



**East Hertfordshire
District Council**

Annual Audit Letter for the year
ended 31 March 2019

December 2019



EY

Building a better
working world

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Focused on your future



Public Sector Audit Appointments Ltd (PSAA) have issued a 'Statement of responsibilities of auditors and audited bodies'. It is available from the Chief Executive of each audited body and via the PSAA website (www.psa.co.uk).

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

The 'Terms of Appointment (updated April 2018)' issued by PSAA set 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 statute, and covers matters of practice and procedure which are of a recurring nature.

This Annual Audit Letter is prepared in the context of the Statement of responsibilities and Terms of Appointment. It is addressed to the Members of the audited body, and is prepared for their sole use. We, as appointed auditor, take no responsibility to any third party.

Our Complaints Procedure - If at any time you would like to discuss with us how our service to you could be improved, or if you are dissatisfied with the service you are receiving, you may take the issue up with your usual partner or director contact. If you prefer an alternative route, please contact Steve Varley, our Managing Partner, 1 More London Place, London SE1 2AF. We undertake to look into any complaint carefully and promptly and to do all we can to explain the position to you. Should you remain dissatisfied with any aspect of our service, you may of course take matters up with our professional institute. We can provide further information on how you may contact our professional institute.



01 Executive Summary

Executive Summary

We are required to issue an annual audit letter to East Hertfordshire District Council (the Authority) following completion of our audit procedures for the year ended 31 March 2019. Below are the results and conclusions on the significant areas of the audit process.

Area of Work	Conclusion
Opinion on the Authority's: ▶ Financial statements	Unqualified - the financial statements give a true and fair view of the financial position of the Authority as at 31 March 2019 and of its expenditure and income for the year then ended. Owing to EY resourcing issues we rescheduled the audit until after the end of July and issued our auditor's report on 29 November 2019.
▶ Consistency of other information published with the financial statements	Other information published with the financial statements was consistent with the Annual Accounts.
Concluding on the Authority's arrangements for securing economy, efficiency and effectiveness	We concluded that you have put in place proper arrangements to secure value for money in your use of resources.

Area of Work	Conclusion
Reports by exception:	
▶ Consistency of Governance Statement	The Governance Statement was consistent with our understanding of the Authority.
▶ Public interest report	We had no matters to report in the public interest.
▶ Written recommendations to the Authority, which should be copied to the Secretary of State	We had no matters to report.
▶ Other actions taken in relation to our responsibilities under the Local Audit and Accountability Act 2014	We had no matters to report.

Area of Work	Conclusion
Reporting to the National Audit Office (NAO) on our review of the Authority's Whole of Government Accounts return (WGA).	We had no matters to report.

Executive Summary (cont'd)

In addition we have also:

Area of Work	Conclusion
Issued a report to those charged with governance of the Authority communicating significant findings resulting from our audit.	We issued our Audit Results Report to the 19 November 2019 meeting of the Performance, Audit and Governance Oversight Committee.
Issued a certificate that we have completed the audit in accordance with the requirements of the Local Audit and Accountability Act 2014 and the NAO's 2015 Code of Audit Practice.	We issued the certificate within the auditor's report on 29 November 2019.

We would like to take this opportunity to thank the Authority's staff for their assistance during the course of our work.



Suresh Patel

Associate Partner

For and on behalf of Ernst & Young LLP



02 Purpose and Responsibilities

Purpose and Responsibilities

The Purpose of this Letter

The purpose of this annual audit letter is to communicate to Members and external stakeholders, including members of the public, the key issues arising from our work, which we consider should be brought to the attention of the Authority.

We have already reported the detailed findings from our audit work in our 2018/19 Audit Results Report to the 19 November 2019 Performance, Audit and Governance Oversight Committee representing those charged with governance. We do not repeat those detailed findings in this letter. The matters reported here are the most significant for the Authority.

Responsibilities of the Appointed Auditor

Our 2018/19 audit work has been undertaken in accordance with the Audit Plan that we presented at the January 2019 Finance, Audit and Risk Committee and is conducted in accordance with the NAO's 2015 Code of Audit Practice, International Standards on Auditing (UK), and other guidance issued by the NAO. As auditors we are responsible for:

- ▶ Expressing an opinion:
 - ▶ On the 2018/19 financial statements; and
 - ▶ On the consistency of other information published with the financial statements.
- ▶ Forming a conclusion on the arrangements the Authority has to secure economy, efficiency and effectiveness in its use of resources.
- ▶ Reporting by exception:
 - ▶ If the annual governance statement is misleading or not consistent with our understanding of the Authority;
 - ▶ Any significant matters that are in the public interest;
 - ▶ Any written recommendations to the Authority, which should be copied to the Secretary of State; and
 - ▶ If we have discharged our duties and responsibilities as established by the Local Audit and Accountability Act 2014 and Code of Audit Practice.

Alongside our work on the financial statements, we also review and report to the NAO on your WGA return.

Responsibilities of the Authority

The Authority is responsible for preparing and publishing its statement of accounts accompanied by an Annual Governance Statement (AGS). In the AGS, the Authority reports publicly each year on how far it complies with its own code of governance, including how it has monitored and evaluated the effectiveness of its governance arrangements in year, and any changes planned in the coming period.

The Authority is also responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.



03

Financial Statement Audit

Financial Statement Audit

Key Issues

The Authority's Statement of Accounts is an important tool for it to show how it has used public money and how it can demonstrate its financial management and financial health. We audited the Authority's Statement of Accounts in line with the NAO's 2015 Code of Audit Practice, International Standards on Auditing (UK), and other guidance issued by the NAO. Owing to our own resourcing issues we rescheduled the audit of the statement of accounts until October. We issued an unqualified audit report on 29 November 2019 having reported detailed findings to the 19 November 2019 Performance, Audit and Governance Oversight Committee Committee. We summarise here the key risks we identified and our conclusions.

Significant risk

Findings & conclusions

Misstatements due to fraud or error.

We identified a risk of expenditure misstatement due to fraud or error that could affect the income and expenditure accounts. We focused on the Authority's judgement that an item is capital expenditure in nature.

We found no indications that revenue expenditure has been inappropriately charged to capital.

New General Ledger System

The Authority implemented a new general ledger system during the period. The general ledger system is the key financial system used by the Authority. The system processes and maintains records relating to income and expenditure transactions, records balances held by the Authority and is used to prepare the financial statements.

Any errors in the transfer or input of data or in the calculations performed by the new system could result in a material misstatement in the financial statements.

We did not identified any issues with the balances brought over on 1 April 2019 to the new system.

Financial Statement Audit

Other Areas of Audit Focus	Conclusion
<p>Valuation of Other Land and Buildings and Investment Properties</p> <p>The fair value of non-DRC Property, Plant and Equipment (PPE) (£61 million) and Investment Properties (IP) (£14 million) represent significant balances in the Authority's accounts.</p>	<p>Our audit procedures above did not identify any material differences in the financial statements.</p>
<p>Pension Liability Valuation</p> <p>The Authority's pension fund deficit is a material estimated balance and the Code requires that this liability be disclosed on the Authority's balance sheet. At 31 March 2019 this totalled £34 million.</p>	<p>The Authority updated its accounts to reflect the impact of national issues impacting all local authority pension schemes as well as to reflect changes in the value of investments. We were satisfied that the changes were correctly reflected in the Authority's final statement of accounts.</p>
<p>Business Rates Appeals Provision</p> <p>The appeals provision for the Authority is material in 2018/19 at £3.6 million (2017/18 £3.6 million) and represents an area of management judgement informed by an external expert.</p>	<p>Our audit procedures did not identify any material differences in the financial statements.</p>
<p>New accounting standards</p> <p>The Authority had to implement two new accounting standards for 2018/19 and make preparations for another new standard for 2020/21. These standards are:</p> <ul style="list-style-type: none">▶ IFRS 9 - Financial instruments▶ IFRS 15 - Revenue from contracts▶ IFRS 16 - Leases (2020/21).	<p>FRS 9 - Financial Instruments: Our audit procedures identified the need for some disclosure changes for financial instruments.</p> <p>IFRS 15 - Revenue from Contracts: Our audit procedures for revenue from contracts did not identify any audit issues.</p> <p>IFRS 16 - Leases: The Authority have started to consider their preparations for meeting the requirements of IFRS 16.</p>

Financial Statement Audit (cont'd)

Our application of materiality

When establishing our overall audit strategy, we determined a magnitude of uncorrected misstatements that we judged would be material for the financial statements as a whole.

Item	Thresholds applied
Planning materiality	<p>We determined planning materiality to be £1.566 million (2017/18: £1.1 million) which is 2% of gross revenue expenditure reported in the accounts. This results in a performance materiality, at 75% of overall materiality, £1.175 million (2017/18: £0.825 million).</p> <p>We consider gross revenue expenditure to be one of the principal considerations for stakeholders in assessing the financial performance of the Authority.</p>
Reporting threshold	<p>We agreed with the Finance, Audit and Risk Committee that we would report to the Committee all audit differences in excess of £0.078 million (2017/18: £0.076 million).</p>

We also identified the following areas where misstatement at a level lower than our overall materiality level might influence the reader. For these areas we developed an audit strategy specific to these areas. The areas identified and audit strategy applied include:

- ▶ Remuneration disclosures including any severance payments, exit packages and termination benefits: We agreed all disclosures back to source data, and councillor allowances to the agreed and approved amounts.
- ▶ Related party transactions: We tested the completeness of related party disclosures and the accuracy of all disclosures by checking back to supporting evidence.

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations.



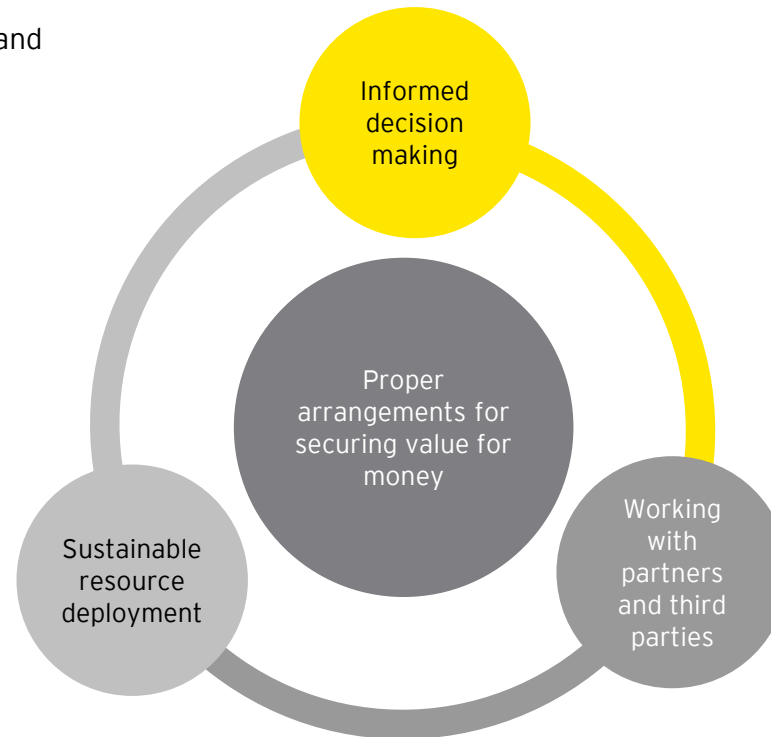
04 Value for Money

Value for Money

We are required to consider whether the Authority has put in place 'proper arrangements' to secure economy, efficiency and effectiveness in its use of resources. This is known as our value for money conclusion.

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

- ▶ Take informed decisions;
- ▶ Deploy resources in a sustainable manner; and
- ▶ Work with partners and other third parties.



In our Audit Plan we identified the development at Old River Lane and the arrangements to make informed decisions as a significant risk. We carried out procedures to enable us to understand the Authority's arrangements to mitigate the associated risks. We did not identify any matters that we needed to include in the auditor's report about arrangements to secure economy, efficiency and effectiveness in your use of resources.



05

Other Reporting Issues



Other Reporting Issues

Whole of Government Accounts

We are required to perform the procedures specified by the National Audit Office (NAO) on the accuracy of the consolidation pack prepared by the Authority for Whole of Government Accounts purposes.

The Authority falls below the NAO's threshold for auditor review.

Annual Governance Statement

We are required to consider the completeness of disclosures in the Authority's annual governance statement, identify any inconsistencies with the other information of which we are aware from our work, and consider whether it is misleading.

We completed this work and did not identify any areas of concern.

Report in the Public Interest

We have a duty under the Local Audit and Accountability Act 2014 to consider whether, in the public interest, to report on any matter that comes to our attention in the course of the audit in order for it to be considered by the Authority or brought to the attention of the public.

We did not identify any issues which required us to issue a report in the public interest.

Written Recommendations

We have a duty under the Local Audit and Accountability Act 2014 to designate any audit recommendation as one that requires the Authority to consider it at a public meeting and to decide what action to take in response.

We did not identify any issues which required us to issue a written recommendation.

Objections Received

We did not receive any objections to the 2018/19 financial statements from members of the public.

Other Powers and Duties

We identified no issues during our audit that required us to use our additional powers under the Local Audit and Accountability Act 2014.



Other Reporting Issues (cont'd)

Independence

We communicated our assessment of independence in our Audit Results Report to the Performance, Audit and Governance Oversight Committee on 19 November 2019. In our professional judgement the firm is independent and the objectivity of the audit engagement partner and audit staff has not been compromised within the meaning regulatory and professional requirements.

Control Themes and Observations

As part of our work, we obtained an understanding of internal control sufficient to plan our audit and determine the nature, timing and extent of testing performed. 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 identified during our audit.

We have adopted a fully substantive audit approach and have therefore not tested the operation of controls. We have not identified any significant control deficiencies in the design or operation of an internal control that might result in a material misstatement in your financial statements of which you are not aware.



06

Focused on your future



Focused on your future

The Code of Practice on Local Authority Accounting in the United Kingdom introduces the application of new accounting standards in future years. The impact on the Authority is summarised in the table below.

Standard	Issue	Impact
IFRS 16 Leases	<p>It is currently proposed that IFRS 16 will be applicable for local authority accounts from the 2020/21 financial year.</p> <p>Whilst the definition of a lease remains similar to the current leasing standard; IAS 17, for local authorities who lease a large number of assets the new standard will have a significant impact, with nearly all current leases being included on the balance sheet.</p> <p>There are transitional arrangements within the standard and although the 2020/21 Accounting Code of Practice for Local Authorities has yet to be issued, CIPFA have issued some limited provisional information which begins to clarify what the impact on local authority accounting will be. Whether any accounting statutory overrides will be introduced to mitigate any impact remains an outstanding issue.</p>	<p>Until the 2020/21 Accounting Code is issued and any statutory overrides are confirmed there remains some uncertainty in this area.</p> <p>We have considered the Authority's implementation plan and preparedness for IFRS 16. The Authority have already considered their completeness of leases and identifying those that may require reclassifying. However, what is clear is that the Authority will need to undertake a detailed exercise to identify all of its leases and capture the relevant information for them. The Authority must therefore ensure that all lease arrangements are fully documented.</p>
IASB Conceptual Framework	<p>The revised IASB Conceptual Framework for Financial Reporting (Conceptual Framework) will be applicable for local authority accounts from the 2019/20 financial year.</p> <p>This introduces;</p> <ul style="list-style-type: none"> - new definitions of assets, liabilities, income and expenses - updates for the inclusion of the recognition process and criteria and new provisions on derecognition - enhanced guidance on accounting measurement bases - enhanced objectives for financial reporting and the qualitative aspects of financial information. <p>The conceptual frameworks is not in itself an accounting standard. However, an understanding of concepts and principles can be helpful to preparers of local authority financial statements when considering the treatment of transactions or events where standards do not provide specific guidance, or where a choice of accounting policies is available.</p>	<p>It is not anticipated that this change to the Code will have a material impact on Local Authority financial statements.</p> <p>However, Authorities will need to undertake a review to determine whether current classifications and accounting remains valid under the revised definitions.</p>



07 Audit Fees

Audit Fees

In the table below we summarise the audit fees that we have agreed with the Authority and that are now subject to approval by PSAA.

* Please note that the 2017/18 additional fee is still in discussion with PSAA.

** The final fee for the Reporting Accountant work reflects the additional testing we agreed with the Authority based on the terms of the engagement letter and is not subject to PSAA approval. This work was completed on 29 November 2019.

	Final fee 2018/19	Planned fee 2018/19	Final Fee 2017/18
	£'s	£'s	£'s
Scale fee	40,295	40,295	52,331
Additional fees:			
- Old River Lane significant risk	1,750	-	2,495*
- New General ledger	1,950	-	-
- Updated pension disclosures	950	-	-
Total Audit Fee	44,945	40,295	54,826*
Non-audit work:			
Reporting accountant for Housing Benefit Subsidy	14,340**	9,540	8,316

All fees exclude VAT

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EY-000070901-01 (UK) 07/18. CSG London.



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