

**East Hertfordshire  
District Council**

Annual Audit Letter for the year  
ended 31 March 2018

August 2018



Building a better  
working world

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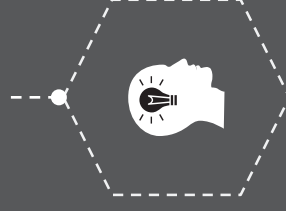
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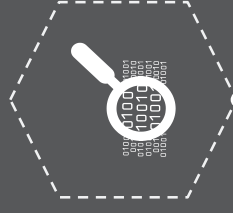
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Public Sector Audit Appointments Ltd (PSAA) have issued a 'Statement of responsibilities of auditors and audited bodies'. It is available from the Chief Executive of each audited body and via the PSAA website ([www.psa.co.uk](http://www.psa.co.uk))

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 (updated 23 February 2017)' issued by 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 statute, and covers matters of practice and procedure which are of a recurring nature.

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

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



# 01 Executive Summary



# Executive Summary

We are required to issue an Annual Audit Letter to East Hertfordshire District Council following completion of our audit procedures for the year ended 31 March 2018. Below are the results and conclusions on the significant areas of the audit process. .

## Area of Work

### Conclusion

#### Opinion on the Council's:

- ▶ Financial statements
  - ▶ Consistency of other information published with the financial statements
- Other information published with the financial statements was consistent with the Annual Accounts.

#### Concluding on the Council's arrangements for securing economy, efficiency and effectiveness

We concluded that you have put in place proper arrangements to secure value for money in your use of resources

## Area of Work

### Conclusion

#### Reports by exception:

▶ Consistency of Governance Statement

The Governance Statement was consistent with our understanding of the Council.

▶ Public interest report

We had no matters to report in the public interest.

▶ Written recommendations to the Council, which should be copied to the Secretary of State

We had no matters to report.

▶ Other actions taken in relation to our responsibilities under the Local Audit and Accountability Act 2014

We had no matters to report.

## Area of Work

### Conclusion

**Reporting to the National Audit Office (NAO) on our review of the Council's Whole of Government Accounts return (WGA).**

The Council is below the specified audit threshold of £500 million. Therefore, we did not perform any audit procedures on the consolidation pack.



# Executive Summary (cont'd)

As a result of the above we have also:

Area of Work	Conclusion
Issued a report to those charged with governance of the Council communicating significant findings resulting from our audit.	Our Audit Results Report was issued on 17 July 2018
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 2015 Code of Audit Practice.	Our certificate was issued on 31 July 2018

In December 2018 we will also issue a report to those charged with governance of the Council summarising the certification work we have undertaken.

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

Debbie Hanson  
Executive Director  
For and on behalf of Ernst & Young LLP



# 02 Purpose and Responsibilities

Work

# Purpose and Responsibilities

## **The Purpose of this Letter**

The purpose of this Annual Audit Letter is to communicate to Members and external stakeholders, including members of the public, the key issues arising from our work, which we consider should be brought to the attention of the Council.

We have already reported the detailed findings from our audit work in our 2017/18 Audit Results Report to the July 2018 Performance, Audit and Governance Scrutiny Committee, representing those charged with governance. We do not repeat those detailed findings in this letter. The matters reported here are the most significant for the Council.

## **Responsibilities of the Appointed Auditor**

Our 2017/18 audit work has been undertaken in accordance with the Audit Plan that we issued on March 2018 and is conducted in accordance with the National Audit Office's 2015 Code of Audit Practice, International Standards on Auditing (UK and Ireland), and other guidance issued by the National Audit Office.

As auditors we are responsible for:

- ▶ Expressing an opinion:
  - ▶ On the 2017/18 financial statements; and
  - ▶ On the consistency of other information published with the financial statements.
- ▶ Forming a conclusion on the arrangements the Council has to secure economy, efficiency and effectiveness in its use of resources.
- ▶ Reporting by exception:
  - ▶ If the annual governance statement is misleading or not consistent with our understanding of the Council;
  - ▶ Any significant matters that are in the public interest;
  - ▶ Any written recommendations to the Council, which should be copied to the Secretary of State; and
  - ▶ If we have discharged our duties and responsibilities as established by the Local Audit and Accountability Act 2014 and Code of Audit Practice.

Alongside our work on the financial statements, we also review and report to the National Audit Office (NAO) on you Whole of Government Accounts return. The Council is below the specified audit threshold of £500 million. Therefore, we did not perform any audit procedures on the return.

## **Responsibilities of the Council**

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

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



# 03 Financial Statement Audit

03





# Financial Statement Audit

## Key Issues

The Council's 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. We audited the Council's Statement of Accounts in line with the National Audit Office's 2015 Code of Audit Practice, International Standards on Auditing (UK and Ireland), and other guidance issued by the National Audit Office and issued an unqualified audit report on July 2018.

Our detailed findings were reported to the July 2018 Performance, Audit and Governance Scrutiny Committee.

The key issues identified as part of our audit were as follows:

## Significant Risk

### Misstatements due to fraud or error

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.

For the Council, we identified the potential for the incorrect classification of revenue spend as capital as a particular area where there is a risk of misstatement.

## Conclusion

We obtained a full list of journals posted to the general ledger during the year, and analysed these journals using criteria we set to identify any unusual journal types or amounts. We then tested journals that met our criteria and tested these to supporting documentation.

We considered the accounting estimates relating to pensions and property valuations as the most susceptible to bias. We challenged the significant assumptions in the actuarial pension valuation and found no indication of management bias in these estimates. Our work on the property valuations found no material errors in the balances presented within the financial statements.

We performed sample testing on additions to the property, plant and equipment balance and found that these items met the relevant accounting requirements to be capitalised. Our testing did not identify any expenditure which had been inappropriately capitalised.

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

We have not identified any instances of inappropriate judgements being applied.

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

Overall our audit work did not identify any material issues or unusual transactions to indicate any misreporting of the Council's financial position, that revenue or expenditure has been incorrectly recorded or that management has overridden control.

# Financial Statement Audit (cont'd)

The key issues identified as part of our audit were as follows: (cont'd)

Significant Risk	Conclusion
<p><b>Investment property valuation (Old River Lane)</b></p> <p>The Old River Lane site was purchased by the Council during 2015 and classified as an investment asset in the Council's 2015/16 and 2016/17 accounts.</p> <p>The Council is continuing to develop its proposal for the use of this site which will eventually result in changes in its classification. Due to the material nature of the asset, small changes in assumptions when valuing it could have a material impact on the Council's financial statements.</p>	<p>We assessed the classification of the Old River Lane assets, the valuation basis that was assigned as a result and any material increases or impairments that arise during 2017/18.</p> <p>We assessed the work of the property valuers in respect of the Council's Investment Property portfolio and identified and challenged the key assumptions and valuation methodology for the Old River Lane assets.</p> <p>We reviewed and tested the accounting entries and disclosures made within the Council's financial statements.</p> <p>As a result of our work we:</p> <ul style="list-style-type: none"><li>• confirmed that Old River Lane was correctly classified as Investment Property.</li><li>• confirmed that the property was measured accurately at fair value through the rental income it generates.</li><li>• assessed the work of the internal valuers in respect of this specific property and concluded assumptions made to be reasonable</li><li>• confirmed that the accounting entries and disclosures made in respect of this property within the Council's financial statements were accurate and complete.</li></ul> <p>We therefore concluded that overall financial statement disclosure were fairly stated in respect of Old River Lane</p>

# Financial Statement Audit (cont'd)

The key issues identified as part of our audit were as follows: (cont'd)

Other Key Findings	Conclusion
<p><b>Property, plant and equipment valuations</b></p> <p>Property, plant and equipment (PPE) represents a significant balance in the Council's accounts and is subject to valuation changes, impairment reviews and depreciation charges. Material judgemental inputs and estimation techniques are required to calculate the year-end PPE balances held in the balance sheet.</p> <p>As the Council's asset base is significant, and the outputs from the valuer are subject to estimation, there is a higher inherent risk PPE may be under/overstated or the associated accounting entries incorrectly posted.</p> <p>ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of experts and assumptions underlying fair value estimates.</p>	<p>We are satisfied that the Council's valuers have the necessary qualifications and experience. We have undertaken appropriate audit procedures to verify and critically challenge the basis of valuation adopted by the valuer in relation to the Council's property.</p> <p>Our testing has not identified any material misstatements from inappropriate judgements being applied to the property valuation estimates.</p> <p>The expert valuers possess the relevant qualifications and experience, and undertook a review of all of the Authority's assets.</p> <p>We considered the underlying assumptions made by the expert valuer and concluded that they were reasonable.</p>
<p><b>Pension liability valuation</b></p> <p>The Local Authority Accounting Code of Practice and IAS19 require the Council to make extensive disclosures within its financial statements regarding the Local Government Pension Scheme (LGPS) in which it is an admitted body.</p> <p>The Council's current pension fund deficit is a highly material and sensitive item and the Code requires that this liability be disclosed on the Council's balance sheet.</p> <p>The information disclosed is based on the IAS 19 report issued to the Council by the actuary. As with other councils, accounting for this scheme involves significant estimation and judgement and due to the nature, volume and size of the transactions we consider this to be a higher inherent risk.</p>	<p>We assessed and were satisfied with the competency and objectivity of the Council's actuary. EY Pensions team and PwC (Consulting Actuary to the NAO) reviewed the work of the actuary. We challenged the significant movement in the actuarial valuation and found no indication of management bias in this estimate.</p> <p>We have received reports from the Hertfordshire Pension Fund Auditor and the EY actuarial team.</p> <p>The report from the Pension Fund Auditor identified material movements in the pension assets and related disclosures, as a result of significant movements in the asset values between the date of the estimates used by the actuary to produce the IAS19 report and the year end.</p> <p>As a result, the Council obtained a revised IAS 19 report and updated the accounts to reflect the new figures. This resulted in an decrease in the pension liability of £1.734 million and a corresponding decrease in the pension reserve.</p> <p>The accounting entries and disclosures are in line with our expectations and the Code.</p>

# Financial Statement Audit (cont'd)

## Our application of materiality

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

### Item

### Thresholds applied

Planning materiality We determined planning materiality to be £1.1 million (2016/17: £1.53 million), which is 2% of gross expenditure reported in the accounts of £76.4 million .

We consider gross expenditure to be one of the principal considerations for stakeholders in assessing the financial performance of the Council.

Reporting threshold We agreed with the Performance, Audit and Governance Scrutiny Committee that we would report to the Committee all audit differences in excess of £0.076 million (2016/17: £0.076 million).

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

- ▶ Remuneration disclosures including any severance payments, exit packages and termination benefits:
- ▶ Related party transactions.

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





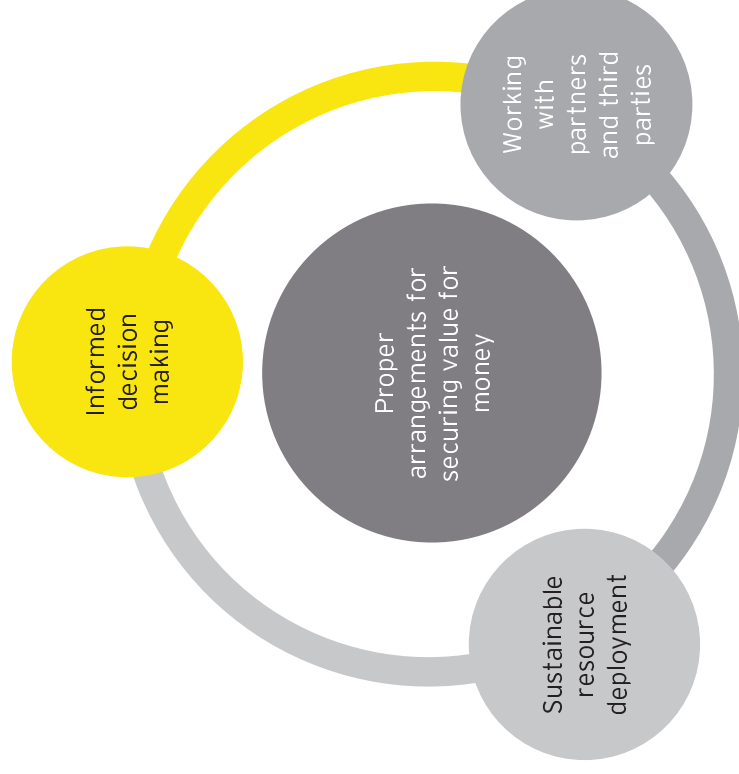
# 04 Value for Money

## Value for Money

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

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

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



We identified one significant risk around these arrangements, in relation to the development of Old River Lane, establishment of a housing company and the review of the leisure strategy.

The tables below present our findings in response to the risk included in our Audit Planning Report and any other issues we want to bring to your attention. We have completed the work outlined in our audit plan and expect having no matters to report about your arrangements to secure economy, efficiency and effectiveness in your use of resources.

We have performed the procedures outlined in our audit plan. We did not identify any significant weaknesses in the Council's arrangements.

# Value for Money (cont'd)

We therefore issued an unqualified value for money conclusion on 31 July 2018

Significant Risk	Conclusion
<p><b>Development of Old River Lane, housing company and Leisure Strategy</b></p> <p>The Council purchased Old River Lane for investment purposes during 2015/16. Plans for the site are continuing to be developed, and decisions that the Council is making now, will impact on the revenue and capital costs relating to the project, in current as well as future years.</p> <p>In addition to the Old River Lane development, the Council is also looking to establish a housing company and develop a longer term leisure strategy.</p> <p>These developments are significant projects for the Council which will require financial investment and present challenges in terms of governance, financial and risk management as well as partnership working.</p>	<p>We have assessed the arrangements in place supporting these developments, focusing on:</p> <ul style="list-style-type: none"><li>• Assessing the governance and financial and risk management arrangements in place to support key decision making</li><li>• Understanding the financial implications and the key decisions being made</li><li>• Understanding how the Council is working with other bodies and partners in relation to these projects.</li></ul> <p>We have not identified any issues in the review of the arrangements in place for these developments. In relation to Old River Lane, which is the main project we have focused on we note that:</p> <ul style="list-style-type: none"><li>▪ The Old River Land Development Board was established in early 2017 and is dedicated to the development of the site</li><li>▪ The renamed Bishop's Stortford Town Centre Steering Board retained oversight of the Town Centre development as a whole.</li><li>▪ The Old River Land Development Board commissioned and received appropriate professional advice and support in relation to the development of proposals for the site, as well as cost estimates and a viability analysis.</li></ul> <p>We are therefore satisfied that the information provide to Members and Officers in respect of the project is appropriate and is based on third party assessments and advice from appropriately knowledgeable professionals with relevant experience.</p> <p>We have seen evidence to indicate that this advice has been utilised in the discussions and decisions around the project.</p>





**05** Other Reporting Issues



## Other Reporting Issues

### **Whole of Government Accounts**

The Council is below the specified audit threshold of £500 million. Therefore, we did not perform any audit procedures on the consolidation pack.

### **Annual Governance Statement**

We are required to consider the completeness of disclosures in the Council's Annual Governance Statement, identify any inconsistencies with the other information of which we are aware from our work, and consider whether it is misleading.

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

### **Report in the Public Interest**

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

### **Written Recommendations**

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

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

## Other Reporting Issues (cont'd)

### **Objections Received**

We did not receive any objections to the 2017/18 financial statements from members of the public.

### **Other Powers and Duties**

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

### **Independence**

We communicated our assessment of independence in our Audit Results Report to the Performance, Audit and Governance Scrutiny Committee on 24 July 2018. In our professional judgement the firm is independent and the objectivity of the audit engagement partner and audit staff has not been compromised within the meaning regulatory and professional requirements.

### **Control Themes and Observations**

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

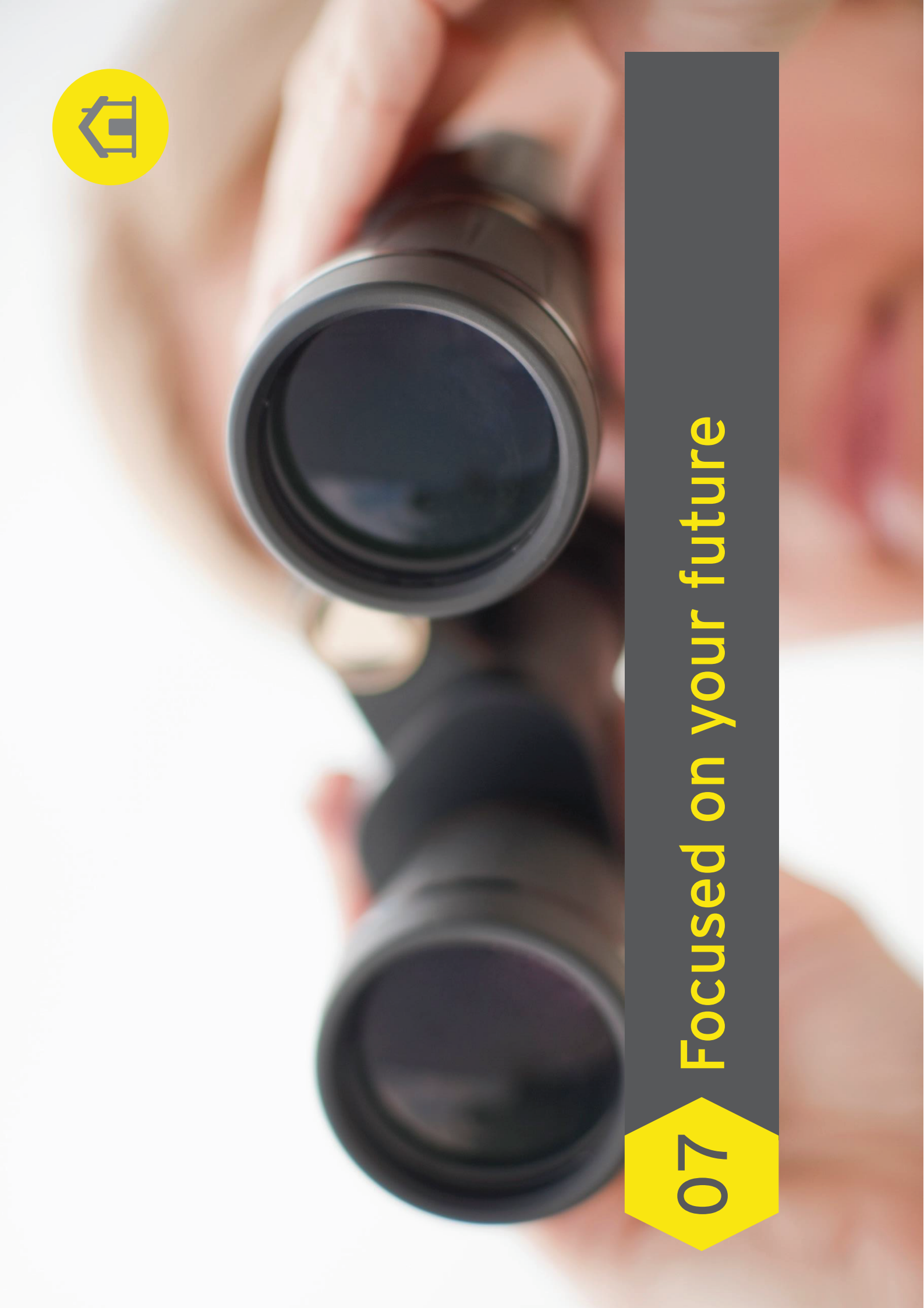
As part of our audit of the financial statements, we obtained an understanding of internal control sufficient to plan our audit and determine the nature, timing and extent of testing performed. As we have adopted a fully substantive approach, we have therefore not tested the operation of controls.

Although our audit was not designed to express an opinion on the effectiveness of internal control we are required to communicate to you significant deficiencies in internal control. We have not identified any significant deficiencies in the design or operation of an internal control that might result in a material misstatement in your financial statements of which you are not aware.



07

Focused on your future





# Focused on your future

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

Standard	Issue	Impact
<b>IFRS 9 Financial Instruments</b>	<p>Applicable for local authority accounts from the 2018/19 financial year and will change:</p> <ul style="list-style-type: none"><li>▶ How financial assets are classified and measured;</li><li>▶ How the impairment of financial assets are calculated; and</li><li>▶ The disclosure requirements for financial assets.</li></ul> <p>There are transitional arrangements within the standard and the 2018/19 Accounting Code of Practice for Local Authorities has now been issued, providing guidance on the application of IFRS 9. In advance of the Guidance Notes being issued, CIPFA have issued some provisional information providing detail on the impact on local authority accounting of IFRS 9, however the key outstanding issue is whether any accounting statutory overrides will be introduced to mitigate any impact.</p>	<p>The Council's view is that the impact of this standard on the Authority's financial statements will be immaterial. The Council will need to keep this standard under continued focus during 2018/19 because statutory overrides may be introduced by Central Government.</p>
<b>IFRS 15 Revenue from Contracts with Customers</b>	<p>Applicable for local authority accounts from the 2018/19 financial year. This new standard deals with accounting for all contracts with customers except:</p> <ul style="list-style-type: none"><li>▶ Leases;</li><li>▶ Financial instruments;</li><li>▶ Insurance contracts; and</li><li>▶ For local authorities; Council Tax and NDR income.</li></ul> <p>The key requirements of the standard cover the identification of performance obligations under customer contracts and the linking of income to the meeting of those performance obligations.</p> <p>Now that the 2018/19 Accounting Code of Practice for Local Authorities has been issued it is becoming clear what the impact on local authority accounting will be. As the vast majority of revenue streams of Local Authorities fall outside the scope of IFRS 15, the impact of this standard is likely to be limited.</p>	<p>Given the nature of the Council's income streams, it is unlikely that the future implementation of IFRS 15 will have a material impact on the financial statements of the Council. The vast majority of the Council's income streams are taxation or grant based, and are therefore outside the scope of IFRS15.</p> <p>The following income streams which are within the scope of IFRS 15 may be considered material by the Council in making its assessment of the impact on IFRS 15 in its 2018/19 accounts:</p> <ul style="list-style-type: none"><li>• fees and charges for services under statutory requirements, .g. application fees for taxi licenses or planning fees;</li><li>• sale of goods provided by the authority e.g. retail sales at leisure centres, concessionary sale at local authority theatres; and</li><li>• charges for services provided by a local authority e.g. maintenance for council dwellings or transport fares</li></ul>





## Focused on your future (cont'd)

Standard	Issue	Impact
<b>IFRS 16 Leases</b>	<p>It is currently proposed that IFRS 16 will be applicable for local authority accounts from the 2019/20 financial year.</p> <p>Whilst the definition of a lease remains similar to the current leasing standard; IAS 17, for local authorities who lease a large number of assets the new standard will have a significant impact, with nearly all current leases being included on the balance sheet.</p> <p>There are transitional arrangements within the standard and although the 2019/20 Accounting Code of Practice for Local Authorities has yet to be issued, CIPFA have issued some limited provisional information which begins to clarify what the impact on local authority accounting will be. Whether any accounting statutory overrides will be introduced to mitigate any impact remains an outstanding issue.</p>	<p>Until the 2019/20 Accounting Code is issued and any statutory overrides are confirmed there remains some uncertainty in this area.</p> <p>However, what is clear is that the Council will need to undertake a detailed exercise to identify all of its leases and capture the relevant information for them. The Council must therefore ensure that all lease arrangements are fully documented.</p>



**08** Audit Fees



## Audit Fees

Our fee for 2017/18 is in line with the scale fee set by the PSAA and reported in our July 2018 Audit Plan and Annual Results Report.

	Final Fee 2017/18	Planned Fee 2017/18	Scale Fee 2017/18	Final Fee 2016/17
	£	£	£	£
<b>Total Audit Fee - Code work</b>	<b>54,826*</b>	<b>52,331</b>	<b>52,331</b>	<b>57,196 **</b>
Total Non-audit work - Grants	TBC	£8,316	£8,316	4,759 ***

\*We are proposing a scale fee variation in relation to the additional work that had to be done to support our value for money conclusion as a result of a significant risk linked to the various projects the Council has ongoing to bridge the medium term budget gap. These include the development of Old River lane, setting up a wholly owned company and review of the leisure strategy. This variation will need to be agreed with management and is subject to approval by PSAA

\*\* We proposed a scale fee variation in relation to our 2016/17 audit in relation to a number of issues which have previously been reported to the Council. PSAA has reviewed this variation and approved an additional fee of £4,865. This has therefore been added to the scale fee of £52,331 in the table above to give the total fee.

\*\*\* the 2016/17 grant fee reflects a rebate of £1,196 agreed to reflect the additional work performed by the Council.

TBC - as we have not yet completed our audit of the 2017/18 Housing Subsidy claim we are not able to confirm the fee for this work

We confirm we have not undertaken any non-audit work outside of the PSAA's requirements.

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