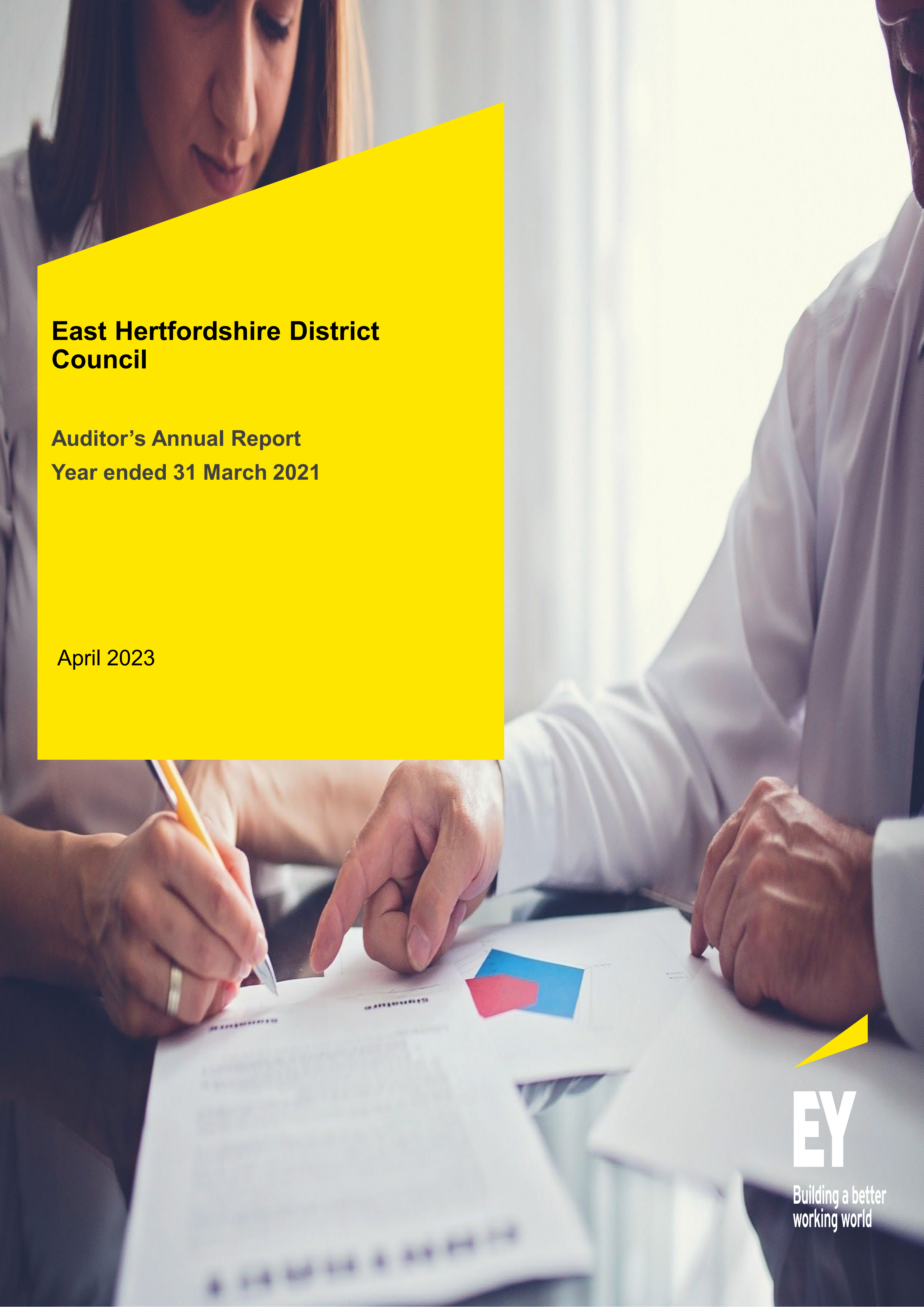


East Hertfordshire District Council

Auditor’s Annual Report

Year ended 31 March 2021

April 2023

EY

Building a better working world

Contents

Section 1

Executive Summary

Executive Summary: Key conclusions from our 2020/21 audit

Area of work	Conclusion
Opinion on the Council:	
Financial statements	Unqualified – the financial statements give a true and fair view of the financial position of the Council as at 31 March 2021 and of its expenditure and income for the year then ended. The financial statements have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21. We issued our auditor's report on 16 March 2023.
Going concern	We have concluded that the Section 151 Officer's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.
Consistency of the Statement of Accounts 2020/21 and other information published with the financial statements	We concluded that financial information in the Statement of Accounts 2020/21 and published with the financial statements was consistent with the audited accounts.

Area of work	Conclusion
Reports by exception:	
Value for money (VFM)	We had no matters to report by exception on the Council's VFM arrangements. We have included our VFM commentary in Section 04.
Consistency of the annual governance statement	We were satisfied that the annual governance statement was consistent with our understanding of the Council.
Public interest report and other auditor powers	We had no reason to use our auditor powers.

Executive Summary: Key conclusions from our 2020/21 audit

As a result of the work we carried out we have also:

Outcomes	Conclusion
Issued a report to those charged with governance of the Council communicating significant findings resulting from our audit.	We issued a Provisional Audit Results Report to the Council on 29 March 2022. Before we issued our audit report on 16 March 2023, we concluded that, due to changes since the date of our Provisional Audit Results Report, there was a need to issue an update on our Provisional Audit Results Report. Accordingly, we issued an update in the form of Audit Results Report on 2 February 2023.
Issued a certificate that we have completed the audit in accordance with the requirements of the Local Audit and Accountability Act 2014 and the National Audit Office's 2020 Code of Audit Practice.	We have not yet issued our certificate for 2020/21 as we have not yet performed the procedures required by the National Audit Office on the Whole of Government Accounts submission. The guidance for 2020/21 has been significantly delayed and although this has now been issued we are still not able to issue our certificate until the NAO has clarified the additional work they may require for a sample of bodies.

Fees

We carried out our audit of the Council's financial statements in line with PSAA Ltd's "Statement of Responsibilities of auditors and audited bodies" and "Terms of Appointment and further guidance (updated July 2021)". As outlined in our Provisional Audit Results Report and final Audit Results Report, we were required to carry out additional audit procedures to address audit risks in relation to the significant and fraud risks and other areas of audit focus identified in our Audit Plan and Audit Results Reports. As a result, we have proposed an associated additional fee which we will discuss with the Section 151 Officer and which will be subject to determination by PSAA. We include details of the final audit fees in Appendix 1.

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

Debbie Hanson

Partner
For and on behalf of Ernst & Young LLP

Section 2

Purpose and responsibilities

Purpose and responsibilities

This report summarises our audit work on the 2020/21 financial statements

Purpose

The purpose of the Auditor's Annual Report is to bring together all of the auditor's work over the year. A core element of the report is the commentary on VFM arrangements, which aims to draw to the attention of the Council or the wider public relevant issues, recommendations arising from the audit and follow-up of recommendations issued previously, along with the auditor's view as to whether they have been implemented satisfactorily.

Responsibilities of the appointed auditor

We have undertaken our 2020/21 audit work in accordance with the Audit Planning Report dated 30 June 2021, and update in audit scope through the Provisional Audit Results Report dated 29 March 2022. We have complied with the NAO's 2020 Code of Audit Practice, International Standards on Auditing (UK), and other guidance issued by the NAO.

As auditors we are responsible for:

Expressing an opinion on:

- The 2020/21 financial statements;
- Conclusions relating to going concern; and
- The consistency of other information published with the financial statements.

Reporting by exception:

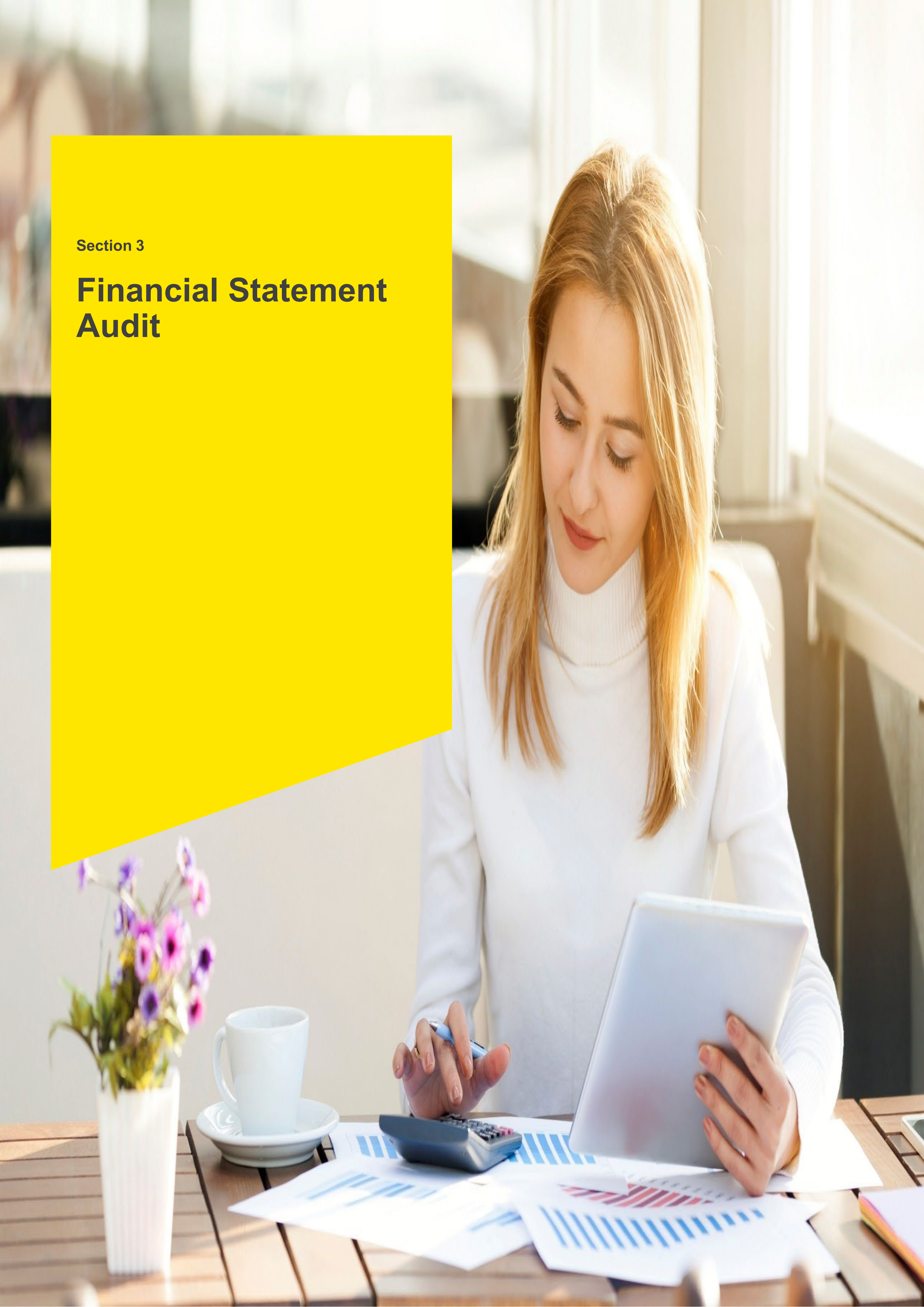
- If the governance statement does not comply with relevant guidance or is not consistent with our understanding of the Council;
- If we identify a significant weakness in the Councils arrangements in place to secure economy, efficiency and effectiveness in its use of resources; and
- Any significant matters that are in the public interest.

Responsibilities of the Council

The Council is responsible for preparing and publishing its financial statements, and governance statement. It is also responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Section 3

Financial Statement Audit



Financial Statement Audit

We have issued an unqualified audit opinion on the Council's 2020/21 financial statements.

Key issues

The Statement of Accounts is an important tool for the Council to show how it has used public money and how it can demonstrate its financial management and financial health.

On 16 March 2023, we issued an unqualified opinion on the financial statements. We reported our detailed findings to the Audit Committee in our Provisional Audit Results Report dated 29 March 2022, and a further update dated 2 February 2023. We outline below the key issues identified as part of our audit, reported against the significant risks and other areas of audit focus we included in our Audit Plan.

Significant risk	Conclusion
Misstatements due to fraud or error - management override of controls 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.	Our audit work did not identified any material issues, inappropriate judgements or unusual transactions which indicated that there had been any misreporting of the Council's financial position, or that management had overridden controls. We are satisfied that journal entries had been posted properly and for genuine business reasons. There were no unusual transactions identified.
Inappropriate capitalisation of revenue expenditure 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.	We have not identified any revenue items that have been inappropriately capitalised from our detailed testing

Continued over.

Financial Statement Audit (continued)

In addition to the significant risks above, we also concluded on the following areas of audit focus.

Other area of audit focus	Conclusion
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 that asset values 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.	We completed the following procedures to address this risk: ▸ Disaggregated the Council's property, plant and equipment and investment property and adopted different testing strategies for different types of assets. ▸ For specialist assets, such as leisure facilities which typically are valued on the basis of depreciated replacement cost we tested a sample of two asset valuations, challenging the Council on key assumptions and base data. As part of this, we undertook procedures such as agreeing floor areas back to original documentation, confirming BCIS rates used were appropriate, and confirming land areas, land values and obsolescence rates. ▸ For non-specialist assets, such as offices and car parks, which are typically valued on an existing use valuation basis, and investment properties which are based on fair value, we tested a sample of 12 PPE assets and four investment properties. We also engaged our own valuation expert (EY Real Estates) who tested two assets. We challenged the key inputs and 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 to confirm the site area used.

Continued over.

Financial Statement Audit (continued)

In addition to the significant risks above, we also concluded on the following areas of audit focus.

us	Conclusion
plant and nvestment	We engaged our valuations specialist (EY Real Estates) to review a sample of two 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) was 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 million 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 (overstatement). 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 asset register as 'other land and buildings'. However, we were informed by management that as of 31 March 2021, the site was being developed into a 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 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 of £0.972 million. Management has corrected these differences.

Continued over.

Financial Statement Audit (continued)

In addition to the significant risks above, we also concluded on the following areas of audit focus.

Other area of audit focus	Conclusion
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.	We completed the following procedures to address this risk: ▸ 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 undertook alternate procedures to create an auditor's estimate. 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 calculated 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 not being material, they will not adjust for this.

Continued over.

Financial Statement Audit (continued)

In addition to the significant risks above, we also concluded on the following areas of audit focus.

Other area of audit focus	Conclusion
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 was communicated by the actuary which occurred when one of the admitted bodies to the Hertfordshire Pension Scheme (NSL Limited) was erroneously pooled with the Council when allocating the assets and liabilities of the pension fund to the members of the scheme. 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 reports were based on a rollforward from the 31 March 2016 formal valuation.

Continued over.

Financial Statement Audit (continued)

In addition to the significant risks above, we also concluded on the following areas of audit focus.

Other area of audit focus	Conclusion
Pension liability valuation and disclosures (continued)	We obtained updated IAS 19 reports from the actuary Hyman's Robertson who have corrected both theses errors 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 The errors arose from the work of the Council's actuary and were 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 these were one-off errors. 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 the HBC issue. The other adjustment relating to NSL Ltd was also 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 were identified.

Continued over.

Financial Statement Audit (continued)

Other area of audit focus	Conclusion
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. 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 is 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 in relation to 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.	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 audit work challenging management's assessment of going concern, thoroughly testing the adequacy of the supporting evidence we obtained and evaluating the risk of management bias. Our challenge is made based on our knowledge of the Council obtained through our audit, which includes additional specific risk assessment considerations; ➢ 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. Management provided their updated going concern assessment and the related cash flow forecast up to March 2024 on 30 November 2022. We completed our review of the cashflow forecast and, based on the work undertaken, are satisfied that management's assessment on going concern is adequate and supportable. We also reviewed the Council's disclosures within the updated financial statements and have concluded that they are adequate. We have no matters to report.

Financial Statement Audit (continued)

Other area of audit focus	Conclusion
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.	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. We 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 appeals provision. The reports show total yield loss for the 2017 list but incorrectly includes yield losses until 2022/23. As a result, the provision in the Collection Fund at an all preceptors level was overstated by £2.4 million, with the Council's share calculated at £0.966 million. Management have corrected for the error in the Collection Fund and the Comprehensive Income and Expenditure Statement (CIES) and Balance Sheet.

Financial Statement Audit (continued)

Other area of audit focus	Conclusion
Group accounting The Council prepares group accounts due to the consolidation of the Millstream Property Investments Limited financial statements within the Council's Group financial statements. We identified this as an inherent risk as this can be a complex area of accounting.	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 were 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. As a result of our work, we identified an error in the group cash flow statement due to the impact of additional loan granted by the Council to Millstream not being 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 did not include an external audit fee note which is a required disclosure. These have been corrected by Management.

Financial Statement Audit (continued)

Other area of audit focus	Conclusion

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 were £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 conditions that may also affect the recognition of the grants as revenue during 2020/21.
	We have:
	➢ Considered the revenue and capital grants received by the Council;
	➢ 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.
	
	Our work did not identify any issues.

Financial Statement Audit (continued)

Corrected audit differences

We identified the following misstatements which management has corrected in the financial statements:

- A prior year error 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. 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 two balances.
- Misclassification between other land and buildings and assets under construction of £0.5 million
- Understatement of Capital Adjustment Account and Revaluation Reserve by £0.972 million due to failure to reverse previous impairment losses charged on assets where there are in-year increases in value of other land and buildings.
- An error in the group cash flow statement due to the impact of an 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 does impact on disclosure notes:

- On leases, there was an understatement in the future minimum lease payments receivable under non-cancellable leases amounting to £22 million due to the incorrect lease period 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 both 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 the gross costs and accumulated depreciation net off, the net balance of other land and buildings is not materially misstated.

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

Financial Statement Audit (continued)

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 was therefore amended to reflect these changes and appropriate disclosures included in the financial statements. The statutory override instrument allows councils to continue with this presentation until 2024/25.

Uncorrected audit differences

We also identified the following misstatements which have not been corrected by management:

- £238k overstatement of the pension liability as a result of errors identified by the pension fund auditor impacting the Council's pension fund assets;
- £111k understatement of revaluation loss charged to CIES;
- £354k overstatement in value of PPE – other land and buildings; and
- £120k overstatement in depreciation charged for infrastructure assets.

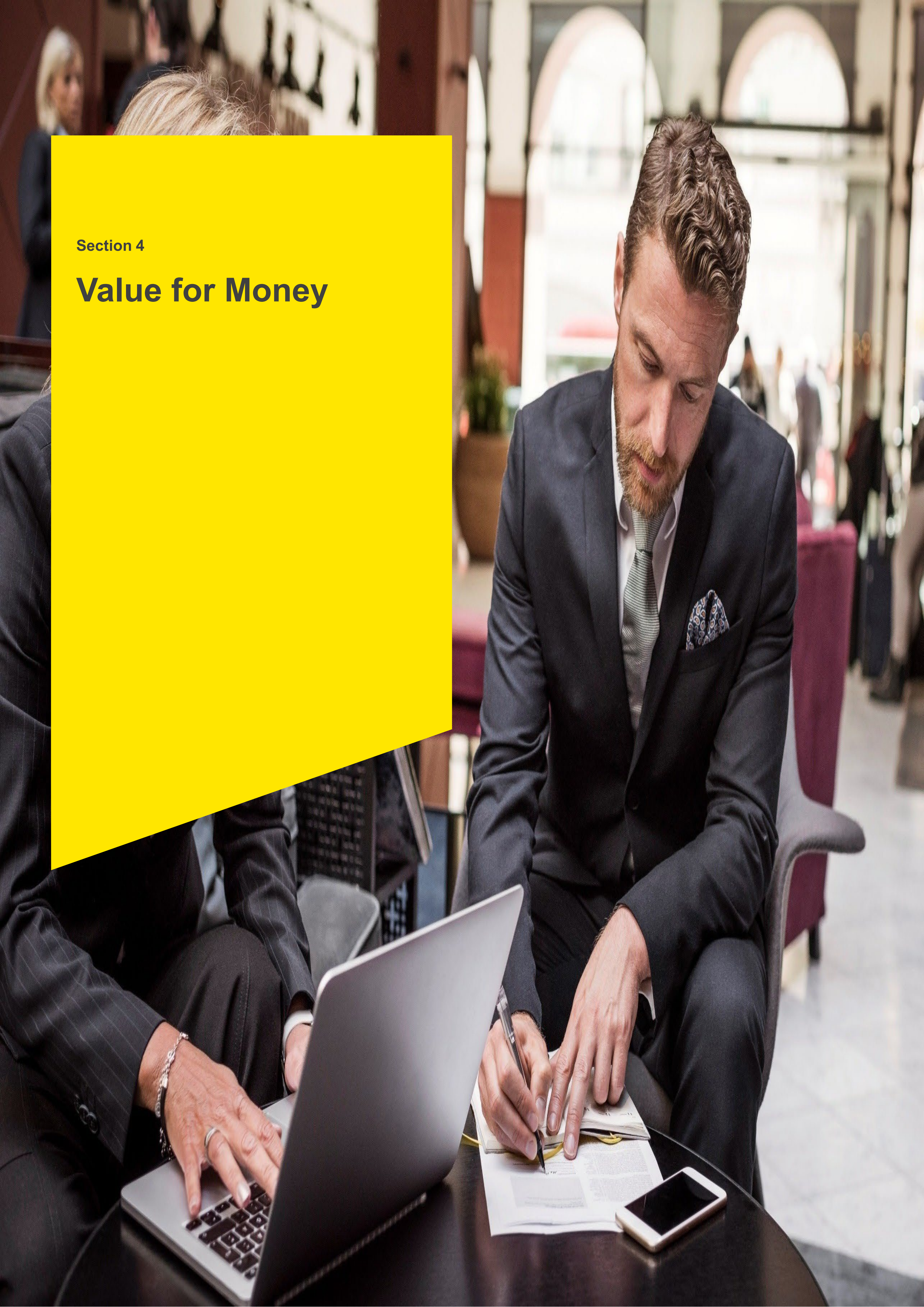
Our application of materiality

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

As communicated in our Audit Planning Report and Provisional and Final Audit Results Reports, our audit procedures were performed using a planning materiality of £1.48 million, with performance materiality, at 75% of overall materiality, of £1.11 million and a threshold for reporting uncorrected 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 satisfied they remain appropriate.

Section 4

Value for Money



Value for Money (VFM)

We did not identify any risks of significant weaknesses in the Council VFM arrangements for 2020/21.

Scope and risks

We have complied with the NAO's 2020 Code and the NAO's Auditor Guidance Note in respect of VFM. We presented our VFM risk assessment to the Audit and Governance Committee via our Audit Plan and Audit Results Report which was based on a combination of our cumulative audit knowledge and experience, our review of Council and committee reports, and evaluation of associated documentation through our regular engagement with management and the finance team.

We reported that we had not identified any risks of significant weaknesses in the Council's VFM arrangements for 2020/21.

We had no matters to report by exception in the audit report.

Reporting

We completed our planned VFM arrangements work and did not identify any significant weaknesses in the Council's VFM arrangements. As a result, we had no matters to report by exception in the audit report on the financial statements.

Our VFM commentary highlights relevant issues for the Council and the wider public.

VFM commentary

In accordance with the NAO's 2020 Code, we are required to report a commentary against three specified reporting criteria:

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

VFM Commentary

Introduction and context

The 2020 Code confirms that the focus of our work should be on the arrangements that the audited body is expected to have in place, based on the relevant governance framework for the type of public sector body being audited, together with any other relevant guidance or requirements. Audited bodies are required to maintain a system of internal control that secures value for money from the funds available to them whilst supporting the achievement of their policies, aims and objectives. They are required to comment on the operation of their governance framework during the reporting period, including arrangements for securing value for money from their use of resources, in a governance statement.

We have previously reported the VFM work we have undertaken during the year including our risk assessment. The commentary below aims to provide a clear narrative that explains our judgements in relation to our findings and any associated local context.

For 2020/21, the significant impact that the Covid-19 pandemic has had on the Council has shaped decisions made, how services have been delivered and financial plans have necessarily had to be reconsidered and revised.

We have reflected these national and local contexts in our VFM commentary.

The Council has had the arrangements we would expect to see to enable it to plan and manage its resources to ensure that it can continue to deliver its services.

Financial sustainability

How the body ensures that it identifies all the significant financial pressures that are relevant to its short and medium-term plans and builds these into them

The Council has a robust procedures in place to identify all significant financial pressures relevant to its short and medium term plans. These are gathered from a variety of sources:

- The Council undertakes an annual exercise to set its annual budget for the following financial year and to update its Medium Term Financial Strategy (MTFS), which covers the following four years. Key inputs to this exercise include forecasts for pay and non-pay inflation, changes in the level of demand for the Council's services and changes in funding received from central government.
- The Council's finance team work with the heads of individual services to identify cost pressures, including changes in demand for services, and model the impacts of different scenarios on the Council's finances. Significant changes are discussed by the Leadership Management Team and Council Executive prior to being implemented in the MTFS.
- Performance against the current year's budget is monitored on a quarterly basis during the year and used to identify cost pressures which require reflecting in the next MTFS.

Financial sustainability (continued)

How the body plans to bridge its funding gaps and identifies achievable savings

As part of the annual budget setting exercise, the Council identifies the level of savings required to match the anticipated net cost of services to the levels of available funding.

Individual directorates are required to identify potential savings within their service area, which may be based on reductions to expenditure or increases to income. Savings may also be identified through the Council's finance team, as they are not always directly related to service delivery.

How the body plans finances to support the sustainable delivery of services in accordance with strategic and statutory priorities

The Council has had the arrangements we would expect to see to enable it to plan and manage its resources to ensure that it can continue to deliver its services.

The Council produces the MTFS and the Corporate Plan at the same time and treats them as sister documents. Most of the money the Council spends is on delivering statutory services. The Council will always look to deliver these services in line with its priorities. As the overall level of Government funding has continued to reduce, the Council has tried to maintain its ability to offer discretionary services that are linked to its priorities. The current forecasts indicate that the Council will need to continue further reducing its costs in the future. This will mean that difficult decisions may need to be taken. We expect that the Council will make those decisions in line with its priorities.

The Council also has an established budget challenge process that reviews the various services the Council delivers and how much they cost. This has included a review of which services are statutory and for those non-statutory services the extent to which they deliver the priorities of the Council’s Corporate Plan.

The Council has had the arrangements we would expect to see to enable it to plan and manage its resources to ensure that it can continue to deliver its services.

Financial sustainability (continued)

How the body ensures that its financial plan is consistent with other plans such as workforce, capital, investment, and other operational planning which may include working with other local public bodies as part of a wider system

The Council's Corporate Plan is structured to combine and capture all of the Council's strategic plans. These are discussed as part of Leadership Teams Workshops which are then fed in through the budget setting process. Strategic context is discussed with Members at regular briefings at key points in the year.

The financial plan and budget that are presented to Council each March for the following year reflect revenue, investments and capital planning. Treasury management and capital proposals are also presented to Audit and Governance Committee on a regular basis. Financial plans include areas that are also reported on individually to ensure a robust financial position.

The budget is broken down across Council services to ensure all areas are recognised and consistent with the wider strategy and budget.

The Council facilitates regular communication between finance staff and the Council's directorates to ensure that other plans being prepared are consistent with the Council's financial planning.

Financial Sustainability (continued)

How the body identifies and manages risks to financial resilience, e.g. unplanned changes in demand, including challenge of the assumptions underlying its plans.

The Council maintains a number of earmarked reserves, which represent amounts set aside from the Council's General Fund to be used for specified purposes in the future. Management use earmarked reserves to allow for known or potential future cost pressures. During 2020-21, the Council transferred amounts from general fund to earmarked reserves for business rates retention deficit and New Homes Bonus.

In addition, the Council sets a minimum level for its General Fund in order to ensure that the Council does not fully deplete its reserves through normal activities. The minimum reserves level for general fund for 20/21 is at 2 million; the general fund balance as of yearend was £3.854 million.

Governance

How the body monitors and assesses risk and how the body gains assurance over the effective operation of internal controls, including arrangements to prevent and detect fraud

Internal audit undertake an annual programme of work to provide assurance over the operation of the Council's internal controls. Risks identified and recorded on the Council's risk registers are used to inform the annual internal audit plan.

The Council also has an established risk management process, including a Risk Management Strategy that is reviewed quarterly by the Audit and Governance Committee. In their annual report for 2020/21, the Council's internal auditor provided a satisfactory rating for the Council's internal control and governance processes.

The Council has had the arrangements we would expect to see to enable to make informed decisions and properly manage its risks.

How the body approaches and carries out its annual budget setting process

The Council continues to review how it can improve the budget setting process. The key being it shouldn't be an annual process, but a living document that is developed over the medium term and the work embedded through business as usual.

In line with Financial Regulations, the Head of Strategic Finance & Property is responsible for the budget setting processes and a planning cycle is put in place to ensure the Council meets its statutory duty of setting a balanced budget annually. The MTFS is monitored and reported to the Audit and Governance Committee on a quarterly basis.

All planning assumptions are considered by the Leadership Team and are informed through modelling, planning assumptions and intel from wider networks which other Heads of Services are part of.

Governance (continued)

How the body ensures effective processes and systems are in place to ensure budgetary control; to communicate relevant, accurate and timely management information (including non-financial information where appropriate); supports its statutory financial reporting requirements; and ensures corrective action is taken where needed.

The Council undertakes quarterly budget monitoring, which is reported through to Audit and Governance Committee. Reporting includes comparison of performance to date (outturn) and budget (including any revisions to budget). The main reasons for over- or under-spend are explained in the outturn report.

The Council has had the arrangements we would expect to see to enable to make informed decisions and properly manage its risks.

There are set performance indicators which are monitored and reported on a quarterly basis. These cover the Council's key income streams and provide an indication of any areas of concern.

How the body ensures it makes properly informed decisions, supported by appropriate evidence and allowing for challenge and transparency. This includes arrangements for effective challenge from those charged with governance/audit committee.

The Council has a long-established Constitution which, together with a range of codes of conduct, policies and procedures, support informed decision making. The Council’s Constitution includes guidelines on how decisions need to be made and by whom.

The corporate plan, risk registers, budgets, outturn, among other reports, are presented to the Audit and Governance Committee for review and approve. The head of internal audit also reports to the Audit and Governance Committee and provides regular progress reports on the internal audit plan. The papers are circulated at least 2 weeks before each meeting to give the Audit and Governance Committee opportunity to review the papers and ask questions during the meeting. The minutes of the meetings are also published in the Council's website for the public's reference.

The Council arrangements we would expect to see to enable to make informed decisions and properly manage its risks.

Governance (continued)

How the body monitors and ensures appropriate standards, such as meeting legislative/regulatory requirements and standards in terms of officer or member behaviour (such as gifts and hospitality or declarations/conflicts of interests).

Compliance with legislative and regulatory requirements are monitored through various mechanisms, including the Monitoring Officer, who maintains a register of interests for Members which is published on the Council's website.

For Officers, the Council has a policy in relation to gifts and hospitality. There is also a separate Declaration of Interests/Conflicts of Interest policy. The Monitoring Officer's oversight on standards also provides a control.

The Council has had the arrangements we would expect to see to enable it to use information about its costs and performance to improve the way it manages and delivers services.

Improving economy, efficiency and effectiveness

How financial and performance information has been used to assess performance to identify areas for improvement.

The Council's performance reporting includes monitoring of key performance indicators (KPIs) as well as financial monitoring reports which are taken to the Audit and Governance Committee quarterly.

Reporting includes comparison of performance to date (outturn) and budget (including any revisions to budget). The main reasons for over- or under-spend are explained in the outturn report along with mitigating actions.

The Council also has a Corporate Plan, agreed in January 2020, which sets out a range of actions and objectives against four overall priorities: sustainability, enabling communities, encouraging economic growth and digital by default. The Corporate Plan is refreshed every year.

How the body evaluates the services it provides to assess performance and identify areas for improvement

Data is collected across a range of locally developed indicators which are collected on a monthly, quarterly or annual basis. These form the basis of the Council’s performance monitoring process.

The Council monitors and reports on performance every quarter. Members also receive information on all the measures through the Annual Report Indicators. This shows a monthly and quarterly trend of several indicators.

Improving economy, efficiency and effectiveness (continued)

How the body ensures it delivers its role within significant partnerships, engages with stakeholders it has identified, monitors performance against expectations, and ensures action is taken where necessary to improve

The Council appreciates the fact that services will not always be delivered by them alone, but in a partnership or through alternative delivery models. The Council formed a partnership with Stevenage Borough Council and North Hertfordshire District Council to create economies of scale in providing finance, IT, procurement, HR and other services to partner councils.

Performance is monitored and evaluated through various Partnership Boards to maintain a 'system' where the Council has direct or indirect control and influence to support better service delivery.

The Council has had the arrangements we would expect to see to enable it to use information about its costs and performance to improve the way it manages and delivers services.

As part of the delivery of its services, the Council needs to manage a proactive programme of communications activity across a range of channels. This ensures the work of the Council is promoted and aims to improve resident satisfaction by ensuring they feel well informed about the Council's work. The Council adopted the Information and Communications Technology Partnership Strategy from 2019/20 to 2021/22 in December 2019.

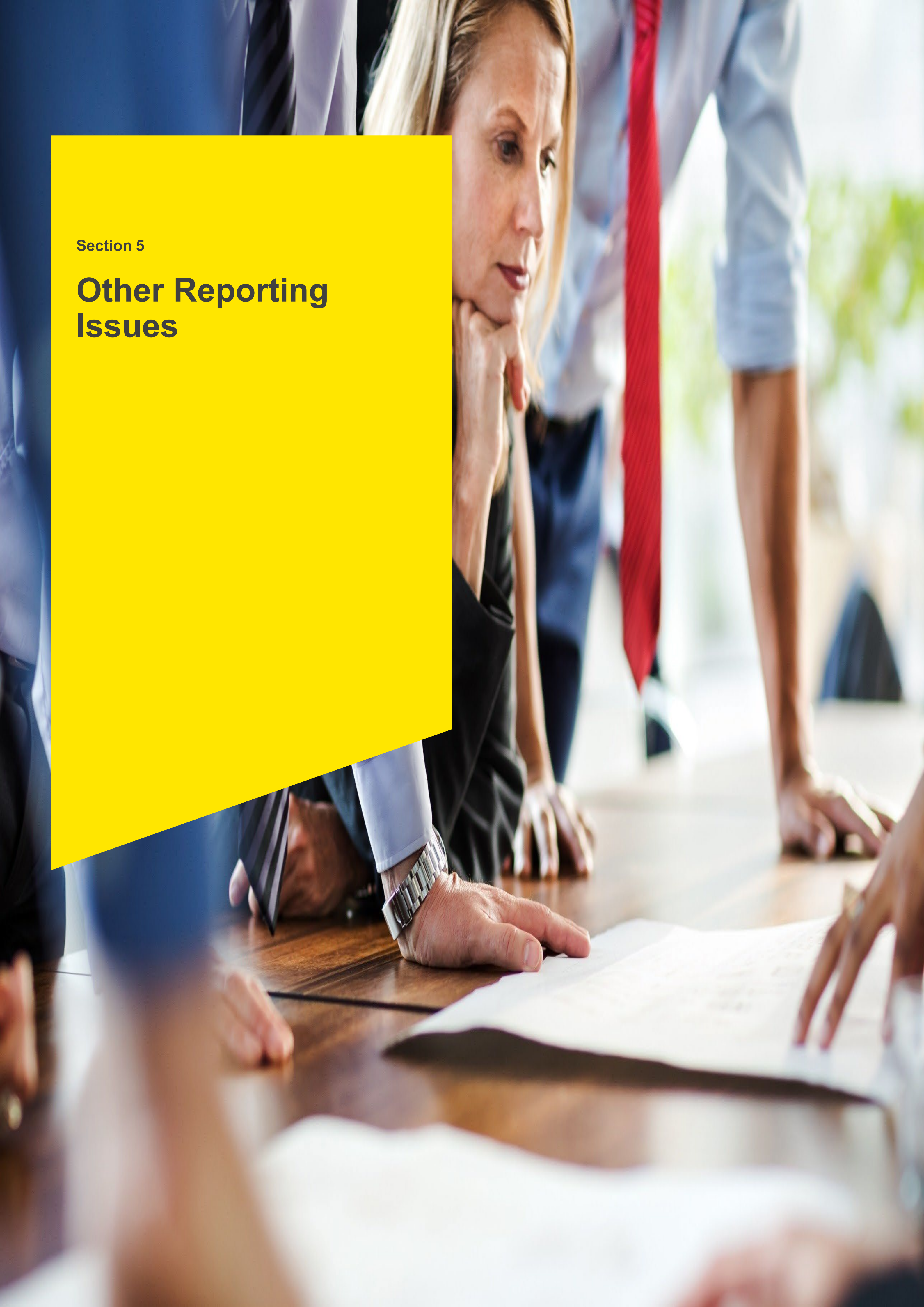
How the body ensures that commissioning and procuring services is done in accordance with relevant legislation, professional standards and internal policies, and how the body assesses whether it is realising the expected benefits

Contract procedures rules are in place to ensure that the procuring of all goods, works and services in accordance with the relevant legislation, standards and internal policy. Services have access to the Procurement Team for advice and support in undertaking procurement activities appropriately. Performance is then monitored by the procuring service and as part of the regular budget monitoring.

The Council has clear procurement policies and procedures and provides training for all officers. Compliance is regularly reported at the Leadership Team quarterly Business Reporting meetings.

Section 5

Other Reporting Issues



Other Reporting Issues

Governance Statement

We are required to consider the completeness of disclosures in the Council's governance statement, identify any inconsistencies with the other information of which we are aware from our work, and consider whether it complies with relevant guidance.

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

Whole of Government Accounts

We have not yet performed the procedures required by the National Audit Office (NAO) on the Whole of Government Accounts consolidation pack submission. The guidance for 2020/21 has been significantly delayed and although this has now been issued we are still not able to issue our certificate until the NAO has clarified the additional work they may require for a sample of bodies.

Report in the Public Interest

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

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

Other powers and duties

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

Other Reporting Issues (continued)

Control themes and observations

As part of our work, we obtained an understanding of internal control sufficient to plan our audit and determine the nature, timing and extent of testing performed. Although our audit was not designed to express an opinion on the effectiveness of internal control, we are required to communicate to you significant deficiencies in internal control identified during our audit.

We have adopted a fully substantive approach and have therefore not tested the operation of controls.

The matters shown below and are limited to those deficiencies that we identified during the audit and that we concluded are of sufficient importance to merit being reported.

Description	Impact
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 also made to the comparatives in the 2020/21 financial statements. 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. 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.

Other Reporting Issues (continued)

Control themes and observations (continued)

Description	Impact
Property, plant and equipment	Our review of the Council's disclosure on property, plant and equipment identified that the current presentation of the note was not compliant with the CIPFA code. Both the gross cost of other land and buildings and accumulated depreciation and impairment were 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 the previous 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.

Appendix A

Audit Fees

East Hertfordshire District Council’s 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. We confirm we have not provided any non-audit services.

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)	28,354		
Additional fee to address in-year risks as noted in this report (Note 3)	34,046		
Total audit fees	102,695	40,295	66,135
Housing benefits certification work	11,000		21,140
Total audit fees	113,695	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 £28,354 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 and risks, as detailed in the Audit Plan. These include the impact of Covid, additional risks identified relating to grants, and increased 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; 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.

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