

**Hertsmere Borough
Council**
**Audit results report -
Updated March 2024**
Year ended 31 March 2022
28 March 2024

March 2024



Dear Audit Committee Members

We are pleased to attach our Updated Audit Results Report for the forthcoming meeting of the Audit Committee. This report summarises our current audit conclusions in relation to the audit of the Hertsmeare Borough Council for 2021/22. We will update the Audit Committee at its meeting scheduled for 28 March 2024 on any further progress to that date and outline the remaining steps to the issue of our final opinion.

Appendix B to our audit report, sets out the outstanding audit procedures which need to be concluded. These cover a combination of substantive audit testing, review of further responses and accounting assessments from management and our quality review procedures. As a result, there may be matters that arise before we conclude the audit which are material in nature and/or require a modification to our audit report. In that event, we would like management to agree with the Audit Committee the appropriate governance process for members to receive our final audit results report in the event any changes following the 28th March 2024 meeting are material in nature. This would need to take place before the financial statements are authorised for issue and we issue our statutory audit report.

In the event that our remaining procedures do not result in any material amendments to the financial statements and no modifications to our audit report, we would be content to report the conclusion of our audit through delegation to the Council's statutory financial reporting officer in consultation with the Chair of the Audit Committee. In this event, we will still produce a final audit results report concluding all outstanding matters which we would expect to be circulated to the members of the Audit Committee at the point we issue our statutory audit report.

The audit is designed to express an opinion on the 2021/22 financial statements and address current statutory and regulatory requirements. This report contains our findings related to the areas of audit emphasis, our views on the Council's accounting policies and judgements and material internal control findings. Each year sees further enhancements to the level of audit challenge and the quality of evidence required to achieve the robust professional scepticism that society expects. We thank the management team for supporting this process.

This report is intended solely for the use of the Audit Committee, other members of the Council, and senior management. It is not intended to be and should not be used by anyone other than these specified parties.

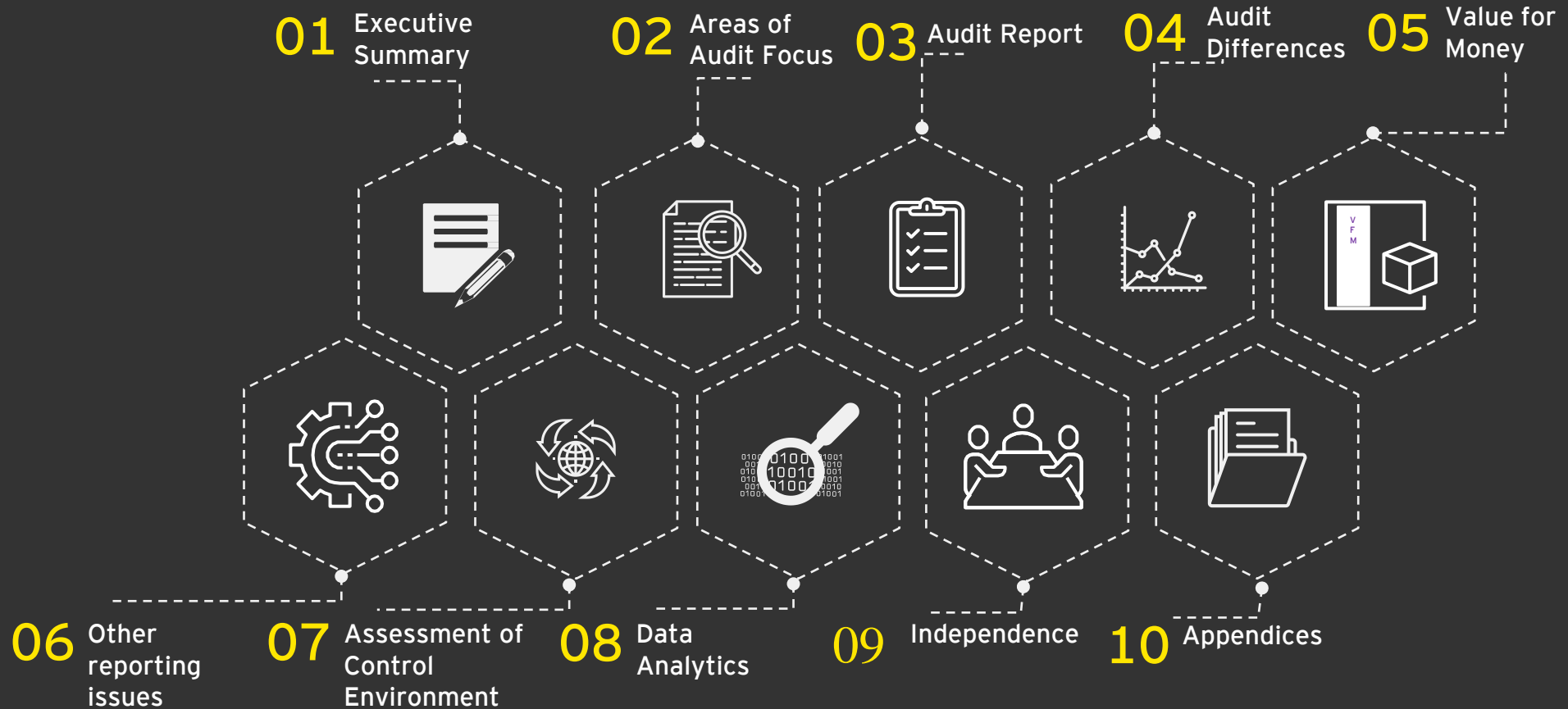
We welcome the opportunity to discuss the contents of this report with you at the Audit Committee meeting on 28th March 2024.

Yours faithfully

Elizabeth Jackson

Partner, 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 July 2021)” 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 Committee and management of Hertsmere Borough Council in accordance with the statement of responsibilities. Our work has been undertaken so that we might state to the Audit Committee, and management of Hertsmere Borough 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 Committee and management of Hertsmere Borough 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 at the 31st January 2023 Audit Committee meeting, 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 no exceptions noted.

➤ Changes to risks

Fraud risk > Incorrect capitalisation of revenue expenditure - during the 21/22 audit, we re-considered how the risk of management override may present itself, we concluded that this is primarily through management taking action to override controls and manipulate in year financial transactions that impact the medium to longer term projected financial position. A key way of improving the revenue position is through the inappropriate capitalisation of revenue expenditure. The Council, for 21/22 has a significant fixed asset additions/capital expenditure (£14,731k) and therefore has the potential to materially impact the revenue position through inappropriate capitalization of revenue spend.

Inherent risk > Business Rates Appeals Provisions Valuation - Business rate appeals provisions are subject to a higher degree of estimation assumptions. Short term and long term NDR appeals for 21/22 totalled £1,181k and £182k, respectively. Management override risk associated with this element of provisions therefore we consider this to be a higher inherent risk.

Inherent risk > Recoverability of InspireAll Loan - we have presented this as significant risk in the audit plan, but after assessments and audit procedures performed, we have downgraded this to high inherent risk as an agreed payment holiday was put in place in the prior year for 20/21 and 21/22.

➤ Changes in materiality

No changes to materiality since the audit planning report was presented as this was based on the draft financial statements for 21/22.

Information Produced by the Entity (IPE): We identified an increased risk around the completeness, accuracy, and appropriateness of information produced by the Council due to the inability of the audit team to verify original documents or re-run reports on-site from the Council's systems. 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
- Agreed IPE to scanned documents or other system screenshots.

Status of the audit

We have completed a substantial part of our audit of Hertsmere Borough Council's financial statements for the year ended 31 March 2022 which is subject to ongoing quality review process and have performed the procedures outlined in our audit planning report. Subject to satisfactory completion of the outstanding matters set out in appendix C we expect to issue an unqualified opinion on the Council's financial statements in the form which appears at Section 3. However until work is complete, further amendments may arise.

Given that the audit process is still ongoing, we will continue to challenge the remaining evidence provided and the final disclosures in the Narrative Report and Accounts which could influence our final audit opinion.

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 the Council a commentary against specified reporting criteria (see below) on the arrangements the 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 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.

Status of the audit - Value for Money

In the Audit Plan, we reported that we had yet to commence our value for money (VFM) risk assessment. We have taken into consideration the findings from the 2020/21 value for money work, our discussion with management and our knowledge of sector-wide issues that may affect the Council. The work on value for money is on-going at the time of writing this report.

Update March 2024: We have not identified any risks of significant weakness. However, we have identified an area of focus in relation to the Council's wholly owned subsidiary, Elstree Film Studios. We are in regular discussion with management about the arrangements in place for the oversight of the issue arising in the 2023/24 year to understand the arrangements in place during 2021/22. From our work completed to date there are no weaknesses identified in the governance arrangements that need to be reported by exception. We will report the outcome of our work on the Council's arrangement in our VFM commentary within the Auditor's Annual Report.

We cannot formally conclude the audit and issue an audit certificate until we have completed our procedures on the Council's value for money arrangements for the year ended 31 March 2022. We are satisfied that this work does not have a material effect on the financial statements.

Audit differences

We have identified adjustments which are greater than £60k (reporting misstatement threshold) that we are required to bring to your attention. The three adjustments to the Pension liability relate to the 2022 triennial membership valuation on which the Council received an updated IAS 19 results report after the triennial valuation was reported in March 2023.

We include further details in Section 4 of this report.

Executive Summary

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 will perform the procedures required by the National Audit Office (NAO) on the Whole of Government Accounts submission following the completion of the financial statements audit.

We have no other matters to report.

Areas of audit focus

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 other matters, other than those reported by management or disclosed in this report, which we believe should be brought to the attention of the Audit Committee or Management.

Control observations

During the audit, and to date, we have not identified any significant deficiencies in the design or operation of an internal control that might result in a material misstatement in your financial statements and which is unknown to you. However, we have identified some areas for improvement in relation to the EFS income which are set out in Section 07.

Independence

Please refer to Section 09 for our update on Independence.

Executive Summary

Areas of audit focus

We identified a number of key areas of focus for our audit of the financial report of Hertsmere Borough Council. This report sets out our observations and status in relation to these areas, 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 02 of this report.

Below we have summarised the conclusions of our work on the areas of audit focus.

| Fraud/Significant Risks | Findings & Conclusions |
|---|--|
| Misstatements due to fraud or error (management override) | We have not identified any material weaknesses in controls or evidence of material management override and not identified any instances of inappropriate judgements being applied from the work completed to date. |
| Incorrect capitalisation of revenue spend | We completed our work on the testing of capital additions and REFCUS during the year and have not identified any evidence of manipulation through inappropriate capitalisation. |
| Valuation of property, including investment properties | <p>We have substantially completed our work on PPE and Investment property valuation. We are currently reviewing the responses provided by the Council for some of the samples and also waiting for EY Real Estates to complete their review on some of the properties. We have not identified any issues to date.</p> <p>Update March 2024: We have now concluded the work on property valuation and have identified judgmental and factual differences above SAD and disclosures to be included in the accounts. Please refer to Section 04 of the report for more details. We are currently reviewing the impact of one of the unadjusted judgemental valuation differences on the audit report and will update the Committee verbally at the meeting with the outcome of our consideration.</p> |
| Risk of fraud in revenue and expenditure recognition - EFS income and Covid 19 grant income | <p>We have completed our audit work in respect to Covid-19 grant and have no issues to report. However, the audit procedures on EFS income is on-going. We have reviewed the component auditor's work and concluded that we cannot rely on their testing as we cannot re-perform their work as no supporting evidence was maintained. We have to perform our own testing. At the time of writing the report, we are waiting for evidences for the samples selected last week.</p> <p>Since the last report presented, the Council have provided further information on the samples and the audit team reviewed these. As a result of further review, we still have samples with further queries which we have sent back and are awaiting response.</p> <p>Update March 2024: The work on EFS Income testing has now been concluded with no issues identified but with control deficiencies noted. Further details can be found on Section 07 of the report.</p> |

Executive Summary (continued)

| Areas of audit focus | Findings & Conclusions |
|---|---|
| Recoverability of InspireAll Loan | We have completed the IFRS 9 assessment review and corroborated the expected credit loss calculation with no issues identified. Sufficient disclosures are also provided in the accounts. |
| IAS 19 Pensions valuation and disclosures | <p>The Council have updated their disclosures based on the revised IAS 19 results report as a result of the 2022 triennial membership valuation.</p> <p>The IAS 19 assurance response and results of 2022 triennial membership data testing was received from the pension fund auditors. The pension fund auditor identified one judgmental difference above the reporting misstatement threshold. No significant issues were identified in 2022 triennial membership data testing.</p> |
| Disclosures on going concern | We will complete our review of the going concern disclosure and the Council's assessment close to the date of our audit report. This will include review of supporting working papers and challenge of the assumptions underpinning management's assessment. We note that the disclosures will need to be revisited at the point the financial statements are authorised for issue to ensure that these remain appropriate to the Council's circumstances for the foreseeable future (e.g. the next twelve months). |
| Business Rates Appeals Provisions Valuation | We received all supporting information relating to the NDR calculation from the Council. We have not identified any material issues in this area. |



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 and Ireland) 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.

We have not identified a heightened risk of management override overall, but we have identified a specific area where management override might occur: incorrect capitalisation of revenue spending. Our specific response to this risk is set out in the next slide.

What judgements are we focused on?

We focussed on testing key areas that are susceptible to management bias including journal entries, material accounting estimates, and unusual transactions.

What did we do?

- ▶ Identified fraud risks during planning and year-end stages, which reflect the significant fraud risk recognised in this report (the risk of inappropriate capitalisation of expenditure);
- ▶ Inquired of 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; and
- ▶ Performed mandatory procedures regardless of specifically identified fraud risks, including:
 - Testing the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements
 - Assessing accounting estimates for evidence of management bias, and
 - Evaluating the business rationale for significant unusual transactions.

What are our conclusions?

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

We have not identified any instances of inappropriate judgements being applied. Please also see specific risk pages for our conclusion on property valuation, pension liability and business rates appeals provision.

Our testing of journals is completed with no material issues identified.

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



Areas of Audit Focus

Significant risk

Incorrect capitalisation of revenue expenditure

What is the risk?

During 21/22, we re-considered how the risk of management override may present itself, we concluded that this is primarily through management taking action to override controls and manipulate in year financial transactions that impact the medium to longer term projected financial position.

A key way of improving the revenue position is through the inappropriate capitalisation of revenue expenditure. The Council has a significant capital expenditure and therefore has the potential to materially impact the revenue position through inappropriate capitalization of revenue spend.

What judgements are we focused on?

How management decides on appropriate capitalisation of revenue expenditure.

Confirming additions to property, plant and equipment has been correctly classified and meet the relevant criteria.

What did we do?

In response to this risk, we:

- For significant capital additions, we examined invoices, capital expenditure authorisations, leases and other data that support these additions. We reviewed the sample selected against the definition of capital expenditure in IAS 16.
- We extended our testing of items capitalised in the year by lowering our testing threshold. We also reviewed a larger random sample of capital additions below our testing threshold.
- Reviewed and tested Revenue Expenditure Funded from Capital Under Statute (REFCUS), and verified that revenue costs have not been inappropriately funded from capital.

What are our conclusions?

We have completed our work on capital additions and REFCUS and have not identified any additions that were incorrectly capitalised or REFCUS items which did not meet the statutory definition.



Areas of Audit Focus

Significant risk

Risk of fraud in revenue and expenditure recognition - EFS income and covid 19 grant income

What is the risk?

Under ISA 240 there is a presumed risk that revenue may be misstated due to improper revenue recognition. In the public sector, this requirement is modified by Practice Note 10 issued by the Financial Reporting Council, which states that auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure recognition.

The primary objective of Elstree Film Studios, in contrast to that of the Council, is income generation. Elstree Film Studios Limited income represents a significant income stream to Hertsmere Borough Council group on consolidation, £4.9m in 2021/22 and therefore presents a revenue recognition risk. In addition, the Council has received Covid-19 grants totalling £1.85m in 2021/22. There is a risk that the accounting treatment for these grants is inconsistent with the underlying terms and conditions.

What judgements are we focused on?

In determining the specific nature of the risk and how it might manifest itself we considered whether or not there is an incentive and an opportunity to manipulate revenue and expenditure.

We have concluded that the only likely way for a material fraud in managed revenue to be achieved would be through manipulation of the income generated through Elstree Film Studios Ltd and through incorrect accounting treatment for the Covid-19 grants against underlying terms and conditions.

We have also focused on revenue recognition policies to ensure that they are consistent with IFRS 15.

What did we do?

We will respond to this risk by:

- ▶ Obtaining the component auditor's completed working papers relating to the EFS revenue and confirming their work is sufficient for our risk profile, including reviewing and testing of EFS revenue recognition policies and ensuring that the component auditor undertakes appropriate audit procedures to challenge the assumptions and corroborates to evidence as appropriate;
- ▶ Sample testing Covid-19 grant income at a lower testing threshold and testing income recognised to underlying grant agreements and notifications to test whether the grant has been recorded in the correct period. As part of our testing of Covid-19 grant income we shall also assess whether the underlying terms and conditions present an agent or principal arrangement and we shall confirm whether the accounting treatment is consistent with our conclusions; and
- ▶ Reviewing and discussing with management any accounting estimates on revenue recognition for evidence of bias.

What are our conclusions?

Our work on Covid-19 grant income testing is completed without issues identified.

On the other hand, the audit procedures on EFS income is on-going. We have reviewed the component auditor's (BKL) work and concluded that we cannot rely on the testing they performed as we cannot re-perform the testing as BKL did not retain the evidences on their file. Therefore we are required to complete our own testing.

At the time of writing, we have selected and sent the EFS income samples to the Council and are waiting for the evidences. This sample was sent last week and work should be completed by the committee meeting.

Update October 2023: Since the last report presented, the Council have provided further information on the samples and the audit team has reviewed these. As a result of further review, we still have samples with further queries which needs to be resolved before we can conclude on this significant risk. We have sent back further queries and are awaiting a response. Evidence in this area has not been sufficient from the subsidiary and has resulted in us redoing the same testing multiple times.

Update March 2024: The testing of EFS income is now concluded and we have not identified issues. We, however, identified control deficiencies which have been discussed in detail in Section 07 of this report.



Areas of Audit Focus

Significant risk

Risk of error in the valuation of property, including investment properties

What is the risk?

Valuation of Other Land and Buildings and Investment Properties

The value of Property, Plant and Equipment and Investment Properties represent significant balances in the Council's accounts and are subject to valuation changes, impairment reviews and depreciation charges. Management is required to make material judgemental inputs and apply estimation techniques to calculate the year-end balances recorded in the balance sheet. The economic uncertainty currently being experienced may affect investment values for assets held. Consequently we may see unusual fluctuations in the values of certain assets.

What judgements are we focused on?

We focused on aspects of the land and buildings valuation which could have a material impact on the financial statements, primarily:

- harder to value assets - such as Leisure Centres which are valued on a depreciated replacement cost basis;
- high value assets carried at fair value;
- the assumptions and estimates used to calculate the valuation and changes to the basis for valuing the assets; and
- subsidiary's (EFS) material land and buildings - Elstree Film Studios site.

What did we do?

Our approach focused on:

- Considering the work performed by the Council's valuer, including the adequacy of the scope of the work performed, their professional capabilities and the results of their work;
- Sample testing key asset information used by the valuers in performing their valuation (e.g. floor plans to support valuations based on price per square metre);
- Consulting with the EY Real Estates team on significant assets and identifying whether key assumptions or the valuation methodology of other assets have changed and understanding the rationale, involving EY Real Estates as necessary;
- Considering the annual cycle of valuations to ensure that assets have been valued within a 3 year rolling programme as required by the Code for PPE and annually for Investment Property. We have also considered if there are any specific changes to assets that have occurred and that these have been communicated to the valuer;
- Reviewing assets not subject to valuation in 2021/22 to confirm that the remaining asset base is not materially misstated;
- Considering changes to useful economic lives as a result of the most recent valuation; and
- Testing accounting entries have been correctly processed and appropriate disclosure had been made in the financial statements.



Areas of Audit Focus

Significant risk

Risk of error in the valuation of property, including investment properties (continued)

What are our conclusions?

We have substantially completed the work on valuation of property including investment properties. We have identified, verified and tested the significant assumptions used by the Council's valuer and also sample tested properties. We are currently reviewing remaining responses from the Council in relation to our queries in valuation. To date, we have not identified any material issues in our testing.

EY Real Estates team are also currently reviewing the information provided by the Council in relation to the property samples sent to them and has not notified the audit team for any material issues at the time of writing.

The Council's external valuer, WHE, stated in their report that their valuation is not reported as being subject to 'material valuation uncertainty' as defined by VPS 3 and VPGA 10 of the RICS Valuation - Global Standards. This is disclosed appropriately in the financial statements.

Update October 2023: The work on property valuation is still ongoing. As a result of the asbestos and RAAC identified in the Elstree Films Studios, we have requested the Council to revisit the valuation of this property and considered the impact of asbestos in its valuation. We are waiting for the update on this from the Council.

Update March 2024:

We have now concluded on the work on property valuation. Following the procedures performed, a non-adjusting post balance sheet event (PBSE) disclosures should be disclosed in 21/22 accounts relating to the impact in the valuation of EFS of the blue asbestos found while repairing the EFS stage doors in stages 8 and 9. It was ascertained on the tests carried out by the Council that asbestos was safely contained therefore this has no impact on the valuation of the property as at 31 March 2022. We are satisfied with this management judgement as the valuation is based on income received during the year and as the asbestos was contained, the stages were used throughout the audit year.

In addition, for one of the sampled property by our EY Real Estates team, we have noted a difference on yield applied by them against the yields used by Council's valuer, Wilks Head and Eve. We therefore estimated the impact of this across the same asset category (temporary accommodation assets) in the Council's FAR and performing a calculation by applying the yield used by our specialist. This resulted to a valuation understatement of £1,614,200 which is raised as judgmental misstatement in the summary of audit differences. We are currently reviewing the impact of this unadjusted judgemental valuation difference on the audit report and will update the Committee verbally at the meeting with the outcome of our consideration.

We also noted a factual difference totalling to £198,629 valuation understatement relating to the property samples tested.

The audit differences were also discussed in Section 04 of the report.



Areas of Audit Focus

Other Areas of Audit Focus

Recoverability of InspireAll Loan

What is the risk?

The InspireAll loan recoverability is in question due to the impact of Covid-19 pandemic and extended lockdown resulting to closure of leisure centres including InspireAll, the Leisure Trust which operates Hertsmere's Leisure Services contract. The original loan amounts to £5million.

In 2021, InspireAll requested extension to the contract and payment break for the management fee and payments of the interest and loan from the Council as otherwise they are at significant risk of not being able to continue trading. If the council chose not to support InspireAll, there were alternative options for the council, including managing in house or seeking an alternative operator. Due to the foregoing, the Council approved the extension of Leisure Services Contract with InspireAll by an additional 5 years to 31 January 2032 including the deferral of the management fee due in 2021/22 and loan repayments, principal and interest, for the 2020/21 and 2021/22 financial years. These decisions heighten the recoverability and risk of impairment of InspireAll loan.

What did we do?

- ▶ Assessed management's impairment assessment of InspireAll loan and the completeness of the disclosure required in the financial statements; and
- ▶ Reviewed the Council's IFRS 9 assessment in relation to this.
- ▶ Used the specialist work in previous year as support to the assessment of its recoverability and implications for accounting judgements and disclosures.

What are our conclusions?

We have reviewed the Council's impairment and IFRS 9 assessment of the InspireAll loan. We have corroborated the expected credit loss calculation to the Head of Finance and Business Services IFRS 9 assessment. We have also used an economic forecast provided by one of our corporate finance specialists on this area in previous year to corroborate evidence on the macro-economic trends for the leisure sector to determine the appropriateness of management's judgements. Sufficient disclosures are also provided in the accounts.



Areas of Audit Focus

Other Areas of Audit Focus

Pension net liability valuation

What is the risk?

The Local Authority Accounting Code of Practice and IAS19 require the Council to make extensive disclosures within its financial statements regarding its membership of the Local Government Pension Scheme administered by Hertfordshire County Council. The Council's pension fund deficit is a material estimated balance and the Code requires that this net liability be disclosed on the Council's balance sheet. At 31 March 2022 this totalled £34.88 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) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.

What judgements are we focused on?

We focused on aspects of the pension liability which could have a material impact on the financial statements, primarily:

- ▶ significant changes in assumptions made by the actuary;
- ▶ the assessments of the actuary undertaken by PWC, as consulting actuary commissioned by the National Audit Office, and the EY actuarial team the assessments of the actuary undertaken by PWC and the EY actuarial team; and
- ▶ Impact on the Council's pension valuation of Covid-19 reported by the Hertfordshire Pension Fund auditor based on the pension fund assurance response.

What did we do?

- ▶ Liaised with the auditors of Hertfordshire Pension Fund, to obtain assurances over the information supplied to the actuary in relation to the Council;
- ▶ Assessed 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 any relevant reviews by the EY Pension team; and
- ▶ Reviewed and tested the accounting entries and disclosures made within the Council's financial statements in relation to IAS19.
- ▶ The revised ISA 540 standard 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, to provide a different method of gaining assurance. We employed the services of an EY Pensions specialist to review the Council's IAS19 reports, run a parallel actuarial model and compare to that produced by Hymans Robertson.



Areas of Audit Focus



Pension liability valuation (continued)

What did we conclude?

We have completed the work on this area. The additional procedures in response to the revised requirements of ISA 540 confirmed there was no material misstatement arising from those estimation procedures undertaken by Hymans Robertson.

Due to the recent 2022 triennial valuation, the Council has received a revised IAS 19 results report which resulted to material movements in pensions liability and asset as compared to the original report. Therefore the Council updated their accounts and disclosures in relation to this. Please refer to Section 04 for the details of corrected audit differences.

In addition to the above, since the revised IAS 19 results report resulted to material differences as compared to the original report, in order for the Hertfordshire Pension Fund audit team to be able to provide assurance as Council's auditor on IAS 19 balances and disclosures, they will need to undertake detailed audit procedures under the IAS 19 protocol arrangements established by the PSAA Terms of Appointment. Specifically, pension fund audit teams will need to undertake procedures on the accuracy and completeness of information taken from pension fund membership administration systems provided to the fund actuary to inform the 2022 triennial valuation dataset.

Update March 2024: The IAS 19 assurance response and results of 2022 triennial membership data testing were received from the pension fund auditor. The pension fund auditor identified one judgmental difference above the reporting misstatement threshold (refer to section 04 for further details). Triennial testing was completed and no significant issues identified in relation to the Council in the 2022 triennial membership data testing.



Areas of Audit Focus

Other Areas of Audit Focus

Business Rates Appeals Provisions Valuation

What is the risk?

Business rate appeals provisions are subject to a higher degree of estimation assumptions. Short term and long term NDR appeals for 21/22 totalled £1,181k and £182k, respectively. Management override risk associated with this element of provisions therefore we consider this to be a higher inherent risk.

What judgements are we focused on?

As this is one of the accounting estimate which is subject to higher degree of estimation, we focused our testing on the reasonableness of the calculation.

What did we do?

- ▶ Assessed the work performed by the management's expert and our ability to place reliance on their work;
- ▶ Reviewed the calculation of the NDR appeals provision against the supporting evidence; and
- ▶ Assessed the reasonableness of the calculation, ensuring it has been prepared in accordance with associated guidance and complying with IAS 37.

What are our conclusions?

At the time of writing, the work on this area is on-going as we are waiting for further support relating to NDR appeals calculation from the Council.

Update March 2024: We have received all required supporting information relating to NDR calculation from the Council. We have not identified any material issues in this area.



Areas of Audit Focus



Other matters

Going Concern

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 DLUHC 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 and therefore impacts on the 2021/22 financial statements.

CIPFA's Code of Practice on Local Authority Accounting in the United Kingdom 2021/22 states that an authority's financial statements shall be prepared on a going concern basis; the accounts should be prepared on the assumption that the functions of the authority 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 and ensure that disclosures are appropriate in the financial statements.

What did we do and results:

We will complete our review of the going concern disclosure and the Council's assessment close to the date of our audit report. This will include review of supporting working papers and challenge of the assumptions underpinning management's assessment. We requested and reviewed the updated cashflow forecast from management that cover the going concern period, which is at least twelve months from the audit report.

We note that the disclosures will need to be revisited at the point the financial statements are authorised for issue to ensure that these remain appropriate to the Council's circumstances for the foreseeable future (e.g. the next twelve months).



03 Audit Report



Audit Report

Draft audit report – subject to completion of our audit procedures

Our opinion on the financial statements

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF HERTSMERE BOROUGH COUNCIL

Opinion

We have audited the financial statements of Hertsmere Borough Council and the Group for the year ended 31 March 2022 under the Local Audit and Accountability Act 2014 (as amended). The financial statements comprise the:

[The options below should be tailored and reflect how the entity describes the statements in their accounts and follow on from 'comprise the', above]

- Council and Group Movement in Reserves Statement,
- Council and Group Comprehensive Income and Expenditure Statement,
- Council and Group Balance Sheet,
- Council and Group Cash Flow Statement
- the related notes 5.1 to 5.37,
- Collection Fund and the related notes 6.0 to 6.3
- and Group notes 7.1 to 7.6.2

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 2021/22 as amended by the Update to the Code and Specifications for Future Codes for Infrastructure Assets (November 2022).

In our opinion the financial statements:

- give a true and fair view of the financial position of Hertsmere Borough Council and the Group as at 31 March 2022 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 2021/22 as amended by the Update to the Code and Specifications for Future Codes for Infrastructure Assets (November 2022).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Hertsmere Borough Council and 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 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 Finance and Business Services' 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 Hertsmere Borough Council and the Group'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 Finance and Business Services 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 Group's ability to continue as a going concern.

Other information

The other information comprises the information included in the statement of accounts, other than the financial statements and our auditor's report thereon. The Head of Finance and Business Services 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 Group and the Council,
- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014 (as amended)
- we make written recommendations to the audited body under Section 24 of the Local Audit and Accountability Act 2014 (as amended)
- 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 (as amended)
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014 (as amended)
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014 (as amended)
- we are not satisfied that the Group and the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2022.

We have nothing to report in these respects

Responsibility of the Head of Finance and Business Services

As explained more fully in the Statement of the Head of Finance and Business Services Responsibilities set out on pages 1, the Head of Finance and Business Services is responsible for the preparation of the Statement of Accounts, which includes the Group financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC



Audit Report

Our opinion on the financial statements

Code of Practice on Local Authority Accounting in the United Kingdom 2021/22 as amended by the Update to the Code and Specifications for Future Codes for Infrastructure Assets (November 2022), and for being satisfied that they give a true and fair view and for such internal control as the Head of Finance and Business Services 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 Finance and Business Services is responsible for assessing the Group and the Council'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 Group and Council either intends to cease operations, or has 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.

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

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 Group 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, 2020, and 2022,
- The Local Government Finance Act 2012, and
- The Accounts and Audit Regulations 2015.

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

We understood how Hertsmere Borough 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/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 Group and Council's committee minutes, through enquiry of employees to confirm Group and Council policies, and through the inspection of employee handbooks 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 Group and Council's financial statements to material misstatement, including how fraud might occur by understanding the potential incentives and pressures for management to manipulate the financial statements, and performed procedures to understand the areas in which this would most likely arise. Based on our risk assessment procedures, we identified manipulation of reported financial performance (through improper recognition of revenue of Elstree Films Studios Ltd. and through incorrect accounting treatment of the Covid-19 grants against underlying terms and conditions), inappropriate capitalisation of revenue expenditure and management override of controls to be our fraud risks.

To address our fraud risk around the manipulation of reported financial performance through improper recognition of Elstree Films Studios Ltd. revenue, we performed our own testing on Elstree Films Studios Ltd. revenue by corroborating to evidence and challenging the assumptions as appropriate.

To address our fraud risk of inappropriate capitalisation of revenue expenditure we tested the Group and Council's capitalised expenditure to ensure the capitalisation criteria were properly met and the expenditure was genuine.

To address our fraud risk of management override of controls, we tested specific journal entries identified by applying risk criteria to the entire population of journals. For each journals elected, we tested specific transactions back to source documentation to confirm that the journals were authorised and accounted for appropriately. In addition, we assessed whether the judgements made in making accounting estimates were indicative of a potential bias and evaluated the business rationale of any significant transactions that are unusual or outside the normal course of business.

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 in December 2021, as to whether the Hertsmere Borough 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 Hertsmere Borough Council put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2022.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to form a view on whether, in all significant respects, the Hertsmere Borough 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 (as amended) to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.



Audit Report

Our opinion on the financial statements

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 Group's Whole of Government Accounts consolidation pack. We are satisfied that this work does not have a material effect on the financial statements or on our work on value for money arrangements.

In addition, we cannot formally conclude the audit and issue an audit certificate until we have completed our procedures on the Group's value for money arrangements for the year ended 31 March 2022. We are satisfied that this work does not have a material effect on the financial statements. We will report the outcome of our work on the Group's arrangements in our commentary on those arrangements within the Auditor's Annual Report. Our audit completion certificate will set out any matters which we are required to report by exception.

Until we have completed these procedures, we are unable to certify that we have completed the audit of the accounts in accordance with the requirements of the Local Audit and Accountability Act 2014 (as amended) and the Code of Audit Practice issued by the National Audit Office.

Use of our report

This report is made solely to the members of Hertsmere Borough Council, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 (as amended) 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 Council and Group and the members as a body, for our audit work, for this report, or for the opinions we have formed.

Elizabeth Jackson (Key Audit Partner)
Ernst & Young LLP (Local Auditor)
Luton
xx xx 2024



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 adjusted differences

Adjusted difference:

we have identified difference that is greater than £60k (reporting threshold) adjusted by management that require bringing to your attention. This relates to the adjustment in Pension as a result of 2022 triennial membership valuation on which the Council received an updated IAS 19 results report with the following impacts:

- fair value of plan assets increased by £3.9m;
- present value of funded obligations increased by £9.3m;
- net increased in the liability arising from defined benefit obligation by £5.4m.

There are also small number of minor disclosure misstatements which we have agreed with management and will be amended in the accounts.

Unadjusted differences:

Update October 2023: The actuary has estimated the value of assets of the fund as at 31 March 22 using a forecast investment return of 4.4% for 2021/22. The actual investment return of the fund was 4.5% for 2021/22. The pension fund auditors have corroborated the 4.5% investment return to investment reports to both the Fund's Custodian and the Fund's independent treasury adviser, Mercer. The impact for the Council is £104k. This is based on estimate and therefore raised as judgemental difference.

Update March 2024:

We have also identified unadjusted differences relating to property valuation as follows:

Judgmental misstatement

- We have noted a difference on yield applied by our EY Real Estates team on one of the sampled property against the yields used by Council's valuer, Wilks Head and Eve. The asset was a temporary accommodation let. We therefore estimated the impact of this by obtaining all the similar assets across the Council's FAR and performing a calculation by applying the yield used by our specialist as the Council's valuer had used the same yield for all assets of this type. This resulted to a valuation understatement of £1,614k which is raised as judgmental misstatement.

Factual misstatement

- We also noted a factual difference totalling to £198k valuation understatement relating to the audit team's testing of property samples.



05

Value for Money



Value for money

The Council's responsibilities for value for money (VFM)

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.

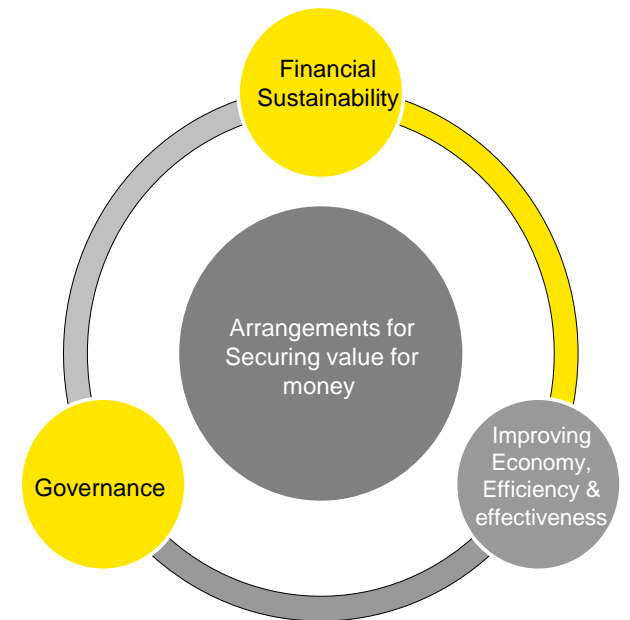
As part of the material published with its financial statements, the Council is required to bring together commentary on its governance framework and how this has operated during the period in a governance statement. In preparing its governance statement, the Council tailors the content to reflect its own individual circumstances, consistent with the requirements set out in the Cipfa code of practice on local authority accounting. This includes a requirement to provide commentary on its arrangements for securing value for money from their use of resources.

Risk assessment and Status of our VFM work

In the Audit Plan, we reported that we had yet to commence our value for money (VFM) risk assessment. We have taken into consideration the findings from the 2020/21 value for money work, our discussion with management and our knowledge of sector-wide issues that may affect the Council. At the time of writing, the work on value for money is on-going.

Update March 2024: We have not identified any risks of significant weakness. However, we have identified an area of focus in relation to the Council's wholly owned subsidiary, Elstree Film Studios. We are in regular discussion with management about the arrangements in place for the oversight of the issue arising in the 2023/24 year to understand the arrangements in place during 2021/22. From our work completed to date there are no weaknesses identified in the arrangements that need to be reported by exception. We will report the outcome of our work on the Council's arrangement in our VFM commentary within the Auditor's Annual Report.

We cannot formally conclude the audit and issue an audit certificate until we have completed our procedures on the Council's value for money arrangements for the year ended 31 March 2022. We are satisfied that this work does not have a material effect on the financial statements. We will report the outcome of our work on the Council's arrangement in our VFM commentary within the Auditor's Annual Report.





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 2021/22 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 2021/22 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 on your Whole of Government Accounts return. The extent of our review, and the nature of our report, is specified by the National Audit Office.

We will perform those procedures required by the National Audit Office (NAO) on the Whole of Government Accounts submission following the completion of our audit.

The audit certificate will be issued once this work is complete.

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 have not identified 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 have not identified any matters requiring a written recommendation.

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 significant matters to report in relation to the above.



07

Assessment of Control Environment



Assessment of Control Environment

Financial controls

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

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

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

During our testing of Elstree Film Studios income, we have identified the following deficiencies on control which the subsidiary, EFS finance team needs addressing:

- 1) EFS employs a complex system for deferring and realising income, and this process is monitored only through an Excel application saved on the desktop. Although the formulas within the excel application are mathematically correct, the fields for months and descriptions are not always updated. As a result, confusion arises regarding the exact month when particular income was recognised.
- 2) The income working papers are saved externally rather than within a dedicated system, creating potential risks. For instance, in the event an employee leaves, there may be issues on how the documents will be transferred to the new staff. We thus encountered long delays in retrieving evidence and supporting working papers for couple of our samples during our testing.
- 3) The finance function is handled by just two individuals, a staff member, and a supervisor. This set-up raises potential issues with the levels of review of the working papers and risk of overwhelming the staff with work. This was evident during our site visit where we need to explain to them the evidence needed for the selected samples and retrieve them physically as there have been an inefficient exchange of requests and responses through email communications and calls.

We have again considered whether circumstances arising from COVID-19 resulted in a change to the overall control environment of effectiveness of internal controls, for example due to significant staff absence or limitations as a result of working remotely. We identified no issues which we wish to bring to your attention.



08 Data Analytics

Data analytics

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, as outlined in our audit planning report.

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 tagged journals throughout the audit for further investigation and obtained supporting evidence to verify the posting of these transactions. No issues identified in the work performed.



09

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 the Council, and its members and senior management and its affiliates, including all services provided by us and our network to the Corporation, its members and 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 01 April 2021 to the date of this report, which we consider may reasonably be thought to bear on our independence and objectivity.

Services provided by Ernst & Young

The next page includes a summary of the fees that are proposed for the year ended 31 March 2022 in line with the disclosures set out in FRC Ethical Standard and in statute. Full details of the services that we have provided are shown below.

At the time of writing, we have undertaken non-audit work in relation to the housing benefits assurance process (HBAP) which is outside of the Statement of responsibilities of auditors and audited bodies as issued by the Public Sector Audit Appointments Ltd. We have adopted the necessary safeguards in our completion of this work and complied with Auditor Guidance Note 1 issued by the NAO in December 2017. There are no other non-audit services being provided to the Council.

EY Transparency Report 2023

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 October 2023:

[ey-uk-2023-transparency-report.pdf](#)

Confirmation of independence and analysis of audit fees

Services provided by Ernst & Young

| All fees exclude VAT | Estimated final fee 2021/22 | Planned fee 2021/22 | Final Fee 2020/21 |
|----------------------------|--------------------------------|---------------------|-------------------|
| | £ | £ | £ |
| PSAA Scale fee - code work | 42,056 (b) | 42,056 (b) | 38,012 (a) |
| Rebased scale fee | 66,518 (c) | 66,518 (c) | n/a |
| Additional audit fees | tbc (d) | N/A | 52,409 (a) |
| Non-audit work - HBAP | tbc (e) | tbc (e) | 61,868 (e) |

(a): For 2020/21, PSAA approved a total of £52,409 fee variation in addition to the scale fee of £38,012. The additional fees represents the cost incurred in relation to group, pension and PPE valuation, VFM, technical accounting issues, specialists work, estimates and increased FRD challenged.

(b) This relates to PSAA scale fee for 2021/22.

(c) For 21/22, we presented the details of proposed resetting of the scale fee to the previous Audit Committee during January 2023. The resetting for 21/22 is subject to the approval of PSAA.

(d): In 2021/22 the changing requirements for external audits resulted in several areas where work was required that was not considered in the setting of the scale fee. We will quantify the additional work and discuss our proposed fee variation with management as our audit concludes and before we issue this to PSAA to determine. In 21/22 this includes:

∅ Additional work that was required to address the updated requirements of the NAO's Code of Audit Practice (£6,000).

∅ Additional work to address the requirements of the updated ISA 540 - Estimates (PSAA minimum fee £2,500) and ISA 570 - Going Concern auditing standards (£1,500)

∅ Additional work performed on the fraud risk in revenue recognition relating to EFS revenue (£8,000)

∅ Additional fraud risk in relation to incorrect capitalisation of revenue expenditure (2,000)

∅ Other additional fees in relation to:

-Additional work on pension as a result of 2022 triennial valuation (£2,500)

-Additional work in relation to the PPE valuation of Elstree Film Studios (£2,000)

-Additional VFM work on EFS stage (tbc)

(e) Baseline certification fee of £14,368 and additional variation amounting to £47,500 relating to multiple extended testing performed.



10 Appendices

Appendix A

Audit approach update

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

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




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

There were no significant changes to our audit approach from the prior year apart from adding the incorrect capitalisation of revenue expenditure as fraud risk.





Appendix B

Required communications with the Audit Committee




There are certain communications that we must provide to the those charged with governance of UK entities. We have detailed these here together with a reference of when and where they were covered:

| | | |  Our Reporting to you |
|-------------------------------------|---|---|--|
| Required communications |  What is reported? |  When and where | |
| Terms of engagement | Confirmation by the Audit Committee of acceptance of terms of engagement as written in the engagement letter signed by both parties. | The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies | |
| Our responsibilities | Reminder of our responsibilities as set out in the engagement letter. | Audit Plan - 31 January 2023 | |
| Planning and audit approach | Communication of the planned scope and timing of the audit, any limitations and the significant risks identified. | Audit Plan - 31 January 2023 | |
| Significant findings from the audit | <ul style="list-style-type: none"> ▶ Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures ▶ Significant difficulties, if any, encountered during the audit ▶ Significant matters, if any, arising from the audit that were discussed with management ▶ Written representations that we are seeking ▶ Expected modifications to the audit report ▶ Other matters if any, significant to the oversight of the financial reporting process | Audit Results Report - 31 May 2023 Updated Audit Results Report - 31 October 2023 and 28 March 2024 | |





Appendix B

| | |  Our Reporting to you |
|--|---|--|
|  Required communications |  What is reported? |  When and where |
| Going concern | <p>Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including:</p> <ul style="list-style-type: none"> ▶ Whether the events or conditions constitute a material uncertainty related to going concern ▶ Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements ▶ The appropriateness of related disclosures in the financial statements | <p>Audit Results Report - 31 May 2023 Updated Audit Results Report - 31 October 2023</p> |
| Misstatements | <ul style="list-style-type: none"> ▶ Uncorrected misstatements and their effect on our audit opinion, unless prohibited by law or regulation ▶ The effect of uncorrected misstatements related to prior periods ▶ A request that any uncorrected misstatement be corrected ▶ Material misstatements corrected by management | <p>Audit Results Report - 31 May 2023 Updated Audit Results Report - 31 October 2023 and 28 March 2024</p> |
| Subsequent events | <ul style="list-style-type: none"> ▶ Enquiry of the audit committee where appropriate regarding whether any subsequent events have occurred that might affect the financial statements. | <p>Audit Results Report - 31 May 2023 Updated Audit Results Report - 31 October 2023 and 28 March 2024</p> |
| Fraud | <ul style="list-style-type: none"> ▶ Enquiries of the audit committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity ▶ Any fraud that we have identified or information we have obtained that indicates that a fraud may exist ▶ Unless all of those charged with governance are involved in managing the entity, any identified or suspected fraud involving: <ul style="list-style-type: none"> a. Management; b. Employees who have significant roles in internal control; or c. Others where the fraud results in a material misstatement in the financial statements. ▶ The nature, timing and extent of audit procedures necessary to complete the audit when fraud involving management is suspected ▶ Any other matters related to fraud, relevant to Audit, Standards and Statutory Accounts Committee responsibility. | <p>Audit Results Report - 31 May 2023 Updated Audit Results Report - 31 October 2023 and 28 March 2024</p> |

Appendix B

| | |  Our Reporting to you |
|---------------------------------------|--|--|
| Required communications |  What is reported? |  When and where |
| Related parties | <p>Significant matters arising during the audit in connection with the entity's related parties including, when applicable:</p> <ul style="list-style-type: none"> ▶ Non-disclosure by management ▶ Inappropriate authorisation and approval of transactions ▶ Disagreement over disclosures ▶ Non-compliance with laws and regulations ▶ Difficulty in identifying the party that ultimately controls the entity | <p>Audit Results Report - 31 May 2023 Updated Audit Results Report - 31 October 2023</p> |
| Independence | <p>Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, objectivity and independence.</p> <p>Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as:</p> <ul style="list-style-type: none"> ▶ The principal threats ▶ Safeguards adopted and their effectiveness ▶ An overall assessment of threats and safeguards ▶ Information about the general policies and process within the firm to maintain objectivity and independence <p>Communications whenever significant judgements are made about threats to objectivity and independence and the appropriateness of safeguards put in place.</p> | <p>Audit Plan - 31 January 2023</p> <p>Audit Results Report - 31 May 2023 Updated Audit Results Report - 31 October 2023 and 28 March 2024</p> |
| External confirmations | <ul style="list-style-type: none"> ▶ Management's refusal for us to request confirmations ▶ Inability to obtain relevant and reliable audit evidence from other procedures. | <p>Audit Results Report - 31 May 2023 Updated Audit Results Report - 31 October 2023 and 28 March 2024</p> |
| Consideration of laws and regulations | <ul style="list-style-type: none"> ▶ Subject to compliance with applicable regulations, matters involving identified or suspected non-compliance with laws and regulations, other than those which are clearly inconsequential and the implications thereof. Instances of suspected non-compliance may also include those that are brought to our attention that are expected to occur imminently or for which there is reason to believe that they may occur ▶ Enquiry of the audit committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the audit committee may be aware of | <p>Audit Results Report - 31 May 2023 Updated Audit Results Report - 31 October 2023 and 28 March 2024</p> |




Appendix B

| | |  Our Reporting to you |
|--|--|--|
| Required communications |  What is reported? |   When and where |
| Internal controls | <ul style="list-style-type: none"> ▶ Significant deficiencies in internal controls identified during the audit. | This Audit Results Report |
| Group Audits | <ul style="list-style-type: none"> ▶ An overview of the type of work to be performed on the financial information of the components ▶ An overview of the nature of the group audit team's planned involvement in the work to be performed by the component auditors on the financial information of significant components ▶ Instances where the group audit team's evaluation of the work of a component auditor gave rise to a concern about the quality of that auditor's work ▶ Any limitations on the group audit, for example, where the group engagement team's access to information may have been restricted ▶ Fraud or suspected fraud involving group management, component management, employees who have significant roles in group-wide controls or others where the fraud resulted in a material misstatement of the group financial statements. | Audit Plan - 31 January 2023 Audit Results Report - 31 May 2023 Updated Audit Results Report - 31 October 2023 and 28 March 2024 |
| Written representations we are requesting from management and/or those charged with governance | <ul style="list-style-type: none"> ▶ Written representations we are requesting from management and/or those charged with governance | Audit Results Report - 31 May 2023 Updated Audit Results Report - 31 October 2023 and 28 March 2024 |
| Material inconsistencies or misstatements of fact identified in other information which management has refused to revise | <ul style="list-style-type: none"> ▶ Material inconsistencies or misstatements of fact identified in other information which management has refused to revise | Audit Results Report - 31 May 2023 Updated Audit Results Report - 31 October 2023 and 28 March 2024 |
| Auditors report | <ul style="list-style-type: none"> ▶ Key audit matters that we will include in our auditor's report ▶ Any circumstances identified that affect the form and content of our auditor's report | Audit Results Report - 31 May 2023 Updated Audit Results Report - 31 October 2023 and 28 March 2024 |
| Fee Reporting | <ul style="list-style-type: none"> ▶ Breakdown of fee information when the Audit Plan is agreed ▶ Breakdown of fee information at the completion of the audit ▶ Any non-audit work | Audit Plan - 31 January 2023 Audit Results Report - 31 May 2023 Updated Audit Results Report - 31 October 2023 and 28 March 2024 |

Appendix C

Outstanding matters

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

| Item  | Actions to resolve  | Responsibility  |
|--|--|--|
| • EFS revenue | Remaining samples with further queries and awaiting response from the Council. | EY and Management |
| • Going concern | Our procedures for going concern continue to the date of the audit report | EY and Management |
| • VFM | Work on this area is ongoing and queries may arise as a result of the work. The results will be reported to the Auditor's Annual Report. | EY and Management |
| • Completion of general and conclusion procedures | Ongoing review process | EY |
| • Final version of financial statements | To review the final version of the accounts once received from management after all adjustments gone through. | EY and Management |
| • Completion of subsequent events review | Procedures performed up to the date of signing | EY and Management |
| • Completion of procedures required for whole of government accounts | Submission of assurance statement to be undertaken once audit is completed | EY |
| • Management representation letter | Template to be shared by EY; letter to drafted and signed by Management | EY and Management |

EY | Assurance | Tax | Transactions | Advisory

About EY

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

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

© 2017 EYGM Limited.
All Rights Reserved.

ED None

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

ey.com