



**East Hertfordshire District
Council
Audit Results Report**

Year ended 31 March 2021

2 February 2023



EY

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2 February 2022



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

Dear Audit and Governance Committee Members

We are pleased to provide our final audit results report for our 2020/21 audit of East Hertfordshire District Council.

We have now completed the outstanding procedures detailed in our Provisional Audit Results Report, and this report provides an update on the additional findings arising from those procedures and our overall conclusions. Due to the number of matters outstanding at the time of our previous report, we do not highlight changes since our previous report and instead encourage that this report be taken in full.

We confirm that 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 next meeting of the Audit and Governance Committee.

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.psa.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 that were communicated in the provisional plan presented to the Audit and Governance Committee in April 2022:

- Accounting for new grants, including the Covid-related grants the council received from loss of income from sales, fees and charges - we reduced the scope of the grants risk noted above to higher inherent risk
- Calculation of Minimum Revenue Provision - no longer presented as a risk

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.

Status of the audit

Our audit work is now complete and we will issue our audit opinion once the accounts have been approved.

Executive Summary

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

Status of the audit - Value for money

In the Audit Planning Report and subsequent update to the Audit Committee, we reported that we had substantially completed our value for money (VFM) work and not identified any risk of significant weakness against the three reporting criteria we are required to consider under the NAO's 2020 Code. We have revisited our assessment on completion of the audit of the financial statements and remain satisfied that we have not identified any significant weaknesses and have completed our planned VFM procedures.

As a result, we have no matters to report by exception in the auditor's report (see Section 03). We will include our detailed commentary on our VFM work in our 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.

Executive Summary

Audit differences

- Our audit identified a number of uncorrected misstatements resulting in the net overstatement of non-current assets by £0.233 million, net overstatement of noncurrent liabilities by £0.238 million, understatement of other comprehensive expenditure by £0.005 million and overstatement of expenditure by £0.009 million.
- We also identified a number of misstatements which management have corrected with an aggregate impact of £0.315 million decrease in expenditure, £0.124 million net increase in other comprehensive income, £1.674 million net increase in liabilities and £2.516 million decrease in unusable reserves.
- Corrected misstatements also include the following classification errors:
 - between cash (understated) and receivables (overstated) amounting to £1.3 million,
 - between property, plant and equipment (other land and buildings) (overstated) and property, plant and equipment (assets under construction) (understated) amounting to £0.5 million
 - between the revaluation reserve (overstated) and capital adjustment account (understated) amounting to £0.972 million
- Several disclosure misstatements were also identified which management agreed to correct. The significant ones which also required a correction of a misstatement of prior year figures related to:
 - Note 32 (leases) where we noted an understatement in the future minimum lease payments receivable under non-cancellable leases amounting to £22 million and
 - Note 7 (property, plant and equipment) where the opening balances of gross cost and accumulated depreciation were restated to correct an overstatement of £30.899 million as at 31 March 2020 and £29.273 million as at 1 April 2019. Since these net off, the net balance of other land and buildings is not materially misstated.
- The Council is also applying the statutory override instrument on infrastructure assets which required the presentation of this PPE category on a net book value basis.

See further details in Section 04.

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 no other matters to report.

Control observations

Although our audit was not designed to express an opinion on the effectiveness of internal control we are required to communicate to you internal controls that require certain improvements and have three matters to report to you. Please refer to Section 07 for our detailed findings and recommendations.

Independence

Please refer to Section 09 for our update on Independence.

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 completed our audit work in respect of journal entries, estimates and unusual transactions. We have not identified any indications of management override of controls.
Incorrect capitalisation of revenue expenditure	We have completed our audit work on capital additions (including REFCUS considerations) and have not identified any misstatements.
Valuation of property, plant and equipment and investment properties	We have completed our audit work on property, plant and equipment and investment properties valuation. We have identified a judgmental difference in the value of Charringtons House recorded as other land and buildings, resulting in an overstatement in value by £0.354 million. Management have not corrected for this error. We also identified a classification error between property, plant and equipment (other land and building) and property, plant and equipment (assets under construction) amounting to £0.5 million. Management have corrected for this error.
Going concern disclosure	We received the going concern assessment and cash flow forecast from the Council on 30 November 2022. We have now completed our audit work in this area, including review of cashflow forecast of the Council up to March 2024. Based on the work undertaken we are satisfied that management's assessment on going concern is adequate and supportable.
Pension liability valuation	<p>We have completed our work on this area, including the review of the assumptions used by the actuary in the calculation of pension liability and the review of response from the pension fund auditor seeking assurance on the value of pension fund assets. The pension fund auditor identified an unadjusted increase in valuation of pension fund assets. The Council's share of the misstatement was £0.238 million. Management have not corrected for this error.</p> <p>In addition to the completion of the above procedures, the Council made us aware that there was an error in the actuary's IAS19 report and the net pension liabilities reported in this. This was due to the incorrect treatment of assets related to Hertfordshire Building Control (HBC) at outset of HBC's participation in the Hertfordshire Pension Fund (HPF). We performed additional procedures on this area which are detailed in section 2 of this report.</p> <p>The impact of the error was an understatement of net pension fund liability by £2.516 million as at 31 March 2020 and £2.450 million at 31 March. Management have corrected for this error.</p>

Executive Summary

Areas of audit focus (continued)

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.

Area of audit focus	Findings & Conclusions
Business rates appeals provision	We have completed our work on this area and identified a formulaic error in the specialist's calculation of the provision as of 31 March 2021. This resulted in an overstatement of the appeals provision by £2.4 million at an all preceptors level, with the Council share being overstated by £0.966 million. Management have corrected for this error.
Group Accounting	We have completed our work in respect of group accounting. We have identified an error in the group cash flow statement where the impact of additional loan granted by the Council to Millstream was not eliminated. This resulted in overstatement of cash outflow in investing activities, and overstatement of cash inflow in financing activities by £2.7 million. Management have corrected for this error. We also identified minor disclosure errors such as undisclosed investment property balances in group notes and external audit fee note.
Recognition of grant income associated with Covid-19 (includes sales fees and charges and other Covid-19 funding streams)	We have completed our work on this area and have not identified any issues.

We request that you review these and other matters set out in this report to ensure:

- ▶ There are no residual further considerations or matters that could impact these issues
- ▶ You concur with the resolution of the issue
- ▶ There are no further significant issues you are aware of to be considered before the financial report is finalised

There are no matters, other than those reported by management or disclosed in this report, which we believe should be brought to the attention of the Audit and Governance Committee or Management.



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 completed our audit work in respect of journal entries, estimates and unusual transactions, including reviews from Manager and Partner.

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.



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?

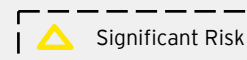
We have undertaken additional procedures to address the specific risk we have identified, which included:

- 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?

We have completed our audit work on capital additions including reviews from Manager and Partner.

We have not identified any revenue items that have been inappropriately capitalised from our substantive testing.





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?

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 (EUUV) 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.

Our conclusions

- ▶ We have now completed our audit work in this area, including receipt and review of our internal valuation specialists report. We engaged our valuations specialist (EY Real Estates) to review a sample of 2 assets: Hillcrest hostel (PPE) and Charringtons House (split between PPE and investment property). We verified the reasonableness of the valuation methodology applied and key assumptions used.
- ▶ We noted that the overall value of Charringtons House determined by Council (combined PPE and investment property elements) is within the range determined by EY Real Estates.
- ▶ We also compared the Council's split of the asset value between PPE and investment property to the value ranges determined by our specialist for these two elements. The Council's investment property element value of £1.5 million falls within the range of £1.5 to £2.3 million estimated by EY Real Estates. However, the PPE element, valued by the Council at £0.9 million is outside the range determined by our valuer by £0.4 million.
- ▶ We discussed this with management who concluded that since this is a difference of opinion between the two valuers and the amount is not material, no adjustment will be made.
- ▶ We also identified a classification error within PPE. Northgate End car park, which is valued at £0.5 million, was classified in the fixed assets register as 'other land and buildings'. However, we were informed by management that as of 31 March 2021, the site was being developed into the new multi-storey car park. Hence, at year-end, this asset was under construction. Management agreed to move this asset to assets under construction.
- ▶ We also identified that the Council had not been complying with some aspects the Cipfa Code in terms of capital accounting. The Code requires that if the change in value of an asset is supported by a formal valuation by a professional, then the gross value is recognised and any previously accumulated depreciation and impairment balances should be written out. The Council has not been doing this. This has resulted in opening balances for gross cost and accumulated depreciation being overstated by £30.899 million at 31 March 2020 and £29.273 million at 1 April 2019. The net balance is not materially misstated. This has also resulted in the understatement of the Capital Adjustment Account and Revaluation Reserve by £0.972 million.



Areas of Audit Focus

Inherent risks and other areas of audit focus

What is the risk/area of focus?

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.

What have we done and our conclusions?

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 reviewed the EY Pensions specialist's report and concluded that there are no material differences in the balances calculated by the actuary and the balance by the EY Pensions specialist.

We also reviewed the response communicated by the Hertfordshire Pension Fund auditor and noted that there is an unadjusted increase in valuation of pension fund assets. The Council's share of this difference was £0.238 million. We discussed this with management and they concluded that due to the amount involved, they will not adjust for this.



Areas of Audit Focus

Inherent risks and other areas of audit focus

What have we done?

Pension liability valuation and disclosures (continued)

In addition to the completion of the procedures in the previous page, the Council made us aware that there was an error in the actuary's IAS19 report and the net pension liabilities reported in this. This was due to the incorrect treatment of assets related to Hertfordshire Building Control (HBC) at outset of HBC's participation in the Hertfordshire Pension Fund (HPF). Below is a brief summary of this issue and impact on East Hertfordshire District Council's accounts.

Background:

In 2017, when HBC began participation in the HPF, assets were allocated to HBC from Hertfordshire County Council (HCC) rather than from each of the seven originating councils. As a result, since this date, asset shares for HCC have been understated, with asset shares for the seven originating councils correspondingly overstated.

In addition to this, another adjustment which impacts the balances of fund assets and liabilities was communicated by the actuary - employers were not meant to be pooled with certain employers. This includes NSL Limited, one of the admitted bodies to the Hertfordshire Pension Scheme, which was initially pooled with EHDC.

Impact for the Council

- Whilst the transfer of HBC took place in 2017, the first IAS19 accounting reports to be affected were those at 31 March 2020. This is because the accounting reports are based on a rollforward of the most recent formal valuation for the Fund, so those up to and including the 31 March 2019 accounting reports were based on a rollforward from the 31 March 2016 formal valuation.

What have we done and our conclusions?

- We have obtained updated IAS 19 reports from the actuary Hyman's Robertson who have corrected the error and the impact is as follows:
 - 31st March 2020: £2.516 million understatement of net pension liability
 - 31st March 2021: £2.450 million understatement of net pension liability
- This error was due to the work of the Council's actuary and was not identified by management or the audit team in the prior year, as reliance was placed on the work of the actuary as a management specialist.
- The Council has been assured by the actuary that this was a one-off communication error. Hymans Robertson have strengthened their systems as part of their continual improvements to client services, to remove the chance of error impacting the process again.
- We have engaged EY Pensions who have liaised with Hyman's Robertson to provide a review of the liabilities and asset transfers for the Council relating to this issue.
- The other adjustment relating to NSL Ltd was then confirmed with the actuary to relate to the fund assets and liabilities which had been incorrectly pooled with the Council. This is included in the £2.450 million adjustment above (although the vast majority of this relates to the HBC issue)
- Considering the impact of the misstatement on the balances of net pension liability as at 31 March 2021 and 2020, management have corrected the current year balances as well as the prior period comparatives.

No other issues identified.



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 now completed our audit work in this area. Management provided their the going concern assessment and the related cash flow forecast up to March 2024 on 30 November 2022.

We have now completed our review of the cashflow forecast and, based on the work undertaken, we are satisfied that management's assessment on going concern is adequate and supportable. We also reviewed the Council's disclosures within the financial statements and have assessed the need for any internal consultation. We have concluded that there is no need for any internal consultation as we have assessed the risk involved with management's use of going concern basis to be low.

We have no matters to 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 business rate appeals provision performed by the specialist Analyse Local. This was due to a national issue 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 but incorrectly includes yield losses until 2022/23, thereby overstating the provision by £2.4 million in the Collection Fund at an all preceptors level, with the Council's share calculated at £0.966 million. Management have corrected 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 non-current 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 non-current loans and recalculated the balances as of 31 March 2021 based on loan agreements.

We have completed our audit work on group accounts including reviews from Manager and Partner.

We have identified an error in the group cash flow statement where the impact of additional loan granted by the Council to Millstream was not eliminated. This resulted in overstatement of cash outflow in investing activities, and overstatement of cash inflow in financing activities by £2.7 million.

We also identified minor disclosure errors. The investment property note in the notes to group accounts did not show the balances for Millstream although the balance is £5.1 million. The notes to group accounts also do not include an external audit fee note which is a required disclosure. These have been corrected by Management.



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 our audit work on these procedures including reviews from Manager and Partner, and did not identify any issues.



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 and notes to the Group Accounts 1 to 5
- 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 and the Group 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.

Base 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. 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 Strategic Finance and Property's 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 Strategic Finance and Property 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 Strategic Finance and Property 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 [Authority](#);
- 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 Strategic Finance and Property

As explained more fully in the Statement of the Head of Strategic Finance and Property Responsibilities set out on pages [xxx], the Head of Strategic Finance and Property 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 Head of Strategic Finance and Property Responsibilities determines 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 Strategic Finance and Property Responsibilities 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 Authority 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,
 - Planning Act 2008 and the Community Infrastructure Levy Regulations 2010 (SI 2010/948),
 - The Local Government Finance Act 2012,
 - 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 and 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 Authority's committee minutes, inspection of internal control reports, risk registers and 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 Authority'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 Authority'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.

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 2020, 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.



Audit Report

Our opinion on the financial statements

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 (Key Audit Partner)
Ernst & Young LLP (Local Auditor)
Luton
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 Corrected Audit Differences

We highlight the following misstatements greater than the performance materiality of £1.1 million which have been identified during the course of our audit.

- A prior year error in which resulted in understatement of pension liability by £2.516 million as of 31 March 2020 due to the incorrect allocation of pension fund assets by the actuary to the members of the scheme. The error also impacts on figures for 31 March 2021, with an understatement of £2.450 million.
- Overstatement of business rate appeals provision by £2.4 million at an all preceptors level, with the Council share calculated as £0.966 million. Our audit work identified an error in the specialist's calculation of the provision whereby the reports show total yield loss for the 2017 list incorrectly includes yield losses until 2022/23. Taxation and non-specific grant income and creditors are also overstated by £0.592 million which equates to the impact of the decrease in provision to collection fund deficit, income tax guarantee and levy
- Overstatement of debtors balance and understatement of cash balance by £1.3 million due to a reclassification error between the accounts
- Error in classification of other land and buildings and assets under construction by £0.5 million
- Understatement of Capital Adjustment Account and Understatement of Revaluation Reserve by £0.972 million due to failure to reverse a previous impairment loss charged on the asset in case of in-year increase in value of other land and buildings.
- An error in the group cash flow statement where the impact of additional loan granted by the Council to Millstream was not eliminated. This resulted in overstatement of cash outflow in investing activities, and overstatement of cash inflow in financing activities by £2.7 million.

We also identified the following error which does not impact the primary statements but only the disclosure notes:

- On leases, the noted an understatement in the future minimum lease payments receivable under non-cancellable leases amounting to £22 million due to the incorrect lease period indicated in the operating leases schedule. The schedule noted the lease to have a remaining lease period of 118 years when the actual remainder of the lease is 236 years.
- On PPE, the opening balances of gross cost and accumulated depreciation were restated to correct the overstatement of £30.899 million as at 31 March 2020 and £29.273 million as at 1 April 2019. Since these net off, the net balance of other land and buildings is not materially misstated.

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.



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 Corrected Audit Differences

The Council was also impacted by a national issue which was identified in early 2022 in relation to accounting for infrastructure assets. The issue is that many local authorities were not writing out the gross cost and accumulated depreciation on infrastructure assets in line with the CIPFA Code requirements when a major part/component had been replaced or decommissioned. The issue arises principally because detailed information is not always available for these assets to meet the needs of accounting standards. Since this issue was identified, there has been a national focus on this and as a result a Statutory Override and CIPFA Code update were issued in late December 2022. These make provision for local authorities to amend the reporting for these assets to a net book value basis if they wish.

The Council holds material infrastructure assets with a gross book value of £8.560 million at 31 March 2021 and a net book value of £1.764 million. Following discussions with the finance team it was agreed that the Council would apply the statutory override and report these assets on a net basis.

The presentation of these balances in the accounts will therefore need to be amended to reflect these changes and appropriate disclosures included in the financial statements.

The statutory override instrument allows council's to continue with this presentation until 2024/25.



Audit Differences

Summary of Audit differences as at the date of this report (continued)

We In addition to the corrected misstatements in the previous page, we highlight the following misstatements to the financial statements and/or disclosures which were not corrected by management. We request that these uncorrected misstatements be corrected or a rationale as to why they are not corrected be considered and approved by the Audit and Governance Committee and provided within the Letter of Representation:

Uncorrected misstatements			Analysis of misstatements Debit/(Credit)							
No.	W/P ref.	Account (Note 1)	Assets Current	Assets Non-current	Liabilities Current	Liabilities Non-current	Equity components	Effect on the current period OCI	Income statement effect of the current period	
		(misstatements are recorded as journal entries with a description)	Debit/(Credit) (Note 2)	Debit/(Credit) (Note 2)	Debit/(Credit) (Note 2)	Debit/(Credit) (Note 2)	Debit/(Credit)	Debit/(Credit)	Debit/(Credit)	Non taxable
Factual misstatements:										
		EHDC share of unadjusted increase in valuation of pension fund assets (per the PF auditor response) 21 EHDC PG01.01 Strategy for the audit of the defined benefit LGPS pension fund liability.docx								
		Pension Liability				238,000				
		Actuarial Gain						(238,000)		
		We noted that the amount of revaluation loss to be charged to CIES should be 548k instead of 436k (difference of 111k). 21 EHDC Revaluation Reserve								
		Revaluation loss - CIES							111,000	
		Revaluation loss - revaluation reserve						(111,000)		
		MIRS					(111,000)			
		Capital adjustment account					111,000			
Judgmental misstatements:										
		The OLB portion of Charringtons House is outside the range determined by EYRE for the asset. This results in an overstatement in OLB by 354k.								
		Revaluation Reserve						353,544		
		PPE-OLB		(353,544)						
		Overstatement of depreciation on infrastructure assets								
		PPE - Infrastructure assets		120,159						
		Depreciation							(120,159)	



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

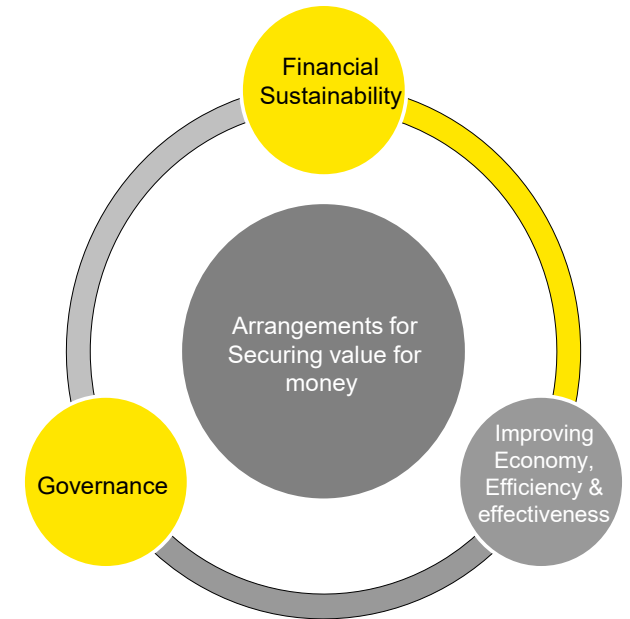
Throughout our audit we have performed a risk assessment in relation to the arrangements in place. This risk assessment looked at whether there was any risk of significant weaknesses in the VFM arrangements.

No significant risks were identified through our risk assessment.

The Council's responsibilities for value for money

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

We therefore have no matters to report by exception in the audit opinion.



Reporting on VFM

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. We will issue our Auditor's Annual Report once we have issued our audit opinion.



06 Other reporting issues

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 performed the procedures required by the National Audit Office on the Whole of Government Accounts (WGA) submission. However, the rights and requirements of the NAO can extend beyond the revised thresholds of £2bn set by HM Treasury, which do not prejudice the rights of the NAO. As group auditor, the NAO WGA team will consider the revised HM Treasury thresholds alongside HM Treasury's developing analytical review controls and may require assurances from auditors of components who are below the HM Treasury thresholds. The change for 2020/21 is that in previous periods the existence of the HM Treasury thresholds has meant that in many instances the work that the NAO WGA team would have otherwise directed non-significant components to undertake in line with ISA 600 had already been carried out. The increase in HM Treasury's local government threshold means that there is a risk the NAO WGA team require some assurances from auditors of bodies below the new limit. Consequently, we cannot issue our certificate for 2020/21 until confirmation on the above-mentioned has been received from the NAO.

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 that require use of these powers.

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 Council to develop and implement systems of internal financial control and to put in place proper arrangements to monitor their adequacy and effectiveness in practice. Our responsibility as your auditor is to consider whether the 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 internal controls that require certain improvements and have three matters to report to you:

Operating leases

Our audit of the operating leases note in the draft 2020/21 identified differences between the remaining lease period per the operating leases listing and the lease agreement. This resulted in a £22.8 million understatement of future minimum lease payments receivable under non-cancellable leases in future years. A prior year adjustment was therefore made to the comparatives in the 2020/21 financial statements.

The errors were not identified by the Council's review of the draft financial statements in 2019/20. To ensure such errors do not recur in future years, the Council should implement a robust monitoring of all active leases through their capital assets register.

Consistency checks before publication of the accounts:

Our consistency checks between the 2019/20 comparatives in the draft 2020/21 statement of accounts to the signed 2019/20 final accounts identified differences in the expenditure and funding analysis (EFA) and related note. Further checks of the prior year statement of accounts then identified differences between the Comprehensive Income and Expenditure Statement (CIES), EFA and Notes to EFA. A prior year adjustment was therefore made to the comparatives in the 2020/21 financial statements.

The EFA provides a reconciliation of the adjustments between the authority's financial performance under the funding position and the surplus or deficit on the provision of services in the Comprehensive Income and Expenditure Statement (CIES). The EFA should therefore provide a clear picture of how the figures flow through each statement.

The errors were not identified by the Council's review of the draft financial statements in 2019/20. To ensure such errors do not recur in future years, the Council should implement a robust review process to check the internal consistency of the statement of accounts before approval and publication.



Assessment of Control Environment

Financial controls

Property, plant and equipment:

Our review of the Council's disclosure on property, plant and equipment identified that the current presentation of the note is not compliant with the CIPFA code. Both the gross cost of other land and buildings and accumulated depreciation and impairment are overstated by £30.899 million as of 31 March 2021 and £29.273 million as of 1 April 2020. Since these two components net out, the overall balance of property, plant and equipment is not misstated.

The misstatement occurred due to an oversight when the Council changed the accounting policy in 2016 (since this date all other land and buildings and surplus assets are revalued annually in contrast with a four-year rolling basis). To ensure such errors do not recur in future years, the Council should perform a review of its accounting policies to confirm they are in line with the Code.

Infrastructure assets:

Our review of the Council's infrastructure asset records showed that the fixed assets register does not have details of gross cost and accumulated depreciation that agrees with the disclosure on property, plant and equipment in the financial statements. It is important that the Council maintains records of gross cost and accumulated depreciation for capital expenditure on infrastructure assets, as well as any components derecognised as a result of in-year spend, as the current statutory override is only confirmed as in place until 2024/25. After this date, the Council may need to have more detailed records to report these balances on a basis other than net book value.



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 completed our work on journal entries and have found no exceptions to report.



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)	31,591		
Total indicative audit fees	98,835	40,295	66,135
Housing benefits certification work	11,000		21,140
Total audit fees	109,835	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 has been 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.

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.

We will discuss with management the breakdown of the additional fee requested before submission to PSAA. PSAA will determine the final fee.

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 year end 30 June 2022:

[EY UK 2022 Transparency Report | EY UK](#)



10 Appendices

DRAFT Management representation letter

Management Representation Letter - DRAFT

Date xxxxxxx

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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.

Management representation letter

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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 2022.
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.

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5. We believe that the significant assumptions we used in making accounting estimates and related disclosures are appropriate and consistently applied to achieve recognition, measurement and disclosure that is in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21, 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. Going Concern

1. Note xx to the consolidated and Council financial statements discloses all the matters of which we are aware that are relevant to the Group and Council's ability to continue as a going concern, including significant conditions and events, our plans for future action, and the feasibility of those plans.

F. Subsequent Events

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

G. 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.

H. 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.

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I. Climate-related matters

1. We confirm that to the best of our knowledge all information that is relevant to the recognition, measurement, presentation and disclosure of climate-related matters has been considered and reflected in the consolidated and Council financial statements.
2. The key assumptions used in preparing the consolidated and Council financial statements are, to the extent allowable under the requirements of the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21, aligned with the statements we have made in the other information or other public communications made by us.

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).
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. Ownership of Assets

1. The Group and Council has satisfactory title to all assets appearing in the balance sheet(s), and there are no liens or encumbrances on the Group and Council's assets, nor has any asset been pledged as collateral, other than those that are disclosed in Note [X] to the financial statements. All assets to which the Group and Council has satisfactory title appear in the balance sheet(s).

2. All agreements and options to buy back assets previously sold have been properly recorded and adequately disclosed in the consolidated and Council financial statements.
3. There are no formal or informal compensating balance arrangements with any of our cash and investment accounts. Except as disclosed in Note [X] to the consolidated and Council financial statements, we have no other line of credit arrangements.

J. Reserves

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

K. 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.

L. Property Valuation and Pension Liability Estimate

1. We confirm that the significant judgments made in making the estimates on valuation of land and building assets and investment property, defined benefit pension scheme and business rates appeals provision have taken into account all relevant information [and the effects of the COVID-19 pandemic on XXX] of which we are aware.

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2. We believe that the selection or application of the methods, assumptions and data used by us have been consistently and appropriately applied or used in making the estimates on valuation of land and building assets and investment property, defined benefit pension scheme and business rates appeals provision.
3. We confirm that the significant assumptions used in making the estimates on valuation of land and building assets and investment property, defined benefit pension scheme and business rates appeals provision appropriately reflect our intent and ability to carry out [describe the specific courses of action] on behalf of the entity.
4. We confirm that the disclosures made in the consolidated and Council entity financial statements with respect to the accounting estimate(s), including those describing estimation uncertainty and the effects of the COVID-19 pandemic on XXX, are complete and are reasonable in the context of the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21.
5. We confirm that appropriate specialized skills or expertise has been applied in making the estimates on valuation of land and building assets and investment property, defined benefit pension scheme and business rates appeals provision.
6. We confirm that no adjustments are required to the accounting estimate(s) and disclosures in the consolidated and parent entity financial statements, including due to the COVID-19 pandemic.

M. 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

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