecast outturn position broken down by service area.

2.7 As reported previously, the Councils income and expenditure continues to be impacted by the Covid-19 pandemic. This report contains estimates of the Covid-19 income loss scheme funding from the government to support the loss of fees and charges income and also Local Authority support grant.

2.8 For the first quarter of 2021-22, the sales, fees and charges compensation grant scheme operated on the same basis as last year's scheme which involves a 5% deductible rate, whereby councils will absorb losses up

to 5% of their budgeted sales, fees and charges income, with the government compensating them for 75p in every pound of relevant loss thereafter. This will then allow the budgets for the remaining quarters to be better profiled to reflect seasonal changes in budgeted income.

Table 2 – Net Cost of Services

	Original Budget 2021/22	Forecast outturn	Grant funding	Revised outturn	Variance
	£'000	£'000	£'000	£'000	£'000
Chief Executive & Directors	401	385	-	385	(16)
Communications, Strategy & Policy	1,386	1,366	-	1,366	(20)
HR & Organisational Development	578	522	-	522	(56)
Strategic Finance & Property	2,653	2,732	-	2,732	79
Housing & Health	2,581	2,599	(25)	2,574	(7)
Democratic and Legal	1,426	1,417	-	1,417	(9)
Planning & Building Control	1,202	1,336	(129)	1,207	5
Operations	3,057	3,358	(144)	3,214	157
Shared Revenues & Benefits Service	1,725	1,713	-	1,713	(12)
Revenues & benefits retained costs	(465)	(654)	-	(654)	(189)
Housing Benefit Subsidy	(550)	(491)	-	(491)	59
Shared Business & Technology Services	2,555	2,454	-	2,454	(101)
CERA	238	238	-	238	-
Total Net Cost of Services	16,787	16,975	(298)	16,677	(110)

2.9 The use of reserves to fund Net Cost of Services expenditure is included in section 3.0.

2.10 Communications, Strategy & Policy

A forecast underspend of £20k is reported against this service. This is mostly driven by salary underspends for posts which no longer exist and will be deleted for the 2022/23 budget

2.11 HR & Organisational Development

A forecast underspend of £55k is reported against this service. £36k relates to an underspend on salary budgets due to no further recruitment of apprentices this year. £18k relates to salary saving due to vacant admin post.

2.12 Strategic Finance & Property

A forecast overspend of £79k is reported, this relates to:

- £92k reduced rental income from Charrington's House due to redevelopment of site.
- £20k reduction in rental income from Wallfields old building due to termination of Citizens Advice Bureau's contract. This vacant space is being utilised as storage for items from Hertford Theatre which would have incurred a cost if stored elsewhere
- £39k additional rental income following rent reviews on some of the Councils rental properties

2.13 Operations

An overspend of £157k is forecasted against this service. Pay and Display receipts have been below budget in 2021/22. For the first quarter grant income of £144k (as detailed in paragraph 2.8) has been claimed to offset losses caused by government restrictions. Pay and display income levels continue to be impacted across

the district, especially in Hertford. This may be due in part to reduced numbers of businesses in the town and also the closure of Hertford Theatre. An underachievement of parking income of £130k is forecast.

2.14 Revenues & Benefits Retained Costs

The revenues and benefits retained costs budget is forecast to overachieve by £189k. This consists of additional central government new burdens funding received as a result of the pandemic, net of expenses.

2.15 Shared Business & Technology Services

A forecast underspend of £101k is reported against this service. As reported at Q2, most of this relates to savings identified on licence costs to date and slippage of IT projects. Additionally, there are some salary savings identified due to vacant post. As mentioned previously, £404k unspent from 2020/21 budgets has been carried forward into this financial year, this will be spent in 2021/22.

2.16 Corporate Budgets

Corporate budgets are costs and income received by the Council that are not service specific; these include income from the Council's investments and pension deficit contributions. Table 3 shows the forecast outturn position against the corporate budgets.

Table 3 – Corporate budgets 2021/22 forecast outturn

Original Budget 2021/22	Forecast outturn	Variance
£'000	£'000	£'000

Interest & Investment Income	(750)	(800)	(50)
------------------------------	-------	-------	------

Pension Fund Deficit contribution	734	734	-
Corporate Budget Total	(16)	(66)	(50)

2.17 The interest & investment income budget is forecasted to overachieve by £50k. This is due to returns being higher than anticipated

3.0 Reserves

3.1.1 The Council holds earmarked reserves to fund unpredictable financial pressures and to smooth the effect of known spending over time. Table 4 reflects the forecast outturn position as at 31st December 2021.

Table 4: Use of reserves 2021/22

	2021/22 Budget	2021/22 Forecast Outturn	Variance
	£'000	£'000	£'000
Contributions to reserves	3,369	3,146	(223)
Contributions from reserves	(769)	(585)	184
Use of General reserve	(414)	(414)	-
Contribution to Priority spend Reserve	299	299	-
Use of Reserves:	2,485	2,446	(39)

3.1.2 It is forecast that there will be a contribution from reserves of £585k in 2021/22, this is £184k less than budgeted for. At this time services have either secured additional funding or reduced costs, which lessens the requirement to utilise reserves.

3.1.3 It is forecast that contribution to reserves will be £223k lower than budgeted for. This is due to government grant received in year being spent in year rather than transferred to reserve.

3.1.4 As mentioned in paragraph 2.5 and in addition to above, £414k will be utilised from the General reserve. This consists of carry forwards from unspent budgets in the previous year with £404k for Shared Business and Technology service and £10k for Housing and Health service.

4.0 Funding

These income budgets are general and non-service specific income sources. The table below shows the value and source of these funding streams as at 31st December 2021.

Table 5: 2021/22 funding

	Original Budget 2021/22	Forecast Funding 2021/22	Variance
Business Rates	(2,721)	(2,721)	-
(Surplus)/Deficit on collection fund	2,455	2,455	-
Gov. support grant	(874)	(652)	222
Section 31 grants	(4,666)	(4,666)	
Capital salaries	(150)	(78)	72
New Homes Bonus	(2,244)	(2,244)	-
Total Funding	(8,200)	(7,906)	294

- 4.1.1 The impact on collection rates for both Council Tax and Business Rates as a result of Covid-19 is being closely monitored by officers.
- 4.1.2 A variance of £222k is reported against the Government support grant in the table above. This is due to grant income accounted for within the net cost of services.
- 4.1.3 Additionally, a variance of £72k is reported against the Capital salaries budget in the table above. This is due to funding lower number of posts through capital than anticipated.

5.0 Capital Programme

- 5.1.1 The revised capital budget for 2021/22 is £56,656m, with a forecast underspend of £27.669m, mainly resulting from delayed major project spend, of which £27.603m will be carried forward to 2022/23.
- 5.1.2 The revised budget has reduced by £404k, due to both Buntingford depot projects moving to the 'Approved But Not Yet Committed' table .
- 5.1.3 Appendix A provides a breakdown of the 2021/22 revised capital budget against the forecast outturn and 2022/23 carry forward.
- 5.1.4 There have been a number of increases to the carry forward figures due to delays.

6.0 Debtors

- 6.1.1 The total outstanding debt as at 31st December 2021 is £2.2m, a reduction of £1.6m since reported at Q2. Of the £2.2 m outstanding as at Q3, several large invoices amounting to £1.4m have since been

paid.

6.1.2 The outstanding debt over 120 days totals £1.4m, an increase of £147k from the position reported at Q2. Officers are actively pursuing this debt.

6.1.3 As mentioned previously, an exercise to write off old debts due to bankruptcy etc. is still under way and will be reported to Executive for approval.

6.1.4 Appendix B analyses the profile of aged debtors.

7.0 Reason(s)

7.1 Section 28 of the Local Government Act 2003 requires the Council to monitor the budget and monitor and assess the adequacy of reserves and balances during the year. East Herts Council's financial management framework requires quarterly reports to Audit & Governance Committee and the Executive with expenditure forecasts to the year end.

7.2 The Executive must consider the budget forecasts and ensure that action is taken in relation to any expenditure over spends or any underachievement of income so that the Council's financial resources are not exceeded.

8.0 Options

8.1 Not applicable

9.0 Risks

9.1 Costs may increase and income may decrease due to the pandemic if a vaccine resistant variant should emerge resulting in the resumption of lockdowns.

10.0 Implications/Consultations

Consultation was undertaken with budget managers/finance contacts to assist in writing this report.

Community Safety

No

Data Protection

No

Equalities

No

Environmental Sustainability

No

Financial

All financial implications are included in this report.

Health and Safety

No

Human Resources

No

Human Rights

No

Legal

Section 28 of the Local Government Act 2003 requires the Council to monitor the budget and monitor and assess the adequacy of reserves and balances during the year. East Herts Council's financial management framework requires quarterly reports to Audit & Governance Committee and the Executive with expenditure forecasts to the year end.

The Executive considers the budget forecasts and ensures that action is taken in relation to any expenditure over spends or any underachievement of income so that the Council's financial resources are not exceeded.

Specific Wards

None

11.0 Background papers, appendices and other relevant material

Appendix A: Capital

Appendix B: Debtors

Contact Member

Councillor Geoffrey Williamson, Deputy Leader
& Executive Member for Financial Sustainability
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Contact Officer

Steven Linnett, Head of Strategic Finance and
Property
steven.linnett@eastherts.gov.uk

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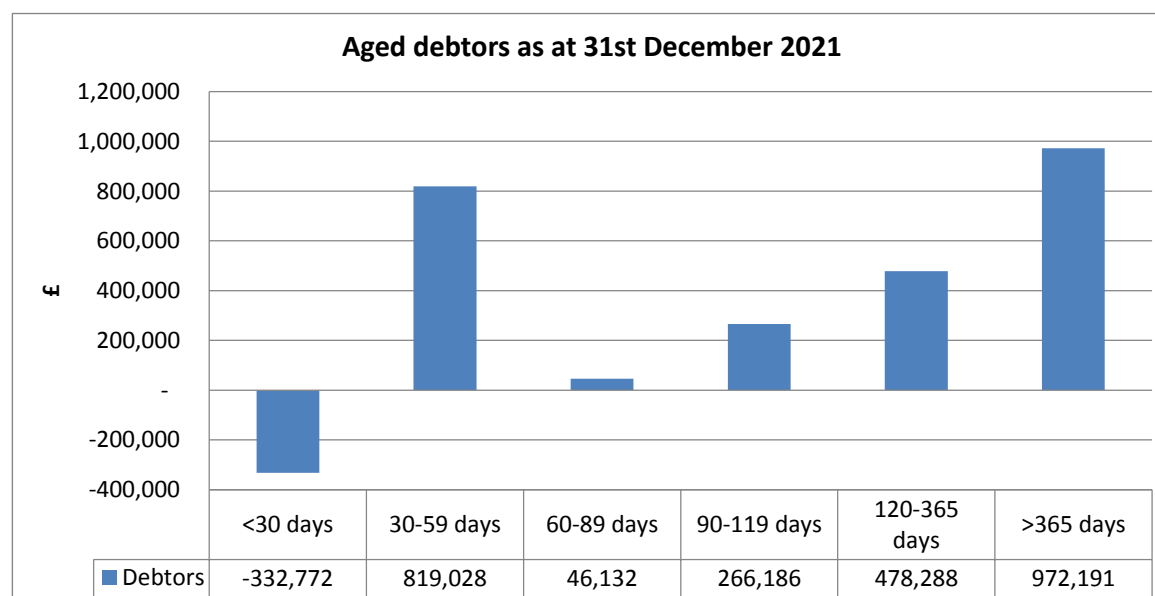
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Capital Forecast Outturn Quarter 3 December 2021				
	Revised Budget 2021/22 £'000	Forecast Outturn 2021/22 £'000	Variance 2020/21 £'000	Carry Forward to 2022/23 £'000
Land and Buildings				
Investment in operational assets	209	209	0	0
Grange Paddocks Leisure Centre	10,872	9,861	(1,011)	1,011
Hartham Leisure Centre	10,101	3,278	(6,823)	6,823
Ward Freman Leisure Centre	610	0	(610)	610
Hertford Theatre	9,700	1,500	(8,200)	8,200
Car Park Resurfing	585	291	(294)	294
Old River Lane and Arts Centre	8,387	448	(7,939)	7,939
Northgate End	12,000	12,000	0	0
New Hostel	514	514	0	0
Vehicles and Equipment				
Rolling programme to be utilised on ICT projects subject to ITSG review	1,235	300	(935)	935
LED Lighting Upgrades	253	160	(93)	93
Hostels - Fencing	11	11	0	0
Hostels - CCTV and associated works	233	0	(233)	233
Community Assets				
Folly View, Herford - Open Space Improvements	15	0	(15)	0
Replacement play equipment across the district (in response to the Condition Audit to be reviewed in 2018/19)	50	0	(50)	0
Play Area and other projects, Hartham Common, Hertford	106	105	(1)	0
Castle Park - HLF	1,433	15	(1,418)	1,418
Trinity Close - Open Space Project	57	57	0	0
Revenue Expenditure Funded as Capital Under Statute (REFCUS)				
Home Improvement Loans	20	20	0	0
Improve & renew structures along rivers and watercourses	48	48	0	0
Land Management Asset Register & Associated Works	50	50	0	0
Green Deal Loans	20	20	0	0
Historic Building Loans	20	20	0	0
Community Capital Grants	127	80	(47)	47
Current Capital Programme Budget Total	56,656	28,987	(27,669)	27,603

Approved But Not Yet Committed	
Buntingford Depot site works for Residual Waste	127
Heat Detection Unit at Buntingford Depot	277
Solar Panels - Wallfields	45
Home Improvement and Green Deal Loans	100
Transflormation Programme	1,000
Financial Sustainability Committee	6,000
Capital Contingency - Major Projects	2,500
Current Capital Programme Budget Total	9,645

The following graph shows the age of the £2.249m of debts outstanding as at 31st December 2021



The table below shows the aged debt by department

	As at 31/12/2021
Asset Management	473,584.94
Bed & breakfast	140,421.66
Unallocated cash	- 45,198.92
Community Safety & Health	113,831.07
Waste	2,408.09
Environmental Health	97,539.51
Finance	133,689.05
Grounds Maintenance	6,677.66
Housing Other	164,841.03
Launchpad	5,378.78
Operations Miscellaneous	347,788.47
Parking	98,364.21
Pest control	318.10
PIA	10.00
Planning	266,808.78
Hertford Theatre	2,834.64
Trade Refuse	435,061.61
Trade Waste Miscellaneous	4,694.33
Total	2,249,053.01

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