

# Annual governance report

Dacorum Borough Council

Audit 2011/12



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# Key messages

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**This report summarises the findings from the 2011/12 audit which is substantially complete. It includes the messages arising from my audit of your financial statements and the results of the work I have undertaken to assess your arrangements to secure value for money in your use of resources.**

## **Financial statements**

My work on the Council's financial statements is now substantially complete and, subject to completion of outstanding matters (set out on Page 5), I expect to issue an unqualified audit opinion before 30 September 2012. My audit demonstrates that the Council has prepared its financial statements well and this is reflected in the relatively low number of issues to bring to your attention.

## **Value for money (VFM)**

I have concluded that you have made proper arrangements to secure economy, efficiency and effectiveness in your use of resources.

## **Certificate**

The Audit Certificate is issued to demonstrate that the full requirements of the Audit Commission's Audit Code have been discharged for the relevant audit year. I expect to issue the Audit Certificate at the same time as my Audit Opinion.

# Before I give my opinion and conclusion

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**My report includes only matters of governance interest that have come to my attention in performing my audit. I have not designed my audit to identify all matters that might be relevant to you.**

## **Independence**

I can confirm that I have complied with the Auditing Practices Board's ethical standards for auditors, including ES 1 (revised) - Integrity, Objectivity and Independence. I am not aware of any relationships that may affect the independence and objectivity of the Audit Commission, the audit team or me, that I am required by auditing and ethical standards to report to you.

## **I ask the Audit Committee to:**

- take note of the adjustments to the financial statements included in this report (Appendix 2); and
- approve a letter of representation (my request for such a letter is set out in Appendix 3) on behalf of the Council before I issue my opinion and conclusion.

# Financial statements

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**The Authority's financial statements and annual governance statement are important means by which the Authority accounts for its stewardship of public funds. As elected Members you have final responsibility for these statements. It is important that you consider my findings before you adopt the financial statements and the annual governance statement.**

## Opinion on the financial statements

Subject to satisfactory clearance of outstanding matters, I plan to issue an audit report including an unqualified opinion on the financial statements. My work on the Council's financial statements is now substantially complete. The areas in which I still have testing outstanding (as at 7 September) are:

- Provisions
- Material Grant claims that impact on the financial statements (National Non-Domestic Rates and Housing Benefits)

I will update the Audit Committee on progress with these items and any emerging issues requiring your attention. My audit demonstrates that the Council has prepared its financial statements well and this is reflected in the low number of issues to bring to your attention.

Subject to the satisfactory completion of my audit in respect of the above items, I expect to issue an unqualified audit opinion before 30 September 2012. Appendix 1 contains a copy of my draft audit report.

## Corrected errors

My audit identified a number of errors which my team have highlighted to management for amendment. The more significant of these are included at Appendix 2 for your information.

## Uncorrected errors

All non trivial errors identified from the audit have been amended.

## Significant risks and my findings

I did not identify any significant audit risks within my Audit Plan (January 2012) and there were no subsequent significant risks which I need to bring to your attention as a result of my audit work.

## Significant weaknesses in internal control

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. My 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.

I have tested the controls of the Authority only to the extent necessary for me to complete my audit. I am not expressing an opinion on the overall effectiveness of internal control. I have reviewed the Annual Governance Statement and can confirm that:

- it complies with the requirements of CIPFA/SOLACE Delivering Good Governance in Local Government Framework; and
- it is consistent with other information that I am aware of from my audit of the financial statements.

I have not identified any significant weakness in the design or operation of an internal control that might result in a material error in your financial statements of which you are not aware.

## Other matters

I am required to communicate to you significant findings from the audit and other matters that are significant to your oversight of the Council's financial reporting process including the following:

- Qualitative aspects of your accounting practices;
- Matters specifically required by other auditing standards to be communicated to those charged with governance. For example, issues about fraud, compliance with laws and regulations, external confirmations and related party transactions; and
- Other audit matters of governance interest.

I have no matters I wish to report.

## Whole of Government Accounts

Alongside my work on the financial statements, I also review and report to the National Audit Office on your Whole of Government Accounts return. The extent of my review and the nature of my report were specified by the National Audit Office. I am currently concluding my work in this area and will report any matters that arise to the Audit Committee.

# Value for money

**I am required to conclude whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is the value for money conclusion.**

I assess your arrangements against the two criteria specified by the Commission. In my Audit Plan I reported to you that no significant risks had been raised that were relevant to my conclusion. I have set out below my conclusion on the two criteria.

I intend to issue an unqualified conclusion stating that the Council has proper arrangements to secure economy, efficiency and effectiveness in the use of its resources. I include my draft conclusion in Appendix 1.

Table 1: **Value for money conclusion criteria and my findings**

Criteria	Findings
<p><b>1. Financial resilience</b></p> <p>The organisation has proper arrangements in place to secure financial resilience.</p> <p><b>Focus for 2011/12:</b></p> <p>The organisation has robust systems and processes to manage effectively financial risks and opportunities, and to secure a stable financial position that enables it to continue to operate for the foreseeable future.</p>	<p>My review has confirmed that the Council has proper arrangements in place to secure financial resilience.</p>
<p><b>2. Securing economy efficiency and effectiveness</b></p> <p>The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness.</p> <p><b>Focus for 2011/12:</b></p> <p>The organisation is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.</p>	<p>My review has confirmed that the Council has proper arrangements in place to secure economy, efficiency and effectiveness.</p>



# Fees

## I reported my planned audit fee in the Audit Plan.

I will complete the audit within the planned fee.

Table 2: Fees

	Original scale fee (£)	Planned fee 2011/12 (£)	Expected fee 2011/12 (£)
Audit	161,500	161,500*	161,500*
Claims and returns		39,300**	39,300**
<b>Total</b>		<b>200,800</b>	<b>200,800</b>

\*The Audit Commission has paid a rebate of £12,920 to reflect attaining internal efficiency savings, reducing the net amount payable to the Audit Commission to £148,580.

\*\* This is an estimated figure at present as we have not yet completed the full programme of work.

# Appendix 1 – Draft independent auditor’s report

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## INDEPENDENT AUDITOR’S REPORT TO THE MEMBERS OF DACORUM BOROUGH COUNCIL

### Opinion on the Authority financial statements

I have audited the financial statements of Dacorum Borough Council for the year ended 31 March 2012 under the Audit Commission Act 1998. The financial statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement, the Housing Revenue Account Income and Expenditure Statement, the Movement on the Housing Revenue Account Statement and Collection Fund and the related notes. 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 2011/12.

This report is made solely to the members of Dacorum Borough Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010.

### Respective responsibilities of the Corporate Director (Finance & Governance) and auditor

As explained more fully in the Statement of the Corporate Director (Finance & Governance)’s Responsibilities, the Corporate Director (Finance & Governance) is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom, and for being satisfied that they give a true and fair view. My responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require me to comply with the Auditing Practices Board’s Ethical Standards for Auditors.

## **Scope of the audit of the financial statements**

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Authority's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Corporate Director (Finance & Governance); and the overall presentation of the financial statements. In addition, I read all the financial and non-financial information in the explanatory foreword to identify material inconsistencies with the audited financial statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

## **Opinion on financial statements**

In my opinion the financial statements:

- give a true and fair view of the financial position of Dacorum Borough Council as at 31 March 2012 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 2011/12.

## **Opinion on other matters**

In my opinion, the information given in the explanatory foreword for the financial year for which the financial statements are prepared is consistent with the financial statements.

## **Matters on which I report by exception**

I report to you if:

- in my opinion the annual governance statement does not reflect compliance with 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007;
- I issue a report in the public interest under section 8 of the Audit Commission Act 1998;
- I designate under section 11 of the Audit Commission Act 1998 any recommendation as one that requires the Authority to consider it at a public meeting and to decide what action to take in response; or
- I exercise any other special powers of the auditor under the Audit Commission Act 1998.

I have nothing to report in these respects.

## **Conclusion on Authority's arrangements for securing economy, efficiency and effectiveness in the use of resources**

### **Respective responsibilities of the Authority and the auditor**

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.

I am required under Section 5 of the Audit Commission Act 1998 to satisfy myself that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires me to report to you my conclusion relating to proper arrangements, having regard to relevant criteria specified by the Audit Commission.

I report if significant matters have come to my attention which prevent me from concluding that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. I am not required to consider, nor have I considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

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

I have undertaken my audit in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission in October 2011, as to whether the Authority has proper arrangements for:

- securing financial resilience; and
- challenging how it secures economy, efficiency and effectiveness.

The Audit Commission has determined these two criteria as those necessary for me to consider under the Code of Audit Practice in satisfying myself whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2012.

I planned my work in accordance with the Code of Audit Practice. Based on my risk assessment, I undertook such work as I considered necessary to form a view on whether, in all significant respects, the Authority had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

### **Conclusion**

On the basis of my work, having regard to the guidance on the specified criteria published by the Audit Commission in October 2011, I am satisfied that, in all significant respects, Dacorum Borough Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2012.

### **Certificate**

I certify that I have completed the audit of the accounts of Dacorum Borough Council in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission.

# Appendix 2 – Corrected errors

I identified the following errors during the audit which management have addressed in the revised financial statements.

Item of account	Nature of error	Statement of comprehensive income and expenditure		Balance sheet	
		Dr £'000s	Cr £'000s	Dr £'000s	Cr £'000s
<b>Property, Plant &amp; Equipment</b>	The revaluation on Council Dwellings had been misallocated by £0.161 million between the Statement of Comprehensive Income & Expenditure and the Revaluation Reserve.	The financial statements have been amended to ensure £0.161 million of the revaluation charge to the Comprehensive Income and Expenditure Statement has been reallocated to the Revaluation Reserve. This error has nil impact upon the primary financial statements or reserves.			
<b>Contingent Liabilities</b>	Omission of potential liability arising from Municipal Mutual Insurance Scheme of Arrangement.	The financial statements have been amended to include a contingent liability in respect of the Council's potential obligation to the Municipal Mutual Insurance Scheme of Arrangement. Again, this adjustment has no impact upon the primary financial statements or reserves. Note: I have also sought a specific assurance on this matter in my request for a Letter of Representation.			
<b>Explanatory Foreword</b>	Omission of explanation of the Housing self-financing transaction from the explanatory foreword.	The explanatory foreword has been amended to include details of the HRA self-financing transaction, which was the most significant item of account within the financial year. Again, this adjustment has no impact upon the primary financial statements or reserves.			

# Appendix 3 – Request for a letter of management representation

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**Our reference** DA05612A / LoR / MH

14 August 2012

Sally Marshall  
Corporate Director (Finance & Governance)  
Dacorum Borough Council  
Civic Centre  
Marlowes  
Hemel Hempstead  
HP1 1HH

**Telephone** 0844 798 5824  
**Mobile** 07967 623445  
**Email** m-hodgson@audit-commission.gov.uk

Dear Sally

## **2011/12 Financial Statements: Request for Letter of Representation**

International Standards on Auditing set out guidance on the use by auditors of management representations (ISA (UK&I) 580) and on possible noncompliance with laws and regulations (ISA (UK&I) 250). I have interpreted this guidance as it affects Local Government and I expect the following points to apply.

- Auditors may wish to obtain written representation where they are relying on management's representations in respect of judgemental matters (for example the level of likely incidence of a claim), which may not be readily corroborated by other evidence.
- Auditors are likely to request written representations on the completeness of information provided.
- Auditors may wish to obtain written representation on issues other than those directly related to the Statement of Accounts.
- The letter is dated on or near to the date on which the auditor signs the opinion and certificate.
- The letter is signed by the person or persons with specific responsibility for the financial statements.
- The letter is formally acknowledged as having been discussed and approved by the Audit Committee, as those charged with governance of the Council.

I would expect your letter of representation to include the following:

### **Compliance with the statutory authorities**

An acknowledgement of your responsibility under the relevant statutory authorities for preparing the financial statements in accordance with the Accounts and Audit (England) Regulations 2011 and the Code of Practice on Local Authority Accounting in the United Kingdom which give a true and fair view of the financial position and financial performance of the Authority, for the completeness of the information provided to you, and for making accurate representations to you.

### **Uncorrected misstatements**

Confirmation that the effects of any uncorrected misstatements within the financial statements are not material to the financial statements, either individually or in aggregate, and that these misstatements have been discussed with those charged with governance. The reasons for not correcting any such items should be given.

### **Supporting records**

Confirmation that all the accounting records, other records and related information, have been made available to me for the purpose of my audit, and that all the transactions undertaken by the Council have been properly reflected and recorded in the accounting records.

Confirmation that all other records and related information, including minutes of all Council and Committee meetings have been made available to us.

## **Going Concern**

Confirmation that it is appropriate for the Council to adopt the going concern basis in the preparation of its financial statements and that the financial statements include, such disclosures, if any, relating to going concern.

## **Irregularities**

Acknowledgement of your responsibility for the design and implementation of internal control systems that prevent and detect fraud or error, and confirmation that there have been no:

- irregularities involving management or employees who have significant roles in the system of internal accounting control;
- irregularities involving other employees that could have a material effect on the financial statements; or
- communications from regulatory agencies concerning non-compliance with, or deficiencies on, financial reporting practices which could have a material effect on the financial statements.

Confirmation that you have disclosed to me:

- your knowledge of fraud, or suspected fraud, involving either management, employees who have significant roles in internal control or others where fraud could have a material effect on the financial statements; and
- your knowledge of any allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, analysts, regulators or others.

## **Law, regulations, contractual arrangements and codes of practice**

Confirmation that there are no instances of non-compliance with laws, regulations and codes of practice, which are likely to have a significant effect on the finances or operations of the Council.

Confirmation that the Council has complied with all aspects of contractual arrangements that could have a material effect on the financial statements in the event of non-compliance, and that there has been no non-compliance with requirements of regulatory authorities that could have a material effect on the financial statements in the event of non-compliance.

## **Accounting estimates including fair values**

Confirmation of the reasonableness of the significant assumptions within the financial statements. For each accounting estimate confirm:



- the appropriateness of the measurement method, including related assumptions and models, and the consistency in application of the method;
- the assumptions appropriately reflect management's intent and ability to carry out specific courses of action on behalf of the Council, where relevant to the accounting estimates and disclosures;
- the disclosures relating to the accounting estimate are complete and appropriate under the Code; and
- that no subsequent event requires the Council to adjust the accounting estimate and related disclosures included in the financial statements.

### **Compensating arrangements**

Confirmation that there are no formal or informal compensating balancing arrangements with any of the Council's cash and investment accounts.

### **Provisions and Contingent liabilities**

Confirmation that there are no other provisions and contingent liabilities, other than those that have been properly recorded and disclosed in the financial statements. In particular:

- there is no significant pending or threatened litigation, other than those already disclosed in the financial statements;
- there are no material commitments or contractual issues, other than those already disclosed in the financial statements; and
- no financial guarantees have been given to third parties.

### **Related party transactions**

Confirmation of the completeness of the information disclosed regarding the identification of related parties. Confirmation that the Council's registers of interest are complete and up to date in respect of directors and senior staff.

Confirmation that the identity of, and balances and transactions with, related parties have been properly recorded and where appropriate, adequately disclosed in the financial statements.

## **Post balance sheet events**

Confirmation that since the date of approval of the financial statements by the Council, no additional significant post balance sheet events that have occurred which would require additional adjustment or disclosure in the financial statements and that the Council has no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the financial statements

## **Specific Representations**

### **1. Heritage assets**

Confirmation that appropriate inquiries and investigations have been made to identify all material heritage assets held by the Council.

### **2. MMI Settlement (Provision versus Contingent Liability)**

Confirmation that in your view, whilst there is an increased likelihood of the clawback of previous MMI settlements, you do not consider it is probable that a reliable estimate of its quantum can be made and therefore under IAS37, a contingent liability is appropriate.

The above matters are examples only. There may be other matters which you would wish to include in the management letter of representation. I should be grateful if you could, after discussion with other officers as appropriate, provide a signed management letter of representation for Dacorum Borough Council at the appropriate time.

Yours sincerely

**Mark Hodgson**

**District Auditor**

# Appendix 4 – Glossary

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## **Annual Audit Letter**

Letter issued by the auditor to the Authority after the completion of the audit that summarises the audit work carried out in the period and significant issues arising from auditors' work.

## **Annual Governance Report**

The auditor's report on matters arising from the audit of the financial statements presented to those charged with governance before the auditor issues their opinion [and conclusion].

## **Annual Governance Statement**

The annual report on the Authority's systems of internal control that supports the achievement of the Authority's policies aims and objectives.

## **Audit of the accounts**

The audit of the accounts of an audited body comprises all work carried out by an auditor under the Code to meet their statutory responsibilities under the Audit Commission Act 1998.

## **Audited body**

A body to which the Audit Commission is responsible for appointing the external auditor.

## **Auditing Practices Board (APB)**

The body responsible in the UK for issuing auditing standards, ethical standards and associated guidance to auditors. Its objectives are to establish high standards of auditing that meet the developing needs of users of financial information and to ensure public confidence in the auditing process.

## **Auditing standards**

Pronouncements of the APB that contain basic principles and essential procedures with which auditors must comply, except where otherwise stated in the auditing standard concerned.

**Auditor(s)**

Auditors appointed by the Audit Commission.

**Code (the)**

The Code of Audit Practice for local government bodies issued by the Audit Commission and approved by Parliament.

**Commission (the)**

The Audit Commission for Local Authorities and the National Health Service in England.

**Ethical Standards**

Pronouncements of the APB that contain basic principles relating to independence, integrity and objectivity that apply to the conduct of audits and with which auditors must comply, except where otherwise stated in the standard concerned.

**Financial statements**

The annual statement of accounts that the Authority is required to prepare, which report the financial performance and financial position of the Authority in accordance with the Accounts and Audit (England) Regulations 2011 and the Code of Practice on Local Authority Accounting in the United Kingdom.

**Group accounts**

Consolidated financial statements of an Authority and its subsidiaries, associates and jointly controlled entities.

**Internal control**

The whole system of controls, financial and otherwise, that the Authority establishes to provide reasonable assurance of effective and efficient operations, internal financial control and compliance with laws and regulations.

**Materiality**

The APB defines this concept as ‘an expression of the relative significance or importance of a particular matter in the context of the financial statements as a whole. A matter is material if its omission would reasonably influence the decisions of an addressee of the auditor’s report; likewise a misstatement is material if it would have a similar influence. Materiality may also be considered in the context of any individual primary statement

within the financial statements or of individual items included in them. Materiality is not capable of general mathematical definition, as it has both qualitative and quantitative aspects’.

The term ‘materiality’ applies only to the financial statements. Auditors appointed by the Commission have responsibilities and duties under statute, as well as their responsibility to give an opinion on the financial statements, which do not necessarily affect their opinion on the financial statements.

### **Significance**

The concept of ‘significance’ applies to these wider responsibilities and auditors adopt a level of significance that may differ from the materiality level applied to their audit of the financial statements. Significance has both qualitative and quantitative aspects.

### **Those charged with governance**

Those entrusted with the supervision, control and direction of the Authority. This term includes the members of the Authority and its Audit Committee.

### **Whole of Government Accounts**

A project leading to a set of consolidated accounts for the entire UK public sector on commercial accounting principles. The Authority must submit a consolidation pack to the department for Communities and Local Government which is based on, but separate from, its financial statements.

If you require a copy of this document in an alternative format or in a language other than English, please call:  
**0844 798 7070**

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The Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission explains the respective responsibilities of auditors and of the audited body. Reports prepared by appointed auditors are addressed to non-executive directors, members or officers. They are prepared for the sole use of the audited body. Auditors accept no responsibility to:

- any director/member or officer in their individual capacity; or
- any third party.

