

**Borough of Broxbourne
Council**

Audit results report

Year ended 31 March 2021

12 July 2022



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12 July 2022

Borough of Broxbourne Council
Bishops College
Churchgate
Cheshunt
EN8 9XQ

Dear Audit and Standards Committee Members

2020-21 Audit Results Report

We are pleased to attach our draft audit results report, summarising the status of our audit for the forthcoming meeting of the Audit and Standards Committee.

The audit is designed to express an opinion on the 2020-21 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 information and use of the Audit and Standards 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 and Standards Committee meeting on 28 July 2022.

Yours faithfully

Neil Harris

Associate Partner

For and on behalf of Ernst & Young LLP

Encl

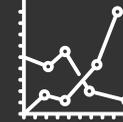
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Public Sector Audit Appointments Ltd (PSAA) issued the "Statement of responsibilities of auditors and audited bodies". It is available from the PSAA website (<https://www.psa.co.uk/audit-quality/statement-of-responsibilities/>). The Statement of responsibilities serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas.

The "Terms of Appointment and further guidance (updated April 2018)" issued by the PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and in legislation, and covers matters of practice and procedure which are of a recurring nature.

This report is made solely to the Audit and Standards Committee and management of Borough of Broxbourne Council in accordance with the statement of responsibilities. Our work has been undertaken so that we might state to the Audit and Standards Committee and management of Borough of Broxbourne Council those matters we are required to state to them in this report and for no other purpose. To the fullest extent permitted by law we do not accept or assume responsibility to anyone other than the Audit and Standards Committee and management of Borough of Broxbourne 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 tabled at the 23 March 2021 Audit and Standards 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 the following exceptions:

Changes in materiality

We updated our planning materiality assessment using the draft results and have also reconsidered our risk assessment. Based on our materiality measure of gross expenditure, we have updated our overall group materiality assessment to £1.292m (Audit Planning Report – £1.368m). This results in updated performance materiality, at 75% of overall materiality, of £0.969m, and an updated threshold for reporting misstatements of £0.064m. From a single entity perspective the updated materiality is £1.28m, updated performance materiality is then £0.96m and updated reporting threshold is £0.064m.

Group Scoping

In our Audit Plan we reported that, as a Group team, we had assigned specific scope to the audits of both Badger Ltd and BEST Ltd. On review of this work we have downgraded the scope of the BEST audit to review scope. For review scope components procedures primarily consist of analytical procedures and inquiries of management.

We assigned review scope to BEST due to the following:

- Expenditure from BEST is not material to the group financial statements;
- There are no material balances within the BEST financial statements that carry risk of material misstatement due to estimation or judgement;
- There are no industry significant issues or significant changes in operations which would give rise to an increased risk of material misstatement; and
- The control exercised by Group management is considered to be high.

There has been no change to the scoping for Badger Ltd since our audit plan.

Status of the audit

Our audit work in respect of the Council opinion is substantially complete. The following items relating to the completion of our audit procedures were outstanding at the date of this report.

- ▶ Outstanding queries on PPE valuations
- ▶ Completion of prior period adjustment consultation process
- ▶ Update to the Going Concern assessment to cover the period to the end of July 2023
- ▶ Agreement of the final set of accounts
- ▶ Closing procedures

Details of each outstanding item, actions required to resolve and responsibility is included in Appendix B.

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, a current draft of which is included in Section 03.

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 completed our value for money (VFM) risk assessment and we had identified a risk of significant weakness in respect of Financial Resilience. We communicated our planned procedures which included reviewing the governance arrangements of the purchase of investment properties. We have completed our planned procedures and are satisfied that the Council does have the arrangements in place we would expect to see. We have also revisited our risk assessment on completion of the audit of the financial statements and have not identified any new risks of significant weakness in VFM arrangements. As a result, we have completed our planned VFM procedures and have no matters to report by exception in the auditor's report (see Section 03). We plan to issue the VFM commentary by the end of August as part of issuing the Auditor's Annual Report.

Audit differences

- ▶ Management have corrected 6 misstatements including 1 misstatement amounting to £1.3million in the prior year pension liability as a result of an error made by the Council's actuary.
- ▶ There is one uncorrected misstatements amounting to £0.197m relating to unadjusted differences in the asset testing of the Hertfordshire Pension Fund.
- ▶ There are no uncorrected disclosure misstatements.

Other reporting issues

We have reviewed the information presented in the Annual Governance Statement for consistency with our knowledge of the Council. We have no matters to report as a result of this work.

We have not yet performed the procedures required by the National Audit Office (NAO) on the Whole of Government Accounts submission, as at the date of this report the NAO have not issued their guidance to auditors.

Executive Summary

Independence

Please refer to Section 08 for our update on Independence.

Control observations

We have adopted a fully substantive approach, so have not tested the operation of controls. However, from the results of substantive procedures performed 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 statement.

We do however raise the following recommendations (more detail is included in Section 04):

- **Group accounts** - We recommend that the group accounts are more prominent in future and are included alongside the single entity balances rather than separately included at the end of the financial statements.
- **MRP** - we recommend that the Council revisits its MRP policy to reflect the current HMT and DLUHC guidance.
- **IAS 19** - We recommend that the Council engages with their actuary to understand key changes that are made to membership and how this impacts on the overall liability that is reported in their financial statements.
- **PPE Valuations** - We recommend that the Council updates their valuation instructions going forwards to ensure that, for EUV assets, land and building valuation is separately valued rather than split according to flat percentages. We also recommend that Council engages with the valuer to ensure that the methodology used for valuing land reflect the underlying nature of the land and whether or not it is income bearing. We also recommend that the Council engages with the valuer to ensure robust and evidence backed assumptions are used in the valuation of assets, for example in particular the Impresa site.

Group procedures

As per page 5 we reported that we assigned the audit of Badger Ltd as specific scope and the audit of BEST Ltd at review scope.

Our group audit procedures included the following:

- Agreement of audited subsidiary financial statements to consolidation schedules used in preparing the group accounts
- Review of intercompany adjustments
- Engaging with component auditors through formal instructions and meetings
- Evaluation of work performed by the component audit teams including review of working papers for specific scope components and;
- Performing analytical procedures over review scope components.

Through our work performed we noted some changes between the draft subsidiary and final audited subsidiary financial statements which have been updated in the final accounts.

Executive Summary

Areas of audit focus

In our Audit Plan we identified a number of key areas of focus for our audit of the financial statements of Borough of Broxbourne 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 of this report.

Significant Risk	Findings & Conclusions
Management Override: Misstatements due to fraud or error	We have completed our audit work in respect of journal entries and accounting estimates and have not identified any misstatements.
Misstatements due to fraud or error - capitalisation of revenue spend	We have completed our audit work in this area and have not identified any misstatements.
Risk of fraud in revenue recognition - rental income from commercial properties	We have completed our work in respect of commercial rental income and have not identified any misstatements.
Land & Building and Retail Investment Property Valuation	<p>We have completed our work in respect of investment property valuation and have no misstatements to report.</p> <p>Our testing of PPE valuations is still in progress. We have sample tested 24 assets and have outstanding queries with the Council on 7 of these assets. Testing on 17 assets is completed. Testing included engaging our EY Real Estate Specialists to review a sample of asset valuations and this work is complete.</p> <p>As a result of the work performed to date we have identified two misstatements totalling £0.8m as a result of reclassification of expenditure and incorrect posting of land. Both misstatements have been adjusted for in the financial statements.</p>

We ask you to review these and any other matters in this report to ensure:

- There are no other considerations or matters that could have an impact on these issues
- You agree with the resolution of the issue
- There are no other significant issues to be considered.



Executive Summary

Areas of audit focus

Area of Audit Focus	Findings and Conclusions
Pensions Liability Valuation	<p>We have completed our work in relation to the Local Government Pension Scheme.</p> <p>Under the revised ISA540 on estimates we are required to evidence that the actuary's model for calculating the estimate is correct and data has been entered correctly. Considering the nature of this requirement, we engaged our EY Pensions Specialists to recalculate the liability based on the assumptions and data in the IAS 19 report to confirm accuracy. No misstatements were identified as a result of this work.</p> <p>Through the course of the engagement we were notified by the Hertfordshire Pension Fund Actuary, Hyman's Robertson, that an error was made when allocating assets between Council's in 2017 when Hertfordshire Building Control joined the pension scheme. As a result the reporting assets shares for participating Council's have been overstated. Updated IAS 19 reports have been obtained from the actuary which confirms the impact on Broxbourne's financial statements as an overstatement of £1.583m to the pension liability as at 31 March 2021 and £1.3m overstatement as at 31 March 2020. This has been adjusted for, by way of a prior period adjustment, in the Council's financial statements. We are required to consult internally with our professional practice team when prior period adjustments occur and this process is on-going at the date of this report.</p> <p>For the Local Government Pension Scheme we also liaise with the auditors of the Hertfordshire Pension Fund, the LGPS administering authority, to obtain assurances over the information supplied to the actuary in relation to Broxbourne Council. The pension fund auditor reported differences identified in relation to Level 3 assets. We have calculated the impact of this on Broxbourne's liability to be £0.197m overstatement. Management have chosen not to adjust for this item.</p>
Going Concern	<p>We have completed our review and challenge of management's going concern assessment and found this to be robust. As a result of our procedures some changes were made to the disclosure but we have concluded that there is no impact on our audit opinion. We will need to extend this assessment, including the cashflow forecast to cover the period to the end of July 2023, before issuing our audit opinion.</p>
Accounting for covid-19 related government grants	<p>We have completed our work in this area. We have not identified any misstatements.</p>

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



02

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.

What judgements are we focused on?

We focussed on testing key areas that are susceptible to management bias.

What did we do?

- ▶ 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 of the effectiveness of management's controls designed to address the risk of fraud.

Performed mandatory procedures regardless of specifically identified fraud risks, including:

- ▶ Tested the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements
- ▶ Assessed accounting estimates for evidence of management bias, and
- ▶ Evaluated the business rationale for significant unusual transactions.

In addition to our overall response, we considered where these risks may present themselves and identified a separate fraud risk related to the capitalisation of revenue expenditure as set out on the next slide.

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.

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





Areas of Audit Focus

Significant risk

Misstatements due to fraud or error – capitalisation of revenue expenditure

What is the risk?

As identified in ISA 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 would otherwise appear to be operating effectively. In considering 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 Authority has a significant fixed asset base and a material capital programme and therefore has the potential to materially impact the revenue position through inappropriate capitalisation.

What judgements are we focused on?

We focussed on the testing capital expenditure and obtaining evidence that additions have been correctly classified as capital expenditure.

What did we do?

We took a substantive approach to respond to this risk, undertaking the following procedures:

- ▶ Tested a sample of capital expenditure at a lower testing threshold, to verify that revenue costs had not been inappropriately capitalised;
- ▶ Reviewed unusual journal pairings related to capital expenditure posted around the year-end i.e. where the debit is to capital expenditure and the credit to income and expenditure.

What are our conclusions?

Our audit work did not identify any material issues or unusual transactions to indicate any misreporting of the Authority's financial position through the inappropriate capitalisation of revenue expenditure.





Areas of Audit Focus

Significant risk

Risk of fraud in revenue and expenditure recognition - rental income from commercial properties

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.

We evaluated which types of revenue and expenditure transactions may give rise to this risk and concluded that the risk manifests itself through rental income from commercial properties. In making this assessment, we have considered management's incentive to increase revenue due to budgetary pressures and the increased reliance on commercial property rental income as a source of financing for the Authority's operations.

What judgements are we focused on?

Our judgements were focused on gaining assurance that the recognition of commercial rent income in the financial statements is materially accurate and accounted for in the accounting period in which the service occurred.

What did we do?

We took a substantive approach to respond to the specific risk, and carried out the following procedures related to rental income from commercial properties:

- Understood the Authority's revenue recognition policy;
- Understood the key controls related to commercial property income by walking through the the revenue and debtors process;
- Obtained key commercial rental income contracts and understood the key obligations contained in these;
- Performed substantive analytical procedures: we developed an expectation of the level of commercial property income through our understanding of the key contracts, and of the key movements in the Council's commercial property portfolio; and
- Undertook sample testing of rental income at a lower threshold.

What are our conclusions?

Overall our audit work did not identify any material issues or unusual transactions to indicate any misreporting of the Council's financial position through the inappropriate recognition of commercial rent income.





Areas of Audit Focus

Significant risk

Valuation of property, including investment properties

What is the risk?

The fair value of Property, Plant and Equipment (PPE) and Investment Property (IP) represent significant balances in the Authority'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.

What judgements are we focused on?

Our work on valuations focussed on assessing the reasonableness of the methodologies adopted by the valuers in undertaking their valuations in 2020/21 and of the key assumptions input into these valuations.

What did we do?

- ▶ Considered the work performed by the Authority's valuer, including the adequacy of the scope of the work performed, their professional capabilities and the results of their work.
- ▶ Engaged our valuations specialist (EY Real Estates) to review a sample of other land & buildings & investment properties asset valuations to verify the reasonableness of the valuation methodology applied and key assumptions used.
- ▶ Reviewed assets not subject to valuation in 2020/21 to confirm that the valuation of remaining asset base was not materially misstated.
- ▶ Considered the impact of the material uncertainty reported by the Authority's valuer in relation to leisure and retail assets and ensured appropriate disclosure in the financial statements.
- ▶ Checked that the valuers report reconciles to Authority's fixed asset register.
- ▶ Assessed the classification of assets and the valuation basis applied; and
- ▶ Tested the accounting entries and disclosures made within the Authority's financial statements to confirm these complied with relevant accounting standards and the Code, for example ensuring that any revaluation gains and losses have been accounted for in the revaluation reserve or charged to the income and expenditure account as appropriate;



Areas of Audit Focus

Significant risk



What are our conclusions?

We have substantially completed our work in response to this risk, including the work carried out by our valuations specialist (EY Real Estates). There are seven assets within our sample for which testing is not completed due to outstanding queries and requests for evidence from the Council at the date of this report. Until this work is completed their could be further adjustments and recommendations.

Findings

We have reconciled the valuers report with the fixed asset register. We have noted the following two differences as a result of the work performed:

- £0.493m overstatement of asset balance due to an error in posting of the valuation, the fixed asset register did not agree to the valuation report. Management has adjusted for this item.
- £0.313m overstatement of asset balance due to expenditure incurred against Cheshunt farm being incorrectly recorded as a separate asset. Management has adjusted for this item.

In addition, the Council's external valuer did disclose a 'material uncertainty' in its year end valuation report specifically for retail and leisure assets only. This uncertainty was linked to 5 investment properties only. We have performed detailed testing over these assets to gain assurance that they are free from material misstatement including using our specialists EY Real Estate to support our conclusions. We have ensured that appropriate disclosure is contained within the financial statements. Our opinion is not modified in respect of this matter.

Through our detailed testing of asset valuations we also noted the following:

- For EUV assets the valuer has calculated the total value of the asset and split this between land and building based on a flat % split. Although our testing has found the concluded values to be supportable this approach is not in line with best practice and we would expect the valuer to be calculating the respective areas and be applying market land values to determine the valuation. [We recommend that the Council updates their valuation instructions going forwards to account for this recommendation.](#)
- We noted one asset where the valuer has used a income approach for valuing agriculture land which does not generate income and so should have been valued using a DRC approach. In these instances we have reperformed the valuation using a DRC approach and have not identified any material misstatements but [we recommend the Council engages with the valuer to ensure the methodology reflects the underlying nature and service potential of the land in future periods.](#)



Areas of Audit Focus

Significant risk



What are our conclusions?

In our review of Investment Property valuations we did note that there were some assumptions that the Council were unable to evidence - particularly for the Impresa Park industrial asset valued at £4.8m. We challenged heavily to understand how the perpetuity rent was calculated, responses received lacked robust evidence to enable us to form an assessment. As such in our recalculation we have used current rent which we have been able to evidence. The difference does not lead to a material impact on the overall asset valuation but **we recommend that the Council engages with the valuer to ensure robust and evidence backed assumptions are used in the valuation of all assets going forwards.**



Areas of Audit Focus



Pension Liability Valuation

The Local Authority Accounting Code of Practice and IAS19 require the Authority to make extensive disclosures within its financial statements regarding its membership of the Local Government Pension Scheme administered by Hertfordshire County Council. The Authority's pension fund deficit is a material estimated balance and the Code requires that this liability be disclosed on the Authority's balance sheet. The information disclosed is based on the IAS 19 report issued to the Authority by the actuary to the Pension Fund.

Accounting for this scheme involves significant estimation and judgement and therefore management engages an actuary to undertake the calculations on their behalf. ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.

Our approach has focused on:

- ▶ Liaising with the auditors of Hertfordshire Pension Fund to obtain assurances over the information supplied to the actuary in relation to Borough of Broxbourne Council;
- ▶ Assessing the work of the Pension Fund actuary including the assumptions they have used by relying on the work of PwC - Consulting Actuaries commissioned by the NAO for all Local Government sector auditors, and considering any relevant reviews by the EY actuarial team;
- ▶ Reviewing and testing the accounting entries and disclosures made within the Authority's financial statements in relation to IAS19.

Under the revised ISA540 on estimates we are required to evidence that the actuary's model for calculating the estimate is correct and data has been entered correctly. Considering the nature of this requirement, we have engaged our EY Pensions Specialists to recalculate the liability based on the assumptions and data in the IAS 19 report to confirm accuracy. Using this model we have been able to independently reconcile our roll forward with the figures produced by the actuary as at the disclosure date to a difference of less than 1% of the figure for the liabilities. Having implemented the above checks, it is our view that the figures for the Scheme's liability for the disclosures as at 31 March 2021 are acceptable.

We have considered the IAS19 assurance letter from the auditor of the Pension Fund. This letter noted exceptions related to the Council. Management have deemed this to be immaterial. We note that as it did not have a material impact on the pension liability and reported Broxbourne's share of the differences (£0.197m) as un-adjusted audit difference in Section 04 of this report.

In addition to the above procedures, we were notified by the Hertfordshire Pension Fund Actuary, Hyman's Robertson, that an error was made when allocating assets between Council's in 2017 when Hertfordshire Building Control joined the scheme. As a result the reporting assets shares for participating Council's have been overstated. Updated IAS 19 reports have been obtained from the actuary which confirms the impact on Broxbourne's financial statements as an overstatement of £1.583m to the pension liability as at 31 March 2021 and £1.3m overstatement as at 31 March 2020. This error has been adjusted for, by way of a prior period adjustment, in the Council's financial statements. We are required to consult internally with our professional practice team when prior period adjustments occur and this process is on-going at the date of this report.



Areas of Audit Focus



Going concern disclosure

There is presumption that the Authority will continue as a going concern. However, the current and future uncertainty over government funding and other sources of Authority revenue increases the need for the Authority to undertake a detailed going concern assessment to support its assertion. Our approach has focused on:

- Challenging management's identification of events or conditions impacting going concern;
- Testing management's resulting assessment of going concern by evaluating supporting evidence, reviewing the Council's cashflow forecast covering the foreseeable future, to ensure that it has sufficient liquidity to continue to operate as a going concern; and
- Challenging the disclosure made in the accounts in respect of going concern and any material uncertainties.

We have completed our review and challenge of management's going concern assessment, stress testing of key assumptions including liquidity exposure to subsidiaries and review of the Council's cashflow forecast and proposed disclosure up to the end of June 2023. We found management's assessment to be robust and appropriate and we agree with management's assessment that there are no material uncertainties over the going concern period and there is no modification to our auditor's report in respect of going concern however we will now need to update this assessment to cover the period to the end of July 2023 before issuing our opinion.



Accounting for Covid-19 related grant funding

The Council has received a significant level of government funding in relation to Covid-19. Whilst there is no change in the CIPFA Code or accounting standard (IFRS 15) in respect of accounting for grant funding, the emergency nature of some of the grants received and in some cases the lack of clarity on any associated restrictions and conditions, means that the Council will need to apply a greater degree of assessment and judgement to determine the appropriate accounting treatment in the 2020/21 statements.

Our approach focussed on testing Covid-19 grant income through to underlying grant agreements or notifications to understand whether the underlying terms and conditions present an agent or principal arrangement and confirmed whether the Council had accounted for the grants appropriately in line with these conditions. We have completed our work in this area and have not identified any misstatements.



03 Audit Report



Audit Report

Draft audit report

Our opinion on the financial statements

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

Opinion

We have audited the financial statements of Borough of Broxbourne Council for the year ended 31 March 2021 under the Local Audit and Accountability Act 2014. The financial statements comprise the:

- ▶ Authority and Group Movement in Reserves Statement,
- ▶ Authority and Group Comprehensive Income and Expenditure Statement, Authority and Group Balance Sheet,
- ▶ Authority and Group Cash Flow Statement
- ▶ the related notes 1 to 39.
- ▶ Collection Fund and the related notes 1 to 4

The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21.

In our opinion the financial statements:

- ▶ give a true and fair view of the financial position of Borough of Broxbourne Council as at 31 March 2021 and of its expenditure and income for the year then ended; and
- ▶ have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21.

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 below. We are independent of the Authority and Group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard and the Comptroller and Auditor General's (C&AG) AGN01, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the [Director of Finance's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the authority's ability to continue as a going concern for a period to the 31st July 2023.

Our responsibilities and the responsibilities of the Director of Finance with respect to going concern are described in the relevant sections of this report. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the authority's ability to continue as a going concern.

Audit Report

Draft audit report

Our opinion on the financial statements

Other information

The other information comprises the information included in the Statement of Accounts 2020/21, other than the financial statements and our auditor's report thereon. The Director of Finance is responsible for the other information contained within the Statement of Accounts 2020/21.

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 Council;
- ▶ we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014;

- ▶ we make written recommendations to the audited body under Section 24 of the Local Audit and Accountability Act 2014;
- ▶ we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014;
- ▶ we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014;
- ▶ we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014;
- ▶ we are not satisfied that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2021.

We have nothing to report in these respects.

Responsibility of the Director of Finance

As explained more fully in the Statement of Responsibilities set out on page 11, the Director of Finance is responsible for the preparation of the Statement of Accounts, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21, and for being satisfied that they give a true and fair view and for such internal control as the directors determine 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 Director of Finance is responsible for assessing the Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Authority either intends to cease operations, or have no realistic alternative but to do so.



Audit Report

Draft audit report

Our opinion on the financial statements

The Authority is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect irregularities, including fraud. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below. However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and management.

We obtained an understanding of the legal and regulatory frameworks that are applicable to the Council and determined that the most significant are:

- Local Government Act 1972,
- Local Government Finance Act 1988 (as amended by the Local Government Finance Act 1992)
- Local Government Act 2003,
- The Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 as amended in 2018 and 2020,
- The Local Audit and Accountability Act 2014, and
- The Accounts and Audit Regulations 2015.

In addition, the 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 Borough of Broxbourne Council is complying with those frameworks by understanding the incentive, opportunities and motives for non-compliance, including inquiring of management, head of internal audit, those charged with governance and the 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 council's committee minutes, and through the inspection of 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.



Audit Report

Draft audit report

Our opinion on the financial statements

We assessed the susceptibility of the 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 commercial revenue), 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 revenue, we obtained a listing of the Council's rental income from commercial properties, and sample tested the transactions by challenging assumptions and corroborating the income to appropriate evidence.

To address our fraud risk of inappropriate capitalisation of revenue expenditure we tested the 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 journal selected, we tested specific transactions back to source documentation to confirm that the journals were authorised and accounted for appropriately.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at <https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

Scope of the review of arrangements for securing economy, efficiency and effectiveness in the use of resources

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified reporting criteria issued by the Comptroller and Auditor General (C&AG) in April 2021, as to whether the Borough of Broxbourne 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 Borough of Broxbourne Council put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2021.

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 Borough of Broxbourne Council had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.



Audit Report

Draft audit report

Our opinion on the financial statements

Delay in certification of completion of the audit

We cannot formally conclude the audit and issue an audit certificate until we have completed the work necessary to issue our assurance statement in respect of the Authority's Whole of Government Accounts consolidation pack. We are satisfied that this work does not have a material effect on the financial statements or our work on value for money arrangements.

Use of our report

This report is made solely to the members of Borough of Broxbourne Council, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and for no other purpose, as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Borough of Broxbourne Council and the Borough of Broxbourne Council's members as a body, for our audit work, for this report, or for the opinions we have formed.

Neil Harris (Key Audit Partner)
Ernst & Young LLP (Local Auditor)
Luton



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

We highlight the following misstatements greater than £0.064m which have been corrected by management that were identified during the course of our audit:

- £0.493m overstatement of asset balance due to an error in posting of the valuation, the fixed asset register did not agree to the valuation report.
- £0.313m overstatement of asset balance due to expenditure incurred against Cheshunt farm being incorrectly recorded as a separate asset.
- £0.793 overstatement of the pension liability due to the Council obtaining an updated IAS 19 report to reflect the actual cashflows for the year rather than an estimate.
- £0.87m reclassification between short term and long term creditors in the group accounts due to incorrect classification of lease liabilities within the draft accounts for BEST which were adjusted as part of the audit work.
- £1.3m understatement of the pension liability in the PRIOR YEAR as a result of an error made by the Council's actuary. (Further details can be found on page 17 of this report)
- £0.28m understatement of the pension liability in 20-21 as a result of an error made by the Council's actuary. (See page 17 for further details).

Audit Differences

Summary of unadjusted differences

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

Uncorrected misstatements 31 March 2021 (Currency'000)			Effect on the current period:				Net assets (Decrease)/Increase
	Reserves Debit/(Credit)	Comprehensive Income and Expenditure Statement Debit/(Credit)	Assets current Debit/ (Credit)	Assets non current Debit/ (Credit)	Liabilities current Debit/ (Credit)	Liabilities non- current Debit/ (Credit)	
Judgemental differences:							
Unadjusted Difference in the Pension Fund asset testing - Broxbourne Share							
Pension Liability							197
Pension Reserve	(197)						
Cumulative effect of uncorrected misstatements	(197)	0	0	0	0	0	197



Audit Differences



Other Audit Recommendations

- **Group Accounts**

We note that the Council currently presents its Group Accounts separately and at the end of its single entity financial statements. Now that both Badger and BEST Ltd are well established and material to the Group **we recommend that the group accounts are more prominent in future and are included alongside the single entity balances rather than separately included at the end of the financial statements.**

- **MRP**

The Council's MRP policy states that it does not, by default, make an MRP charge in relation to any borrowing used to fund the purchase of investment properties.

The audit team has challenged management on this in 20-21 since per the current statutory guidance (MHCLG Statutory Guidance on MRP effective from 1.4.2019, paragraph 26) MRP can only be nil if:

- A local authority's CFR was nil or negative on the last day of the preceding financial year; or
- A local authority chooses to offset a previous year's overpayment

Neither of the above situations apply to Broxbourne in 20-21.

We have challenged management on the rationale for no MRP charge and their response is that local authorities themselves must only have had *regard* to the guidance, but are not necessarily implored to follow it and thus subsequently make an MRP charge during the year. We have requested that the Council perform an estimate of the charge in 20-21 and this estimate was £0.19m. This has not been adjusted in the financial statements.

We recommend that the Council revisits its MRP policy to reflect the current HMT and DLUHC guidance.

- **IAS 19**

In 20-21 a prior period adjustment has been made to the financial statements after the Council's actuary identified that an error had occurred in 2017 when allocating assets across members of the Hertfordshire Pension Fund when a new body joined the fund. This has had a material impact on the Council's pension fund liability in the prior year and current year. Further details are set out on page 17 of this report.

We recommend that the Council engages with their actuary to understand key changes that are made to membership and how this impacts on the overall liability that is reported in their financial statements.



Audit Differences



Other Audit Recommendations

PPE Valuation:

For EUV assets the valuer has calculated the total value of the asset and split this between land and building based on a flat % split. Although our testing has found the concluded values to be supportable this approach is not in line with best practice and we would expect the valuer to be calculating the respective areas and be applying market land values to determine the valuation. **We recommend that the Council updates their valuation instructions going forwards to account for this recommendation.**

We noted one asset where valuer has used a income approach for valuing agriculture land which does not generate income and so should have been valued using a DRC approach. In these instances we have reperformed the valuation using a DRC approach and have not identified any material misstatements but **we recommend the Council engages with the valuer to ensure the methodology reflects the underlying nature and service potential of the land in future periods.**

In our review of Investment Property valuations we did note that there were some assumptions that the Council were unable to evidence - particularly for the Impresa Park industrial asset valued at £4.8m. We challenged heavily to understand how the perpetuity rent was calculated, responses received lacked robust evidence to enable us to form an assessment. As such in our recalculation we have used current rent which we have been able to evidence. The difference does not lead to a material impact on the overall asset valuation but **we recommend that the Council engages with the valuer to ensure robust and evidence backed assumptions are used in the valuation of all assets going forwards.**



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.

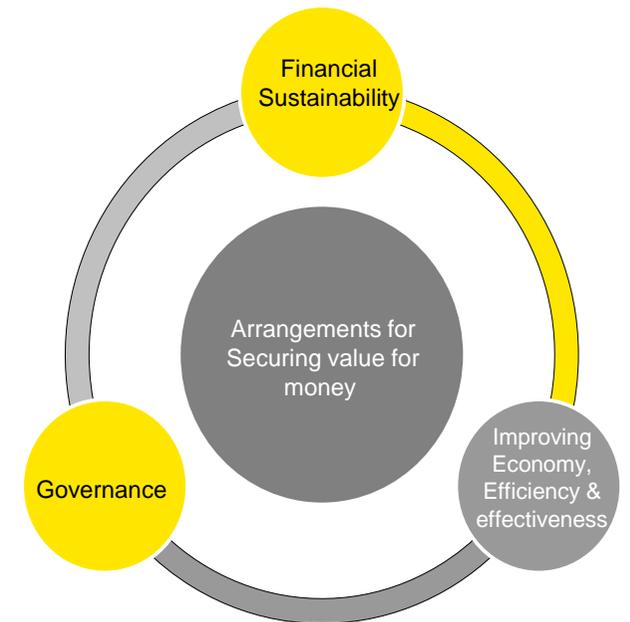
As part of the material published with its financial statements, the Council is required to bring together commentary on its governance framework and how this has operated during the period in a governance statement. In preparing its governance statement, the Council tailors the content to reflect its 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

We have previously reported, in our Audit Planning Report, the outcome of our assessment of the risk of significant weaknesses in the Council's VFM arrangements - that we had identified one significant risk in relation to financial resilience. We have revisited our risk assessment and have not identified any additional risks.

We have completed our planned procedures and are satisfied that the Council does have the arrangements in place we would expect to see. We have also revisited our risk assessment on completion of the audit of the financial statements and have not identified any new risks of significant weakness in VFM arrangements.

We have no matters to report by exception in the auditor's report (see Section 03). We plan to issue the VFM commentary shortly after our audit opinion as part of issuing the Auditor's Annual Report.





Responding to a risk of significant weakness in VFM arrangements

What is the risk of significant weakness?	What arrangements did this impact?	What did we do?
<p>Financial resilience</p> <p>The Council's medium term financial plan places an emphasis on self-sufficiency through, for example:</p> <ul style="list-style-type: none"> ▶ Continued investments in commercial properties ▶ Increasing borrowing to support strategic objectives <p>As part of this strategy, the Council has invested £13.4m in Waltham Cross Pavilions shopping centre in 2020/21 with the primary purpose of generating investment income. The strategy presents challenges in terms of governance, financial and risk management as well as partnership working.</p>	Financial Sustainability	<p>We considered:</p> <ul style="list-style-type: none"> ▶ the due diligence undertaken by the Council in reaching decisions regarding commercial investment, including the governance, financial & risk management arrangements; ▶ the robustness of the underlying assumptions & calculations of the 2020/21 purchases, including the linkage between the capital programme and revenue budgeting; ▶ the effectiveness of in year monitoring of progress against efficiency targets; and ▶ the level of reliance for future financial resilience on investment income and the risk assessment/sensitivity analysis the Council has undertaken.

Findings

We found that the Council had undertaken appropriate due diligence including legal advice, business case review, building survey, third party valuation and site visits by experienced professionals. The purchase of the shopping centre was in line with the approved capital strategy and the affordability of borrowing was appropriately considered and reflected in revenue budgeting. Key financial indicators are monitored by CMT monthly and the Council has taken steps to assess the sensitivity of its budgets to reductions in rental income through setting aside a rental income protection reserve, assessing the quality of tenants and maintaining a diverse portfolio.

We did however note that Waltham Cross Pavilion was valued by Gerald Eve as at the 24th August 2020 at £11.4m and the Council purchased the property at a value of £13.4m in October 2020. In the 2020-21 financial statements the asset has been recognised as an investment property at a value of £9.9m as at the 31st March 2021. The difference of £3.5m has been recognised as a loss arising from fair value adjustments and charged to the CIES (Financing and Investing I&E). It is considered that the acquisition price paid by the Council was above market value. The Council's view is that the acquisition, although primarily purchased to provide commercial income, also supports Council objectives around the regeneration of Waltham Cross.

Recommendation

We recommend that, in future, the Council clearly communicates market value valuations of potential sites when submitting recommendations for the acquisition of properties to support members in making informed decisions.



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 2020/21 with the audited financial statements

We must also review the Annual Governance Statement for completeness of disclosures, consistency with other information from our work, and whether it complies with relevant guidance.

Financial information in the Statement of Accounts 2020/21 and published with the financial statements was consistent with the audited financial statements.

We have reviewed the Annual Governance Statement and can confirm it is consistent with other information from our audit of the financial statements and we have no other matters to report.

Whole of Government Accounts

Alongside our work on the financial statements, we also review and report to the National Audit Office 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 have not yet performed the procedures required by the National Audit Office (NAO) on the Whole of Government Accounts submission, as at the date of this report the NAO have not issued their guidance to auditors.

Other powers and duties

We have a duty under the Local Audit and Accountability Act 2014 to consider whether to report on any matter that comes to our attention in the course of the audit, either for the Authority to consider it or to bring it to the attention of the public (i.e. "a report in the public interest"). We did not identify any issues which required us to issue a report in the public interest.



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.

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. We have however reported a number of recommendations which can be seen in Section 04 of this report.

We 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

Independence

Independence

Relationships, services and related threats and safeguards

The FRC Ethical Standard requires that we provide details of all relationships between Ernst & Young (EY) and your company, and its directors and senior management and its affiliates, including all services provided by us and our network to your company, its directors 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 1st April 2020 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 following slide includes a summary of the fees that you have paid to us in the year ended 31st March 21 in line with the disclosures set out in FRC Ethical Standard and in statute. We confirm that none of the services listed below has been provided on a contingent fee basis. As at the date of this report, there are no future services which have been contracted and no written proposal to provide non-audit services has been submitted.

EY Transparency Report 2021

Ernst & Young (EY) has policies and procedures that instil professional values as part of firm culture and ensure that the highest standards of objectivity, independence and integrity are maintained.

Details of the key policies and processes in place within EY for maintaining objectivity and independence can be found in our annual Transparency Report which the firm is required to publish by law. The most recent version of this Report is for the year end 30 June 2021:

[EY UK 2021 Transparency Report | EY UK](#)

Relationships, services and related threats and safeguards

Services provided by Ernst & Young

	Final Fee 2020/21	Planned fee 2020/21 (£)	Final fee 2019/20 as approved by PSAA (£)
Scale Fee - Code work	36,137	36,137	36,137
Additional fees: [note 1]			
-Changes in work required to address professional and regulatory requirements and scope associated with risk	13,931	13,931	3,777
- Group consolidation	7,000	7,000	7,000
- Property valuations significant risk	8,000	-	4,500
- Property valuations material uncertainty	-	-	1,985
- Going concern disclosure	1,500	-	3,743
- EY consultations on auditor report	-	-	2,095
- Revised auditing standard for estimates	2,500	-	-
- VFM Commentary	6,000	-	-
- Accounting for C-19 related grants (additional risk)	1,500	-	-
- Pensions error and Prior Period Adjustment	2,500	-	-
- Infrastructure Assets Assessment	1,000	-	-
Total audit	80,068	TBC	59,237

Note 1:

For 2020/21 the scale fee has been re-assessed to take into account a number of risk factors which includes procedures performed to address the risk profile of the Council and additional work to address increase in Regulatory standards. The final fee for 2020/21 is subject to approval by PSAA. In 2019/20 PSAA approved 33% of the scale fee variation submitted.

Relationships, services and related threats and safeguards

Subsidiary audit fees

We also complete the statutory audit work for the Councils wholly owned subsidiaries. Details of the fees we have charged in respect of these companies is disclosed below.

	Final Fee 2020/21	Planned fee 2020/21 (£)	Final fee 2019/20 (£)
Subsidiary Fees:			
Badger BC Investments Ltd	21,000	21,000	20,021
Broxbourne Environmental Services Trading Ltd	18,000	18,000	19,000
Total subsidiary fees	39,000	39,000	39,021

Non-audit Fees

We also complete the housing benefits grant certification work for the Council. Details of the fees we have charged in respect of this work is disclosed below.

	Final Fee 2020/21	Planned fee 2020/21 (£)	Final fee 2019/20 (£)
Non-audit services:			
- Housing Benefits	TBC	38,000	38,000
Total other non-audit services	TBC	38,000	38,000



09

Appendices

Appendix A

Required communications with the Audit and Standards 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 and standards 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 - March 2021
Planning and audit approach	Communication of the planned scope and timing of the audit, any limitations and the significant risks identified. When communicating key audit matters this includes the most significant risks of material misstatement (whether or not due to fraud) including those that have the greatest effect on the overall audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team.	Audit Plan - March 2021
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 - July 2022

Appendix A

		 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 ▶ Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements ▶ The adequacy of related disclosures in the financial statements 	Audit results report - July 2022
Misstatements	<ul style="list-style-type: none"> ▶ Uncorrected misstatements and their effect on our audit opinion ▶ The effect of uncorrected misstatements related to prior periods ▶ A request that any uncorrected misstatement be corrected ▶ Material misstatements corrected by management 	Audit results report - July 2022
Subsequent events	<ul style="list-style-type: none"> ▶ Enquiry of the General Purposes and Audit Committee where appropriate regarding whether any subsequent events have occurred that might affect the financial statements. 	Audit results report - July 2022
Fraud	<ul style="list-style-type: none"> ▶ Enquiries of the General Purposes and Audit Committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the Authority ▶ 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 Authority, any identified or suspected fraud involving: <ol 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 General Purposes and Audit Committee responsibility. 	Audit results report - July 2022

Appendix A

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 Authority'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 Authority 	Audit results report - July 2022
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 ▶ Communications whenever significant judgments are made about threats to objectivity and independence and the appropriateness of safeguards put in place. ▶ Relationships between EY, the company and senior management, its affiliates and its connected parties ▶ Services provided by EY that may reasonably bear on the auditors' objectivity and independence ▶ Related safeguards ▶ Fees charged by EY analysed into appropriate categories such as statutory audit fees, tax advisory fees, other non-audit service fees ▶ A statement of compliance with the Ethical Standard, including any non-EY firms or external experts used in the audit ▶ Details of any inconsistencies between the Ethical Standard and Group's policy for the provision of non-audit services, and any apparent breach of that policy ▶ Details of any contingent fee arrangements for non-audit services ▶ Where EY has determined it is appropriate to apply more restrictive rules than permitted under the Ethical Standard ▶ The General Purposes and Audit Committee should also be provided an opportunity to discuss matters affecting auditor independence. 	<p>Audit planning report - March 2021</p> <p>Audit results report - July 2022</p>

Appendix A

		Our Reporting to you
Required communications	What is reported?	When and where
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. 	Audit results report - July 2022
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 	Audit results report - July 2022
Significant deficiencies in internal controls identified during the audit	<ul style="list-style-type: none"> ▶ Significant deficiencies in internal controls identified during the audit. 	Audit results report - July 2022
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 results report - July 2022
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 - July 2022

Appendix A

		 Our Reporting to you
Required communications	 What is reported?	 When and where
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 - July 2022
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 - July 2022

Appendix B

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 
PPE Valuations	Response to queries and supporting evidence for 7 assets to enable us to complete our testing.	Management
Prior Period Adjustment consultation	Completion of consultation process in respect of IAS 19 prior period adjustment	EY
Going Concern	Update to the current concern assessment, disclosure and cashflow forecast to 31 st July 2023.	Management
Subsequent events review	Completion of subsequent events procedures to the date of signing the audit report	EY and Management
Management Representation Letter	Receipt of signed management representation letter.	Management
Agreement of Final set of Accounts	Agree all changes made to draft accounts are updated in the final set of accounts.	EY and Management
Final Review Procedures	Final review of areas listed above	EY

Until all our audit procedures are complete, we cannot confirm the final form of our audit opinion as new issues may emerge or we may not agree on final detailed disclosures in the Annual Report. At this point no issues have emerged that would cause us to modify our opinion. A draft of the current opinion is included in Section 03.

Management representation letter

Management Rep Letter

[To be prepared on the entity's letterhead]

[Date]

Ernst & Young

[Address]

This letter of representations is provided in connection with your audit of the financial statements of Borough of Broxbourne Council ("the Group and Council") for the year ended 31 March 2021. We recognize that obtaining representations from us concerning the information contained in this letter is a significant procedure in enabling you to form an opinion as to whether the (consolidated) financial statements give a true and fair view of (or 'present fairly, in all material respects,') the financial position of Borough of Broxbourne Council as of the 31 March 2021 and of its financial performance and its cash flows for the year then ended in accordance with CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21. We understand that the purpose of your audit of our financial statements is to express an opinion thereon and that your audit was conducted in accordance with International Standards on Auditing, which involves an examination of the accounting system, internal control and related data to the extent you considered necessary in the circumstances, and is not designed to identify - nor necessarily be expected to disclose - all fraud, shortages, errors and other irregularities, should any exist.

Accordingly, we make the following representations, which are true to the best of our knowledge and belief, having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

A. Financial Statements and Financial Records

1. We have fulfilled our responsibilities, under the relevant statutory authorities, for the preparation of the financial statements in accordance with the Accounts and Audit Regulations 2015 and CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21.
2. We acknowledge, as members of management of the Group and Council, our responsibility for the fair presentation of the financial statements. We believe the financial statements referred to above give a true and fair view of the financial position, financial performance and cash flows of the Group and Council in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21, and are free of material misstatements, including omissions. We have approved the financial statements.
3. The significant accounting policies adopted in the preparation of the financial statements are appropriately described in the financial statements.
4. As members of management of the Group and Council, we believe that the Group and Council has a system of internal controls adequate to enable the preparation of accurate financial statements in accordance with CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21 that are free from material misstatement, whether due to fraud or error. We have disclosed to you any significant changes in our processes, controls, policies and procedures that we have made to address the effects of the COVID-19 pandemic.
5. We believe that the effects of any unadjusted audit differences, summarized in the accompanying schedule, accumulated by you during the current audit and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

Management representation letter

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B. Non-compliance with laws and regulations, including fraud

1. We acknowledge that we are responsible to determine that the Group and Council's business activities are conducted in accordance with laws and regulations and that we are responsible to identify and address any non-compliance with applicable laws or regulations, including fraud.

2. We acknowledge that we are responsible for the design, implementation and maintenance of internal controls to prevent and detect fraud.

3. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.

We have no knowledge of any identified or suspected non-compliance with laws or regulations including fraud that may have affected the Group and Council (regardless of the source or form and including without limitation, any allegations by "whistleblowers"), including non-compliance matters:

- ▶ Involving financial improprieties
- ▶ Related to laws or regulations that have a direct effect on the determination of material amounts and disclosures in the Group and Council financial statements
- ▶ Related to laws or regulations that have an indirect effect on amounts and disclosures in the financial statements, but compliance with which may be fundamental to the operations of the Group and Council's business, its ability to continue in business, or to avoid material penalties
- ▶ Involving management, or employees who have significant roles in internal control, or others
- ▶ In relation to any allegations of fraud, suspected fraud or other non-compliance with laws and regulations communicated by employees, former employees, analysts, regulators or others

C. Information Provided and Completeness of Information and Transactions

1. We have provided you with:

- ▶ Access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters
- ▶ Additional information that you have requested from us for the purpose of the audit and
- ▶ Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.

2. All material transactions have been recorded in the accounting records and all material transactions, events and conditions are reflected in the financial statements, including those related to the COVID-19 pandemic.

3. We have made available to you all minutes of the meetings of the Audit and Standards Committee held through the period 1st April 2020 to the most recent meeting on the following date: 23 November 2021.

4. We confirm the completeness of information provided regarding the identification of related parties. We have disclosed to you the identity of the Group and Council's related parties and all related party relationships and transactions of which we are aware, including sales, purchases, loans, transfers of assets, liabilities and services, leasing arrangements, guarantees, non-monetary transactions and transactions for no consideration for the period ended, as well as related balances due to or from such parties at the 31 March 2021 end. These transactions have been appropriately accounted for and disclosed in the financial statements.

Management representation letter

Management Rep Letter

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

6. We have disclosed to you, and the Group and Council has complied with, all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance, including all covenants, conditions or other requirements of all outstanding debt.

7. From the 01 April 2020 through the date of this letter we have disclosed to you, to the extent that we are aware, any (1) unauthorized access to our information technology systems that either occurred or is reasonably likely to have occurred, including of reports submitted to us by third parties (including regulatory agencies, law enforcement agencies and security consultants), to the extent that such unauthorized access to our information technology systems is reasonably likely to have a material effect on the financial statements, in each case or in the aggregate, and (2) ransomware attacks when we paid or are contemplating paying a ransom, regardless of the amount.

D. Liabilities and Contingencies

1. All liabilities and contingencies, including those associated with guarantees, whether written or oral, have been disclosed to you and are appropriately reflected in the financial statements.

2. We have informed you of all outstanding and possible litigation and claims, whether or not they have been discussed with legal counsel.

3. We have recorded and/or disclosed, as appropriate, all liabilities related to litigation and claims, both actual and contingent, and have disclosed in Note [X] to the financial statements all guarantees that we have given to third parties.

E. Subsequent Events

1. There have been no events, including events related to the COVID-19 pandemic, and including events related to the conflict and related sanctions in Ukraine, Russia and/or Belarus, subsequent to period end which require adjustment of or disclosure in the financial statements or notes thereto.

F. Other information

1. We acknowledge our responsibility for the preparation of the other information. The other information comprises the Narrative Report and Annual Governance Statement.
2. We confirm that the content contained within the other information is consistent with the financial statements.

G. Comparative information - comparative financial statements

1. In connection with your audit of the comparative financial statements for the year ended 31 March 20, we represent, to the best of our knowledge and belief, the following:

As a result of errors identified by the Hertfordshire Pension Fund Actuary, the balance sheet, pensions reserve and related disclosures have been restated by £1.3m.

The comparative amounts have been correctly restated to reflect the above matter(s) and appropriate note disclosure of this restatement has also been included in the current year's financial statements

Management representation letter

Management Rep Letter

There have been no significant errors or misstatements, or changes in accounting policies, other than the matters described above, that would require a restatement of the comparative amounts in the current year's financial statements. Other differences in the amounts shown as comparative amounts from the amounts in the financial statements for the year ended 31 March 2021 are solely the result of reclassifications for comparative purposes.

H. Going Concern

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

I. Ownership of Assets

1. Except for assets capitalised under finance leases, the Group and Council has satisfactory title to all assets appearing in the balance sheet, and there are no liens or encumbrances on the Council's assets, nor has any asset been pledged as collateral. All assets to which the Council has satisfactory title appear in the balance sheet.

2. All agreements and options to buy back assets previously sold have been properly recorded and adequately disclosed in the financial statements.

3. There are no formal or informal compensating balance arrangements with any of our cash and investment accounts.

J. Contingent Liabilities

We are unaware of any violations or possible violations of laws or regulations the effects of which should be considered for disclosure in the financial statements or as the basis of recording a contingent loss (other than those disclosed or accrued in the financial statements).

We are unaware of any known or probable instances of non-compliance with the requirements of regulatory or governmental authorities, including their financial reporting requirements, and there have been no communications from regulatory agencies or government representatives concerning investigations or allegations of non-compliance, except as follows:

(1) Matters of routine, normal, recurring nature (e.g., examinations by bank and insurance examiners, examinations by taxing authorities none of which involves any allegations of noncompliance with laws or regulations that should be considered for disclosure in the financial statements or as a basis for recording a loss contingency

K. Use of the Work of a Specialist

1. We agree with the findings of the specialists that we engaged to evaluate the valuation of land and building assets and investment property and the IAS19 actuarial valuations of pension liabilities and have adequately considered the qualifications of the specialists in determining the amounts and disclosures included in the financial statements and the underlying accounting records. We did not give or cause any instructions to be given to the specialists with respect to the values or amounts derived in an attempt to bias their work, and we are not otherwise aware of any matters that have had an effect on the independence or objectivity of the specialists.

Management representation letter

Management Rep Letter

Estimates

Property Valuation

1. We confirm that the significant judgments made in making property valuations have taken into account all relevant information and the effects of the COVID-19 pandemic on asset values of which we are aware.
2. We believe that the selection or application of the methods, assumptions and data used by us have been consistently and appropriately applied or used in making property valuations.
3. We confirm that the significant assumptions used in determining property valuations appropriately reflect our intent and ability to carry out services on behalf of the entity.
4. We confirm that the disclosures made in the financial statements with respect to the accounting estimate, including those describing estimation uncertainty and the effects of the COVID-19 pandemic on asset valuations, are complete and are reasonable in the context of the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21.
5. We confirm that appropriate specialized skills or expertise has been applied in determining property valuations.
6. We confirm that no adjustments are required to the accounting estimate(s) and disclosures in the financial statements, including due to the COVID-19 pandemic.

Pension Liability

1. We confirm that the significant judgments made in making the pension valuation have taken into account all relevant information of which we are aware.
2. We believe that the selection or application of the methods, assumptions and data used by us have been consistently and appropriately applied or used in estimating the pension liability.
3. We confirm that the significant assumptions used in determining the pension liability appropriately reflect our intent and ability to carry out services on behalf of the entity.
4. We confirm that the disclosures made in the Group and Council financial statements with respect to the accounting estimate are complete and are reasonable in the context of CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21
5. We confirm that appropriate specialized skills or expertise has been applied in making pension valuations.
6. We confirm that no adjustments are required to the accounting estimate and disclosures in the Group and Council financial statements, including due to the COVID-19 pandemic.

Management representation letter

Management Rep Letter

Bad Debt Provision

1. We confirm that the significant judgments made in estimating the bad debt provision have taken into account all relevant information of which we are aware.
2. We believe that the selection or application of the methods, assumptions and data used by us have been consistently and appropriately applied or used in estimating the bad debt provision.
3. We confirm that the significant assumptions used in determining the bad debt provision appropriately reflects our intent and ability to carry out services on behalf of the entity.
4. We confirm that the disclosures made in the Group and Council financial statements with respect to the bad debt provision, including those describing estimation uncertainty and the effects of the COVID-19 pandemic on, are complete and are reasonable in the context of CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21
5. We confirm that no adjustments are required to the bad debt provision and disclosures in the Group and Council financial statements, including due to the COVID-19 pandemic.

Yours faithfully,

Sandra Beck
Director of Finance

Michael Iszatt
Chairman of the Audit and Standards Committee

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