

Audit Agenda



Wednesday 14 June 2023 at 7.30 pm

Conference Room 1 - The Forum

The Councillors listed below are requested to attend the above meeting, on the day and at the time and place stated, to consider the business set out in this agenda.

Membership

Councillor Birnie
Councillor Douris
Councillor Elliot

Councillor S Hobson
Councillor Reynolds (Vice-Chair)
Councillor Stewart (Chair)

For further information, please contact Corporate and Democratic Support or 01442 228209

AGENDA

- 7. EXTERNAL AUDIT ANNUAL REPORT (Pages 2 - 25)**

Auditor's Annual Report on Dacorum Borough Council

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2021/22

May 2023



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We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to satisfy ourselves that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the National Audit Office (NAO) requires us to report to you our commentary relating to proper arrangements.

We report if significant matters have come to our attention. We are not required to consider, nor have we considered, whether all aspects of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.



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The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed for the purpose of completing our work under the NAO Code and related guidance. Our audit is not designed to test all arrangements in respect of value for money. However, where, as part of our testing, we identify significant weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose all irregularities, or to include all possible improvements in arrangements that a more extensive special examination might identify. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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Executive summary



Value for money arrangements and key recommendation(s)

Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to consider whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Auditors are required to report their commentary on the Council's arrangements under specified criteria and 2021/22 is the second year that we have reported our findings in this way. As part of our work, we considered whether there were any risks of significant weakness in the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources. Our conclusions are summarised in the table below.

Criteria	Commentary	Conclusion
Financial sustainability	The Council has strong arrangements relating to financial sustainability.	No risks of significant weakness identified.
Governance	Improvement recommendation raised regarding the inclusion of non-financial information and performance data in financial reports to provide a more holistic view of the Dacorum's situation and performance to Cabinet members.	No risks of significant weakness identified, but improvement recommendation made
Improving economy, efficiency and effectiveness	Improvement recommendations raised due to the need to update the procurement strategy to reflect the current governance arrangements and processes around procurement.	No risks of significant weakness identified, but improvement recommendation made



Financial sustainability

The Council continues to operate in a financially and operationally challenging environment. Financial planning both in the short and medium term is robust with a prudent assumptions being built into both. The challenges will continue so the need for the structured and disciplined approach to managing finances and reserves which the Council has demonstrated will continue to be crucial.

We have not identified any indications of significant weaknesses in arrangements relating to financial sustainability.



Governance

We reviewed the arrangements relating to Governance and have not identified any indications of significant weaknesses in arrangements.

We have suggested an improvement recommendation regarding the inclusion of non-financial information and performance data in financial reports to provide a more holistic view of the Dacorum's situation and performance to Cabinet members. In addition, we raised a recommendation to address inconsistent recording of the risk appetite scores within the revised Strategic Risk Register (SRR).



Improving economy, efficiency and effectiveness

The Council has demonstrated a clear understanding of its role in securing economy, efficiency and effectiveness in its use of resources.

We reviewed the arrangements relating to the 3e's and have not identified and indications of significant weaknesses in arrangements. However, we have suggested an improvement recommendation regarding the update of the procurement strategy to reflect the current governance arrangements and processes around procurement.

Opinion on the financial statements and use of auditor's powers

We bring the following matters to your attention:

Opinion on the financial statements

Auditors are required to express an opinion on the financial statements that states whether they : (i) present a true and fair view of the Council's financial position, and (ii) have been prepared in accordance with the CIPFA/LASAAC Code of practice on local authority accounting in the United Kingdom 2021/22

We have completed our audit of your financial statements and issued an unqualified audit opinion on 29 November 2022. Our findings are set out in further detail on page 19.

Statutory recommendations

Under Schedule 7 of the Local Audit and Accountability Act 2014, auditors can make written recommendations to the audited body which need to be considered by the body and responded to publicly

Not required.

Public Interest Report

Under Schedule 7 of the Local Audit and Accountability Act 2014, auditors have the power to make a report if they consider a matter is sufficiently important to be brought to the attention of the audited body or the public as a matter of urgency, including matters which may already be known to the public, but where it is in the public interest for the auditor to publish their independent view.

Not required.

Application to the Court

Under Section 28 of the Local Audit and Accountability Act 2014, if auditors think that an item of account is contrary to law, they may apply to the court for a declaration to that effect.

Not applied.

Advisory notice

Under Section 29 of the Local Audit and Accountability Act 2014, auditors may issue an advisory notice if the auditor thinks that the authority or an officer of the authority:

- is about to make or has made a decision which involves or would involve the authority incurring unlawful expenditure,
- is about to take or has begun to take a course of action which, if followed to its conclusion, would be unlawful and likely to cause a loss or deficiency, or
- is about to enter an item of account, the entry of which is unlawful.

Not issued.

Judicial review

Under Section 31 of the Local Audit and Accountability Act 2014, auditors may make an application for judicial review of a decision of an authority, or of a failure by an authority to act, which it is reasonable to believe would have an effect on the accounts of that body.

Not applied.

Securing economy, efficiency and effectiveness in the Council's use of resources

All Councils are responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness from their resources. This includes taking properly informed decisions and managing key operational and financial risks so that they can deliver their objectives and safeguard public money. The Council's responsibilities are set out in Appendix A.

Councils report on their arrangements, and the effectiveness of these arrangements as part of their annual governance statement.

Under the Local Audit and Accountability Act 2014, we are required to be satisfied whether the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

The National Audit Office's Auditor Guidance Note (AGN) 03, requires us to assess arrangements under three areas:



Financial Sustainability

Arrangements for ensuring the Council can continue to deliver services. This includes planning resources to ensure adequate finances and maintain sustainable levels of spending over the medium term (3-5 years).



Governance

Arrangements for ensuring that the Council makes appropriate decisions in the right way. This includes arrangements for budget setting and management, risk management, and ensuring the Council makes decisions based on appropriate information.



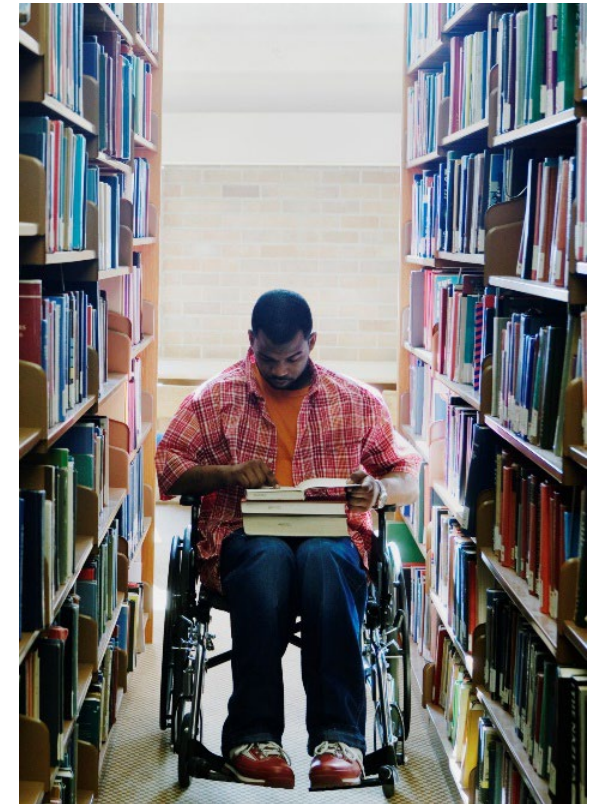
Improving economy, efficiency and effectiveness

Arrangements for improving the way the Council delivers its services. This includes arrangements for understanding costs and delivering efficiencies and improving outcomes for service users.

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Our commentary on the Council's arrangements in each of these three areas, is set out on pages 6 to 16. Further detail on how we approached our work is included in Appendix B.



Financial sustainability



We considered how the Council:

- identifies all the significant financial pressures that are relevant to its short and medium-term plans and builds them into its plans
- plans to bridge its funding gaps and identify achievable savings
- plans its finances to support the sustainable delivery of services in accordance with strategic and statutory priorities
- ensures its financial plan is consistent with other plans such as workforce, capital, investment and other operational planning which may include working with other local public bodies as part of a wider system
- identifies and manages risk to financial resilience, such as unplanned changes in demand and assumptions underlying its plans.

Financial performance overview

The Council has a history of good financial performance and has consistently demonstrated a track record of robust budget setting and delivery. In our previous reports, we have stated that the processes in place incorporate an appropriate level of scrutiny from Committees to ensure budgets are achievable operationally.

Financial performance in 2021/22

The Council delivered a surplus of £0.57m on the General Fund revenue budget for 2021/22 and the Housing Revenue Account (HRA) presented a balanced outturn position. During the year, there was a draw-down of £11.1m from the Funding Equalisation Reserve to support statutory payments in respect of the business rates Collection Fund deficit. Furthermore, there was a contribution from the Covid 19 Hardship Reserve of circa £0.5m to support the cost of Council Tax Hardship. Both of these reserves were created in the year 2021/22 specifically for these purposes and therefore were expected.

There was also a contribution of circa £6.5m to the Funding Equalisation Reserve to support the statutory payments of the business rates deficit on the Collection Fund in 2022-23.

Financial performance 2022/23 to date

In 2022/23, a number of new financial pressures have arisen as a result of a sharp downturn in economic conditions in both in the UK and globally. These have significantly increased the magnitude of inflationary pressures from the early part of 2021/22, beyond what had been projected when the budget was set. These have been appropriately reflected on the S25 statement on the 2022/23 budget and the refreshed MTFS.

The most recent budget monitoring report indicates the Council is forecasting an underlying pressure of £0.84m on the General Fund, with nearly all of the balance relating to the December 2022 enhanced pay award which will be funded by the use of reserves. This has been reflected in the 2023/24 budget. The HRA is forecasting a pressure of £4.1m. The increase repairs and maintenance works and the increasing costs to deliver these services total £3.1m. These cost pressures have also been incorporated into in the 2023/24 budget. We will continue to monitor the progress in managing the pressures around the HRA.

The economic and inflationary pressures exceeded what could reasonably have been projected when the budget was set in February 2022, so the fact that the Council expects to be able to set a balanced budget for 2023/34 is indicative of robust financial management arrangements.

The Council will need to continue to adapt and strengthen its financial planning processes to address the heightened level of financial challenge expected to persist over the medium term. We note the steps that the Council is taking in that direction, becoming more commercially focused and exploring new revenue streams.

Managing financial risks

The Council includes financial risks as part of its Strategic Risk Strategy and the Audit and Scrutiny Committee provides oversight of the process. The Strategic Risk Register (SRR) is reported to Cabinet and to the Audit Committee on a quarterly basis.

Financial planning and managing pressures

The Council has strong processes underpinning financial management that allows them to identify financial pressures in a systemic and timely manner, and to build these into short and medium term plans.

Financial sustainability

The sudden changes into the macroeconomic environment driven by the Covid-19 pandemic impact, the inflationary pressures and resulting cost of living crisis have created a series of challenges and cost increases affecting the global economy. In particular employment costs for direct employees and those of providers, premises costs (energy inflation), transport costs (fuel inflation) and price increase on the purchase of goods and services, including suppliers passing on additional costs or renegotiating contract prices. Some of the most significant levels of inflation are being experienced in the construction and this impacts on Capital programmes which are discussed later in this report.

The Council has effectively recognised and acted upon the recent economic and inflationary pressures and presented to Cabinet on the 18 of October 2022 a refreshed Medium Term Financial Strategy (MTFS) 2022/23 – 2026/27 to provide a more accurate forecast of the Council's General Fund revenue budget over a five year period. This update was made to respond to the high level of uncertainty over the medium-term outlook due to the Government's short-term funding settlements, delays in local government funding reforms, the post pandemic period and the potential impacts of the current cost of living crisis. As a result, the Council has better positioned itself to manage the pressures moving forward by controlling in year expenditure in 2023/24 and identifying approaches to dealing with future funding challenges.

Savings plans

The Council has robust processes to identify, monitor and deliver saving plans. The Council has quarterly monitoring and review process as part of the revenue cycle. This process includes a review of the current year and next years' savings and provides a full understanding in terms of the target delivery for savings. Furthermore, saving plans are tracked and reported to the SLT on a monthly basis. If any slippage or adverse variances are identified that would threaten the achievement of saving targets, mitigating actions would be created and cascaded down through the organisation for implementation.

Historically, the Council has achieved its saving plans and has created specific reserves to alleviate financial pressures in determined areas. In 2021/22, the Council had a total General Fund savings target of £0.76m and the final savings delivered were £0.64m. The HRA saving proposals for 2021/22 were £0.25m but were not delivered due to the increase in prices of raw materials and supply chain issues in the construction sector.

In the refreshed Medium Term Financial Strategy (MTFS) 2022/23 – 2026/27, the Council anticipated a General Fund savings target of £1.8m to be approved for the year 2023/24, and a four-year savings target of £3.6m. The Council is aware that the volume of savings exceed the levels of the targets set in previous years and the implementation and delivery of transformation programme to achieve them is challenging. However the risk is mitigated by the fact over 75% of the savings required over the four year MTFS have already been identified.

Table 2: Medium Term Financial Savings Requirement.

		2023/24	2024/25	2025/26	2026/27
a.	Savings identified, but still to be delivered	£1,800	£840k	£110k	£30
b.	Savings still to be identified	£0k	£700k	£0k	£130k
	Total Savings Requirement	£1,800k	£1,540k	£110k	£160k

Commercial strategy

The Council has a commercial strategy that was presented to Cabinet on September 2022. Historically, the Council focused its financial management strategy on cost control, which led to a relatively strong financial position. However the Council has recognised this approach is not sustainable and has begun considering how it can generate greater income. As a result, the Council has developed a commercial strategy seeking to be more innovative and commercially focused with the aim of continuing to deliver and investing in services whilst factoring in the challenging economic context and reduced central government funding.

The objective of the commercial strategy is to support a more agile commercial culture across the Council and to identify opportunities to generate income and make efficiency savings. The Council has created a Commercial Board to oversee the effective delivery of the strategy and to monitor the performance. The Commercial Strategy takes into consideration the levels of income, risks, impact on capital and revenue planning, and location of investments.

Financial sustainability

We understand the Council's only material investments during 2021/22 related to the House Building Programme and fleet replacement. As of April 2023, there is a commissioning process to undertake a strategic asset review that will look at the operational assets and commercial portfolio to examine the opportunities that will help shape strategy from Autumn 2023 onwards. As the capital programme details, most of the investments are in housing and HRA.

The Council's existing commercial portfolio is already relatively large and is made up of approximately 150 assets that generate an annual income of £5m. The Council has a 95% occupancy and aims for a low yield, high occupancy strategy.

Capital Strategy

The Council has a defined capital strategy which is appropriately reflected on the budget report. The capital strategy gives a clear and concise view of how the Council determines its priorities for capital investment, decides how much borrowing is affordable and its risk appetite and the governance arrangements in place to manage those risks.

During the year 2021/22, the main focus of the capital programme was around HRA, the construction of a leisure centre and a potential development of DevCo. The Council had a separate set of capital funds allocated for their development. Nevertheless, the increase in construction prices and the inflationary pressures resulted in an unsustainable business case and negative returns causing the projects to be put on hold.

Managing financial resilience and reserves

CIPFA has commented that councils should be wary about using reserves to deal with shortfalls in current funding. Where such action is to be taken, this should be made explicit, and an explanation given as to how such expenditure will be funded in the medium to long term. Advice should be given on the adequacy of reserves over the lifetime of the medium-term financial plan and should also take account of the expected need for reserves in the longer term.

The Council was able to deliver a small surplus in 2021/22 and whilst drawdowns from reserves were required in 2022/23 these were still manageable and were largely a consequence of pay pressure arising from inflation that are clearly exceptional and could not be planned for.

As the table to the right shows, the Council has relatively strong levels of reserves in place and expects to further strengthen these over the medium term (the funding equalisation reserve helps smooth income volatility and isn't use for general fund day to day activity).

The Council is therefore comfortable in following CIPFA guidance which suggests unallocated reserves between 5% and a 15% of the net cost of services on the general fund and not less than a 5% turnover on the HRA.

General Fund Reserves Summary	Balance as at 31/03/2022 £'000	Net Reserve Movement 2022/23 £'000	Balance as at 31/03/2023 £'000	Net Reserve Movement 2023/24 £'000	Balance as at 31/03/2024 £'000	Net Reserve Movement 2024/25 £'000	Balance as at 31/03/2025 £'000	Net Reserve Movement 2025/26 £'000	Balance as at 31/03/2026 £'000	Net Reserve Movement 2026/27 £'000	Balance as at 31/03/2027 £'000
Civic Buildings Major Repairs Reserve	60		60		60		60		60		60
Capital Development Reserve	300	(300)	0		0		0		0		0
Earmarked Grants Reserve	44		44		44		44		44		44
Management of Change Reserve	257	477	734	(103)	631		631		631		631
Technology Reserve	752	(65)	687		687		687		687		687
Savings Efficiencies Reserve	907	(504)	403	904	1,307	633	1,940	765	2,705	875	3,580
On Street Car Parking Reserve	108	40	148	40	188	40	228	40	268	40	308
Local Development Framework Reserve	477	(267)	210	(80)	130	(130)	0		0		0
Dacorum Development Reserve	2,707	212	2,919	447	3,366	(329)	3,037	(54)	2,983		2,983
Climate Change and Sustainability Reserve	212	(46)	166		166		166		166		166
Litigation Reserve	317		317		317		317		317		317
Vehicle Replacement Reserve	0	350	350	25	375	25	400	25	425	25	450
Invest to Save Reserve	62	(20)	42	(20)	22		22		22		22
Youth Provision Reserve	44		44		44		44		44		44
Election Reserve	80	40	120	(120)	0	40	40	40	80	40	120
Uninsured Loss Reserve	360		360		360		360		360		360
Training & Development Reserve	133	(75)	58	(58)	0		0		0		0
Housing Conditions Survey Reserve	76	15	91	15	106	15	121	15	136	15	151
Dacorum Rent Aid - Guarantee Scheme	15	(15)	0		0		0		0		0
Rent Guarantee Scheme Reserve	15	(15)	0		0		0		0		0
Funding Equalisation Reserve	10,048	(8,082)	1,966	1,111	3,077		3,077		3,077		3,077
Pensions Reserves	2,573	(519)	2,054	600	2,654	200	2,854	200	3,054	200	3,254
Maylands Plus Reserve	46	23	69	23	92	23	115	23	138	23	161
Covid 19 Hardship Fund	133		133		133		133		133		133
Economic Recovery Reserve	2,807	(1,725)	1,082	(895)	187		187		187		187
Inflationary Pressures Reserve	565	(284)	281	750	1,031		1,031		1,031		1,031
Leisure Reserve	0	300	300		300		300		300		300
Total Earmarked Reserves	23,098	(10,460)	12,638	2,639	15,277	517	15,794	1,054	16,848	1,218	18,066
Working Balance	2,502		2,502		2,502		2,502		2,502		2,502
Total General Fund Reserves	25,600	(10,460)	15,140	2,639	17,779	517	18,296	1,054	19,350	1,218	20,568

Conclusion

The Council continues to operate in a financially and operationally challenging environment. However the Council has demonstrated a strong financial planning for both the short and medium term. The managing of reserves and achievement of saving targets, alongside the monitoring of the financial strategy demonstrate a solid approach towards financial sustainability.

Governance



We considered how the Council:

- monitors and assesses risk and gains assurance over the effective operation of internal controls, including arrangements to prevent and detect fraud
- approaches and carries out its annual budget setting process
- ensures effective processes and systems are in place to ensure budgetary control; communicate relevant, accurate and timely management information (including non-financial information); supports its statutory financial reporting; and ensures corrective action is taken where needed, including in relation to significant partnerships
- ensures it makes properly informed decisions, supported by appropriate evidence and allowing for challenge and transparency. This includes arrangements for effective challenge from those charged with governance/audit committee
- monitors and ensures appropriate standards, such as meeting legislative/regulatory requirements and standards in terms of staff and board member behaviour (such as gifts and hospitality or declaration/conflicts of interests) and where it procures and commissions services.

Overview

Governance is the system by which an organisation is controlled and operates and is the mechanism by which it and its staff are held to account. It works from Council meetings to the front line. Ethics, risk management, compliance, internal control and best practice are all elements of governance. Effective governance requires both clear and unambiguous structures and processes and effective working of people within these frameworks. Effective governance also requires an open culture that promotes transparency, a willingness to learn and improve and no fear to speak the truth.

Risk management

The Council has a risk management policy in place which was published in February 2023. The risk management policy sets out the approach, methodology and strategy of the Council to risk and provides guidance to all employees and Members. The risk management policy requires the Strategic Risk Register to be updated quarterly and reported to Cabinet quarterly and to the Audit Committee.

The Strategic Risk Register summarises the key risks and scores them based on an assessment of each individual risk profile by analysing the consequence and likelihood to gain an overall view of the significance of the risk's threat to the achievement of the objectives. These are later multiplied to give an overall score which is used to help inform the response to the risk

Each risk is individually scored and after detailing the internal controls and mitigations revaluated with a net score.

The number of risks on the Strategic Risk Register varies as risks are removed and new risks are identified. During the year there were only seven strategic risks reported to Cabinet and to the Audit Committee which allows focus and detailed discussion. However, we have found some inconsistencies when recording the risk appetite score in the SRR.

Therefore, although we believe that the Council has strong risk management arrangements, we have raised an improvement recommendation regarding the recording of the risk appetite scores.

Internal audit

The internal audit function is provided by TIAA Ltd, an external supplier. We have inspected the Internal Audit annual report 2021/22 and confirmed that the Council obtained an overall reasonable assurance in the year 2021-22. This conclusion reports the Council has robust internal controls and governance systems, but highlights that they have identified several areas that require improvements which, if not addressed, may put the achievement of some objectives at risk. The report states that there had been a number of improvement recommendations from which three have been considered urgent. The Council is currently addressing them and implementing actions to improve in these areas.

The Internal Audit Annual Report 2021/22 concluded that two areas - waste management and Safeguarding and prevention - had limited assurance. The Council has addressed the recommendations made and expect the actions to be fully implemented soon.

Budget setting process

The Council has an integrated service planning and budget setting process. Service plans are drawn up at the start of the financial year and highlight expected areas of growth, savings and capital investment for future periods. Once approved, service plans inform the budget setting process. The budget setting process commences with the proposals for growths and savings from all services for the upcoming year. These are scrutinised internally and the draft proposals are presented to the SLT. The SLT challenges the proposals and once agreed, they are presented informally to Cabinet and formally to the Budget Review Group. After the scrutiny process, a finalised list of proposals are utilised to create a first draft budget which has to first be approved by the overview and scrutiny committees to be reviewed and challenged at a formal Member level.

Governance

In December, a second budget is created reflecting the feedback from this process and refining any updates from the financial settlement from Government. The second draft is taken to a second scrutiny meeting in February before going to Cabinet for formal approval. Once presented to Cabinet, Members are asked their views and alternative proposals and scenarios are considered.

The final budget is agreed and signed off in the February committee by the Cabinet. Based on the information above and the review of relevant documentation, we are comfortable that the Council considers trends and analysis and extrapolation when stating their annual budget and MTFs and that different proposals and alternatives are considered. The Council also effectively considers macroeconomic trends to the extent to which they affect Dacorum, such as inflation, the impact of Covid-19, or the cost of living crisis. These have been appropriately reflected in the assumptions in both the MTFs and the budget proposal. In fact, to better reflect the financial environment, an updated MTFs was presented to Cabinet in October 2022.

The impact of investment and borrowing activity is appropriately reflected in the annual budget and Treasury Management strategy.

Budgetary control

Budgets are monitored on a monthly cycle. The finance team effectively engages with budget holders to review financial performance and identify actions to resolve any variances. All budget holders in the council have a specific named service accountant that supports specific service areas in the council. The budget holders meet with their service accountants to feed them into the monthly corporate monitoring returns. Variances are highlighted and mitigation plans are created where applicable.

Furthermore, the monthly corporate revenue monitoring process allows the Senior Leadership Team to discuss any ongoing variances and reflect on mitigation ideas or alternative plans for financial management and the outcome is reported to scrutiny and cabinet on a quarterly basis. The Council demonstrates strong governance processes around budgetary control.

Nevertheless, financial reports do not integrate non-financial performance information, as they are reported separately from financial data. Although the information reported is sufficient and the non-financial information is reported separately, the inclusion of non-financial information in the financial reporting would provide a more holistic view of the Council performance. As a result, we have proposed an improvement recommendation to include this as part of the reports to Cabinet.

Decision-making process

The Council's decision-making processes are open, transparent and robust and we found no evidence to indicate significant deficiencies in the underlying arrangements. As stated within the code of corporate governance within the Council's Constitution, all major policy decisions are taken to Cabinet. All reports are reviewed by the Legal and Finance functions to ensure that all relevant information is provided before these being presented to the Committee. It is evident from our review of papers that sufficient information is provided to members and they challenge and hold senior management to account appropriately.

The Council is engaged and provides appropriate levels of scrutiny to external and internal audit. There is no evidence of serious and pervasive weaknesses in final accounts processes leading to material errors in draft accounts, failure to meet statutory reporting deadlines and/or a modified opinion on the financial statements.

From the review of Audit Committee and Cabinet papers, and the interviews performed to the Senior Leadership Team, there appears to be the appropriate 'tone from the top' regarding the decision making process and respecting the principles of transparency, openness and ownership marked on the Constitution.

We have not found any indications of reactive or unlawful decision making that could have a negative impact, either financially, or reputationally – during the review and assessment of documentation.

Policies and procedures

Various internal and external mechanisms are used to ensure the Council meets the necessary standards and legislative requirements. Our work has not identified any significant non-compliance with the Constitution, statutory requirements or expected standards of behaviour. We did note performance issues within the housing service that have been identified and delt with effectively by the Council resulting in structural changes within the housing team. We have examined the evidence provided and we are satisfied with the strengthened arrangements in relation to housing. The Council demonstrated a proactive approach towards regulatory compliance and strong governance arrangements to rapidly address and improve the situation.

We have not found evidence of any serious data breaches at the Council.

Governance

Officer and Member conduct is set in codes of conduct. The code of conduct sets out the standards of behaviour applicable to all officers, which are required to abide the following principles - selflessness, integrity, objectivity, accountability, openness, honesty and leadership. These are consistent with the public sector Nolan principles.

The Council has a monitoring officer with defined roles and responsibilities. The Council's disclosure of interests' process is operated each year to identify instances where senior officers/members may have a relation with a business entity that the council transacts with. Members interests are published on the Council website. There is an opportunity for Members to declare interests at every meeting as a set agenda item. Related party transactions are required to be declared as part of year end closure of accounts and are sent to all Members and Senior officers for their completion. The declaration of gifts and hospitality is covered within the code of conduct. Officers are advised on the rules related to gifts and hospitality and registering of interests. We found no evidence of adverse outcomes of interests, gifts or hospitality not being declared.

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Conclusion

We found no evidence or indication of significant risks to your governance arrangements. We have suggested an improvement recommendation regarding the inclusion of non-financial information and performance data in financial reports to provide a more holistic view of the Council's situation and performance to Cabinet members.

Improvement recommendations



Governance

Recommendation 1

The Council should include non-financial information and performance data in financial reports to provide a more holistic view of the Council's situation and performance to Cabinet members.

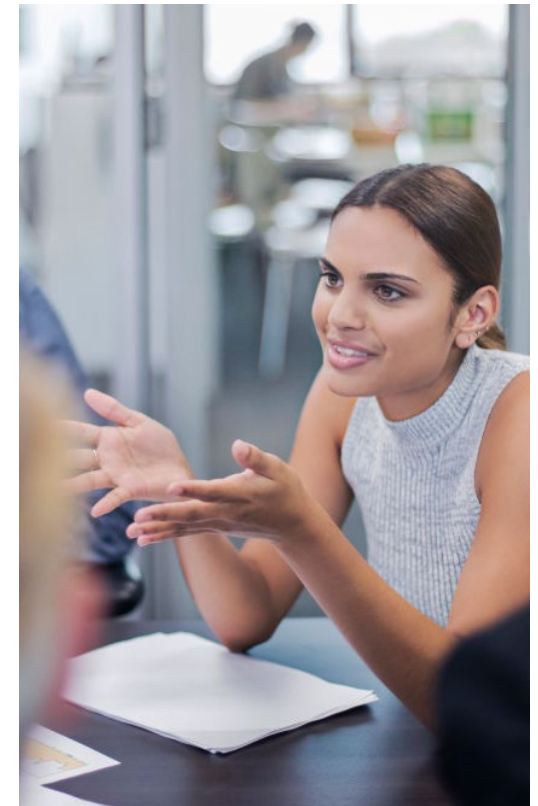
Why/ impact

The Council does not include non-financial information and performance data in their reports to Cabinet. Although we acknowledge the information reported is sufficient for an informed decision-making process, we believe that it does not provide a holistic view of the Council's performance. The current reporting could result in an isolated analysis of issues and could result in a lack of understanding over the impact that non-financial data has over KPIs and over financial information. The Council should also consider the inclusion of the risks detailed in the risk register to give a general overview of the potential implications in of these within the Council's financial performance.

Management Comments

The Council provides detailed quarterly performance information to its Overview and Scrutiny Committee meetings and Cabinet. Financial performance reports also go to these committees on a quarterly basis. The financial reports include operational context for areas of significant financial pressure/ benefit. Where appropriate and relevant, links will be made to relevant performance information to provide Members with a more holistic view of service performance.

This will commence as part of Q1 2023/24 reporting.
Strategic Lead-Nigel Howcutt, Chief Finance Officer



The range of recommendations that external auditors can make is explained in Appendix C.

Improvement recommendations



Governance

Recommendation 2

The Council should more consistent when recording the risk appetite scores to provide an indication of what level of risk is tolerable.

Why/impact

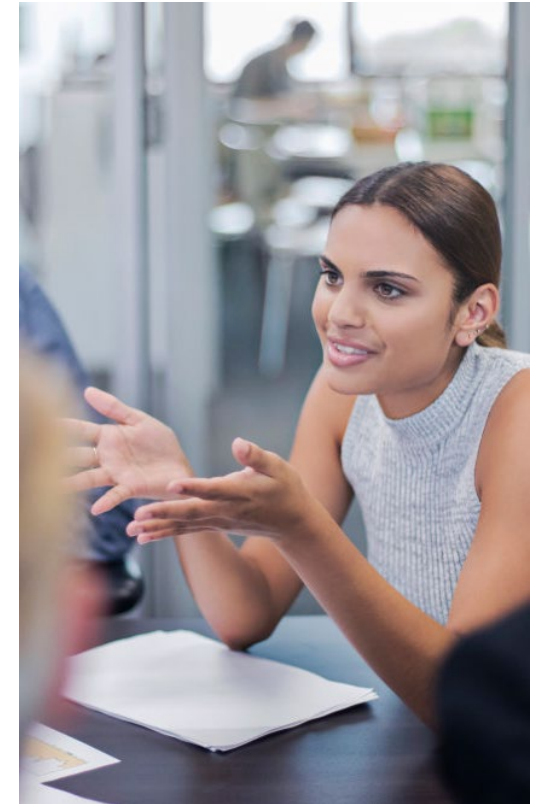
The Council is not consistent when recording the risk appetites on the Strategic Risk Register. From the review of the documentation, we have found that the Council has not always recorded the risk appetite score. The Council should have the risk appetite score or an alternative benchmarking tool to provide an indication of the level of tolerable risk.

Management Comments

The Council will ensure that risk appetite it recorded as part of its Strategic Risk Register reporting arrangements.

This will commence from Q1 2023/24 reporting. Further guidance will be provided to risk owners to support this as needed.

Strategic Lead- Nigel Howcutt, Chief Finance Officer



The range of recommendations that external auditors can make is explained in Appendix C.

Improving economy, efficiency and effectiveness



We considered how the Council:

- uses financial and performance information to assess performance to identify areas for improvement
 - evaluates the services it provides to assess performance and identify areas for improvement
- ensures it delivers its role within significant partnerships and engages with stakeholders it has identified, in order to assess whether it is meeting its objectives
- where it commissions or procures services assesses whether it is realising the expected benefits.

Performance information and monitoring.

Cabinet has recently approved a set of KPIs which have been designed in alignment with the Council's Strategic Plan. The Scrutiny Committees receive quarterly publicly available reports on the progress made against these KPIs. Furthermore, the Council also has an informal reporting process to Cabinet to ensure that Members are informed of performance.

The Council arrangements to ensure the data inputted into the system and reported formally to the Scrutiny Committee and informally to Cabinet is accurate is consistent with previous years.

The performance team has monthly meetings with each of the relevant service personnel to input the information into Inphase. This is later reviewed by a senior member of the service that provides the narrative which goes into the report. This gives the opportunity to correct any human error and also highlight any areas of performance concerns. With this information, the performance team creates the dashboards which are later added to the report and reported on a monthly basis to the SLT. The performance team also creates an exceptions report to provide additional information on the performance of specific services. On a quarterly basis, the heads of service review the service reports and data before being presented to the Scrutiny committee and to cabinet informally.

Due to resourcing constraints, the Council does not currently have a formal balance scorecard and an agreed service plan to provide a formal framework to monitor performance. Nevertheless, these aspects are currently being developed.

The Council has taken appropriate steps to create a cohesive and detailed service plan, and that the current processes in place utilising KPIs and reporting to the scrutiny committees to monitor performance are appropriate. The current development of new process and the design of the service plan is at its inception phase.

Partnerships

The Council has several strategic partnerships mainly focused around housing and leisure. The housing strategic partnerships are with Osborne property services and Sun Realm, which both provide housing repairs and maintenance. The leisure partner is Everyone Active. Furthermore, the Council has a number of strategic partnerships such as the Wider Herts group or local authority delivery partners such as South West Herts planning development strategy, or Hemel Garden Communities (DBC, STA, HCC).

The Council has effective arrangements that continuously monitor the performance of key partnerships. These are quarterly reported to the Scrutiny committees and subject to evaluation. We have confirmed that the Council considers and evaluates alternative service delivery options to ensure that value for money is obtained from strategic partnerships.

The Council is transparent when dealing with significant partners and there is engagement with key stakeholders when determining priorities for an effective use of resources.

Procurement

The Council has a commissioning and procurement strategy published in 2019 covering the period up to 2024. It was last updated in 2022, and provides a clear governance framework for officers and members to work within when carrying out commissioning and procurement activities on behalf of the Council.

The Procurement team supports services across the organisation delivering front line and back-office services. The Council works under the National Procurement Strategy for Local Government in England 2018. The National Procurement Strategy also provides a toolkit for the Council to assess its progress against the themes and objectives within the strategy.

Improving economy, efficiency and effectiveness

The Council has a legal duty to secure value for money in commissioning and procuring its requirements and to continually improve the quality in everything the public sees and expects from it. Central Government policy seeks to ensure that all commissioning and procurement activity should be based on obtaining value for money. This is defined as considering the optimum combination of whole life cost and the quality necessary to meet the customer's requirements. In conjunction with relevant legislation and the Council's Constitution (particularly the Financial Procedure Rules and Contract Standing Orders).

The Council founded a Commercial Board in January 2023 to provide senior officer governance for Dacorum's commercial activity. This board has oversight of the review and approval of all commissioning and procurement activity of the Council. The commercial board provide quarterly reports to the Scrutiny committee on the non-compliant spend and addressing any issues from key services providers.

The current commissioning and procurement strategy does not reflect the commercial board and new standing orders process. Although we acknowledge that there is a willingness and a plan to update this, the current strategy does not provide a true and fair view of the commissioning and procurement processes and arrangements.

We found no evidence that appropriate procurement processes were not followed during 2021/22. However, we noted some specific instances of non-compliance with procurement regulations. These issues were mainly focused on Social Housing. Nevertheless, the Council has identified and addressed these weaknesses effectively, performing structural changes to personnel and creating a specific and specialised team to deal with it.

Based on the above, we do not believe that the arrangements around procurement could pose a risk of significant weakness.

Benchmarking analysis

As part of our work, we have performed a benchmarking analysis against comparable districts to identify potential risks of significant weakness. We started our analysis by producing a unit cost table to showcase the budgeted spend within each service area compared to Hertfordshire districts.

The results of our exercise concluded that Dacorum currently has a very high budgeted spend in Planning and Development Services driven mainly by the significant investment made by the Council on housing to comply with regulations. These results are reasonable and we have not found any evidence on our benchmarking analysis that would indicate a potential risk of significant weakness.

Conclusion

The Council has demonstrated a clear understanding of its role in securing economy, efficiency and effectiveness in its use of resources. We assessed the arrangements concerning the 3e's and raised no indications of potential significant weaknesses. However, we have suggested an improvement recommendation regarding the update of the procurement strategy to reflect the current governance arrangements and processes around procurement.

Improvement recommendations



Improving economy, efficiency and effectiveness

Recommendation 3

The Council should update the procurement strategy in order to reflect the current governance arrangements and processes around procurement. Especially, it should address the creation and role of the Commercial Development Board and the new processes surrounding standing orders.

Why/ impact

The current procurement strategy has not been updated to reflect the Commercial board and new standing orders process.

Management Comments

The procurement strategy will be updated to reflect current governance arrangements.

This will be carried out during 2023/24.

Strategic Lead: Catherine Silva Donayre, Strategic Director (Corporate and Commercial)



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The range of recommendations that external auditors can make is explained in Appendix C.

Follow-up of previous recommendations

	Recommendation	Type of recommendation	Date raised	Progress to date	Addressed?	Further action?
1	<p>The Council should consider the following additions to the format of its Risk Register:</p> <ul style="list-style-type: none"> • Include a target score to provide an indication of what level of risk is tolerable and how far the existing arrangements are from achieving this. • The Risk Register would benefit from identifying future actions to support the management / mitigation of each risk. All actions identified should be SMART (specific, measurable, achievable, realistic, and timely). 	Improvement	December 2021	The client has addressed the recommendation and updated the SRR with a risk appetite score and with SMART mitigating actions.	Yes	No
2	The Council should consider producing a Data Strategy for approval within the Governance Structure.	Improvement	December 2021	The Council has not developed a data strategy yet. However, the new head of transformation has explained that there is a current focus within the team and with the head of digital to develop a new target operating model in which data strategy is the core of it. They have acknowledged that there is a requirement for a data strategy and the Council is currently focusing on developing it.	Yes – but currently in development. To be monitored.	Yes – needs to be monitored in next year's AAR to confirm the development of the strategy.

Opinion on the financial statements



Audit opinion on the financial statements

We gave an unqualified opinion or we qualified the opinion on the Council's financial statements on 29 November 2022.

Audit Findings Report

More detailed findings can be found in our AFR, which was published and reported to the Council's Audit Committee on 15 September 2022.

Preparation of the accounts

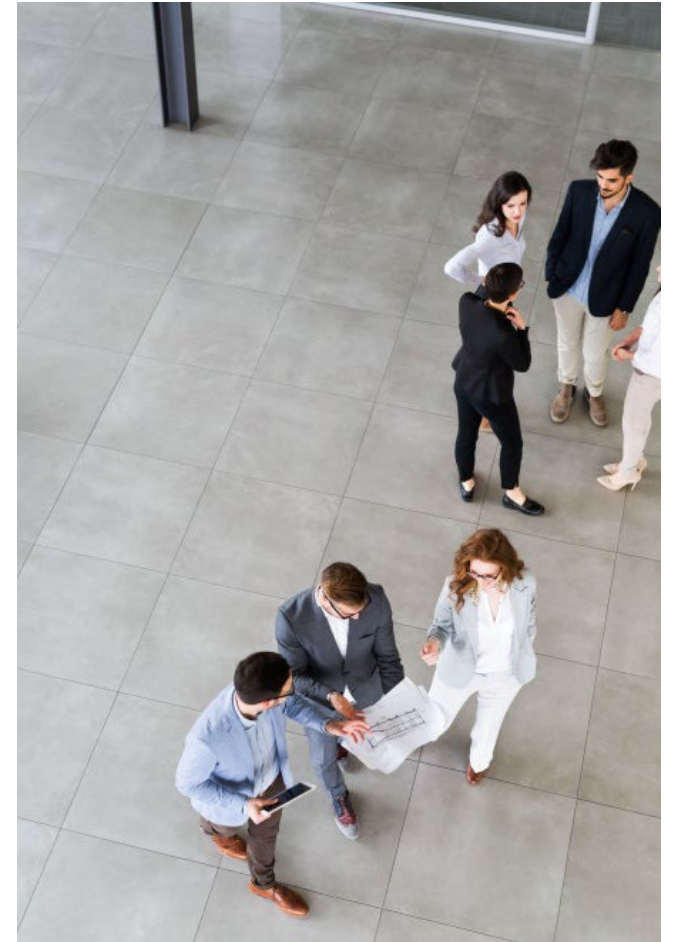
The Council provided draft accounts in line with the national deadline and provided a good set of working papers to support it.

Issues arising from the accounts:

There were no significant issues raised in the audit. This is consistent with previous years.

Grant Thornton provides an independent opinion on whether the accounts are:

- True and fair
- Prepared in accordance with relevant accounting standards
- Prepared in accordance with relevant UK legislation



Appendices

Appendix A – Responsibilities of the Council

Public bodies spending taxpayers' money are accountable for their stewardship of the resources entrusted to them. They should account properly for their use of resources and manage themselves well so that the public can be confident.

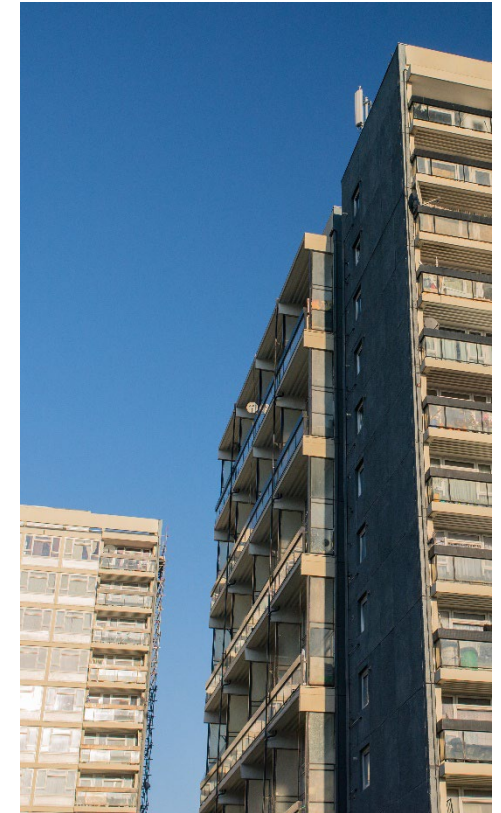
Financial statements are the main way in which local public bodies account for how they use their resources. Local public bodies are required to prepare and publish financial statements setting out their financial performance for the year. To do this, bodies need to maintain proper accounting records and ensure they have effective systems of internal control.

All local public bodies are responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness from their resources. This includes taking properly informed decisions and managing key operational and financial risks so that they can deliver their objectives and safeguard public money. Local public bodies report on their arrangements, and the effectiveness with which the arrangements are operating, as part of their annual governance statement

The Chief Financial Officer (or equivalent) is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Chief Financial Officer (or equivalent) determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The Chief Financial Officer (or equivalent) or equivalent is required to prepare 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. In preparing the financial statements, the Chief Financial Officer (or equivalent) is responsible for assessing the Council's ability to continue as a going concern and use the going concern basis of accounting unless there is an intention by government that the services provided by the Council will no longer be provided.

The Council 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.



Appendix B – Risks of significant weaknesses, our procedures and findings

As part of our planning and assessment work, we considered whether there were any risks of significant weakness in the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources that we needed to perform further procedures on. The risks we identified are detailed in the table below, along with the further procedures we performed, our findings and the final outcome of our work:

Risk of significant weakness	Procedures undertaken	Findings	Outcome
Financial sustainability was not identified as a potential significant weakness, see pages 6-8 for more details.	N/A	N/A	N/A
Governance was not identified as a potential significant weakness, see pages 9 - 11 for more details.	N/A	N/A	N/A
Improving economy, efficiency and effectiveness was not identified as a significant weakness, a more detailed review was undertaken see pages 14 - 15 for further information	N/A	N/A	N/A

Appendix C – An explanatory note on recommendations

A range of different recommendations can be raised by the Council’s auditors as follows:

Type of recommendation	Background	Raised within this report	Page reference
Statutory	Written recommendations to the Council under Section 24 (Schedule 7) of the Local Audit and Accountability Act 2014.	No	N/A
Key	The NAO Code of Audit Practice requires that where auditors identify significant weaknesses as part of their arrangements to secure value for money they should make recommendations setting out the actions that should be taken by the Council. We have defined these recommendations as ‘key recommendations’.	No	N/A
Improvement	These recommendations, if implemented should improve the arrangements in place at the Council, but are not a result of identifying significant weaknesses in the Council’s arrangements.	Yes	Pages – 12, 13 & 16.

Appendix D – Sources of evidence



Staff involved

- Claire Hamilton, Chief Executive
- Nigel Howcutt, Chief Finance Officer (S151)
- Fiona Jump, Head of Financial Services
- Ben Hosier, Head of Commercial Development
- Mark Brookes, Assistant Director, Legal and Democratic Services
- Shaj Choudhury, Head of Transformation
- Hannah Peacock, PMO Manager
- Philip Lazenby, Director of Audit TIAA



Key documents reviewed include:

- Budget report 22-23
- Budget report 23 – 24
- MTFS Refresh 2022-23 – 2026-27
- Statement of Accounts 2021-22
- Treasury Management Strategy 2022-23
- Capital Strategy 2022-23
- Commercial Strategy
- Financial Monitoring Report 2022-23
- AC & Cabinet meeting minutes



Key documents reviewed include:

- Quarterly Risk Register Q4 2021-22
- Risk management policy 2023-24
- Internal Audit annual report 2021-22
- Members code of conduct
- Whistleblowing policy
- Housing service performance update
- Commissioning and procurement strategy
- Quarter 4 – performance report 2021-22
- Contracts register

