



Public Document Pack  
**Audit  
Agenda**

**Wednesday 25 July 2018 at 7.30 pm**

**Conference Room 2 - 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 McLean

Councillor Silwal  
Councillor Taylor (Chair)  
Councillor Tindall

**Substitute Members:**

Councillors G Adshead, Anderson, Link, Pringle and Ransley

For further information, please contact [jim.doyle@dacorum.gov.uk](mailto:jim.doyle@dacorum.gov.uk)

**AGENDA**

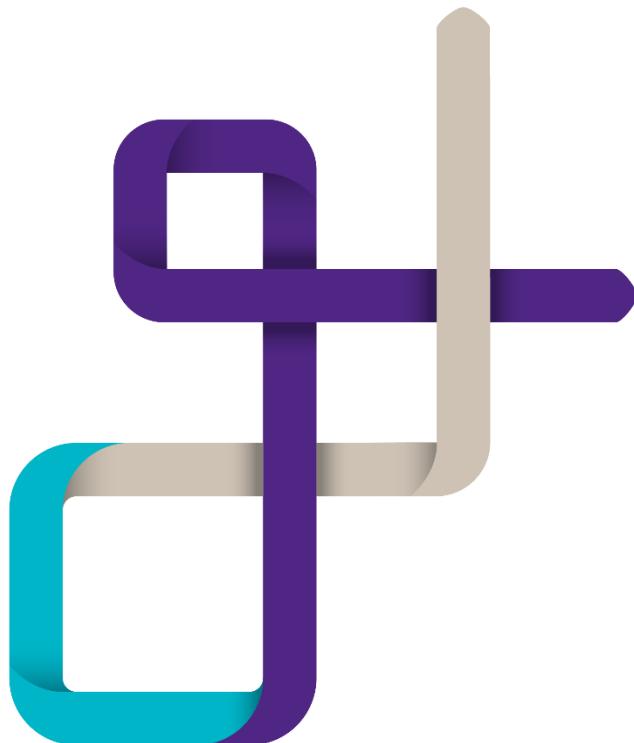
- (a) 2017-18 Grant Thornton Audit Findings report - DBC (Pages 2 - 26)

# Audit Findings

*Year ending 31 March 2018*

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Dacorum Borough Council  
25 July 2018  
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## Appendices

- A. Action plan
- B. Audit adjustments
- C. Fees
- D. Audit Opinion

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 expressing our opinion on the financial statements. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose all defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. 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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# Headlines

This table summarises the key issues arising from the statutory audit of Dacorum Borough Council ('the Council') and the preparation of the Council's financial statements for the year ended 31 March 2018 for those charged with governance.

Financial Statements	Under the International Standards of Auditing (UK) (ISAs), we are required to report whether, in our opinion:	Our audit work was completed on site during June and July. Our findings are summarised on pages 5-13. From our audit work, we have not identified any material adjustments to the financial statements that need to be actioned. We have noted some non material discrepancies and general disclosure recommendations and these are detailed in Appendix B. Note that during the audit management made a number of adjustments to the accounts which we have detailed in Appendix B. In our audit work we found two errors which were not considered necessary to adjust in the accounts as they were below our performance materiality and these are also detailed in Appendix B. We have also raised one recommendation for management as a result of our audit work in Appendix A. Your draft accounts provided to us at the start of the audit reported a surplus on provision of services of £0.819 million, and after the adjustments in Appendix B this surplus increased to £3.241 million.
Page 4	We are also required to report whether other information published together with the audited financial statements (including the Statement of Accounts, Annual Governance Statement (AGS) and Narrative Report, is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.	Subject to outstanding queries being resolved, we anticipate issuing an unqualified audit opinion following the Audit Committee meeting on 25 July 2018, as detailed in Appendix D. At the date of writing this report these outstanding items include: <ul style="list-style-type: none"><li>- completion of our work around capital additions and revaluations</li><li>- completion of our substantive testing around short term creditors and debtors</li><li>- clearance of any queries arising from manager and engagement review of the audit working papers</li><li>- responses raised by the manager and engagement leads review of the accounts</li><li>- confirmation as to whether there were any significant events after the balance sheet date and up to the date of signing the accounts</li><li>- receipt of management representation letter; and</li><li>- review of the final set of updated financial statements to confirm that agreed changes have been correctly made.</li></ul>
Value for Money arrangements	Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion:	We have concluded that the other information published with the financial statements, which includes the Statement of Accounts, Annual Governance Statement and Narrative Report, are consistent with our knowledge of your organisation and with the financial statements we have audited.
	• you have made proper arrangements to secure economy, efficiency and effectiveness in its use of resources ('the value for money (VFM) conclusion')	We have completed our risk based review of your value for money arrangements. We have concluded that Dacorum Borough Council has proper arrangements to secure economy, efficiency and effectiveness in its use of resources. We therefore anticipate issuing an unqualified value for money conclusion, as detailed in Appendix D. Our findings are summarised on pages 14 to 17.

# Headlines (continued)

This table summarises the key issues arising from the statutory audit of Dacorum Borough Council ('the Council') and the preparation of the Council's financial statements for the year ended 31 March 2018 for those charged with governance.

<b>Statutory duties</b>	The Local Audit and Accountability Act 2014 ('the Act') also requires us to:	We have not exercised any of our additional statutory powers or duties.
	<ul style="list-style-type: none"><li>• report to you if we have applied any of the additional powers and duties ascribed to us under the Act; and</li><li>• certify the closure of the audit</li></ul>	We have completed the majority of work under the Code and expect to be able to certify the completion of the audit when we give our audit opinion.

## Acknowledgements

We would like to take this opportunity to record our appreciation for the assistance provided by the finance team and other staff during our audit.

# Summary

## Overview of the scope of our audit

This Audit Findings presents the observations arising from the audit that are significant to the responsibility of those charged with governance to oversee the financial reporting process, as required by International Standard on Auditing (UK) 260 and the Code of Audit Practice ('the Code'). Its contents have been discussed with management.

As auditor we are responsible for performing the audit, in accordance with International Standards on Auditing (UK), which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities for the preparation of the financial statements.

## Audit approach

Our audit approach was based on a thorough understanding of your business and is risk based as outlined in our audit plan issued on 7 February 2018 to the Audit Committee.

This includes looking at any changes to service delivery, the key challenges facing the authority with respect to financial pressures and matters impacting the local economy that Dacorum Borough Council operates within, and applying our financial reporting expertise to ensure accounts and audit regulations are adhered to.

- An evaluation of your internal controls environment including your IT systems and controls;
- Substantive testing on significant transactions and material account balances, including the procedures outlined in this report in relation to the key audit risks.
- A review of the narrative report, annual report, annual governance statement and all other non financial disclosures.
- An evaluation of significant estimates and judgements, challenging assumptions used by the authority.

## Conclusion

We have substantially completed our audit of your financial statements and subject to outstanding queries and items being resolved, we anticipate issuing an unqualified audit opinion following the Audit Committee meeting on 25 July 2018, as detailed in Appendix D. These outstanding items are set out on page 3.

## Our approach to materiality

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law. Materiality calculations were updated from those as reported in our audit plan, and are shown below. Under ISA 260 (UK) 'Communication with those charged with governance', we are obliged

to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. If management have corrected material misstatements identified during the course of the audit, we will consider whether those corrections should be communicated to the Audit Committee to assist it in fulfilling its governance responsibilities.

Council Amount (£)	Qualitative factors considered
Materiality for the financial statements £2,848k	Based on 2% of the audited prior year gross expenditure.
Performance materiality £2,136k	75% of materiality
Trivial matters £142k	5% of materiality.

# Significant audit risks

Risks identified in our Audit Plan	Commentary
<b>1 Improper revenue recognition</b> Under ISA 240 (UK) there is a presumed risk that revenue may be misstated due to the improper recognition of revenue.  This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.	<p><b>Auditor commentary</b></p> <p>Having considered the risk factors set out in ISA240 and the nature of your revenue streams, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:</p> <ul style="list-style-type: none"> <li>• there is little incentive to manipulate revenue recognition</li> <li>• opportunities to manipulate revenue recognition are very limited</li> <li>• The culture and ethical frameworks of local authorities, including Dacorum Borough Council, mean that all forms of fraud are seen as unacceptable</li> </ul> <p>Therefore we do not consider this to be a significant risk for Dacorum Borough Council.</p> <p><b>Findings</b></p> <p>Our audit work has not identified any issues in respect of improper revenue recognition thus far.</p>
<b>2 Management override of controls</b> Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. .  We identified management override of controls as a risk requiring special audit consideration.	<p><b>Auditor commentary</b></p> <p>Our audit work included but not restricted to:</p> <ul style="list-style-type: none"> <li>• gaining an understanding of accounting estimates, judgements and decisions made by management and considered their reasonableness</li> <li>• obtaining a full list of journal entries, identifying and testing unusual journal entries for appropriateness and</li> <li>• evaluating the rationale for any changes in accounting policies or significant unusual transactions</li> </ul> <p><b>Findings</b></p> <p>Our audit work has not identified any issues in respect of management override of controls thus far.</p>

# Significant audit risks

Risks identified in our Audit Plan	Commentary
<p><b>(3) Valuation of property, plant and equipment</b>            You revalue your land and buildings on an quinquennial basis to ensure that carrying value is not materially different from current value. This represents a significant estimate by management in the financial statements.             We identified the valuation of land and buildings revaluations and impairments as a risk requiring special audit consideration.</p>	<p><b>Auditor commentary</b>            Our audit work included:<ul style="list-style-type: none"><li>● review of your processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work</li><li>● considering the competence, expertise and objectivity of any management experts used</li><li>● corresponding with your valuer on the basis on which the valuation is carried out and challenge of the key assumptions</li><li>● reviewing and challenging the information used by your valuer to ensure it is robust and consistent with our understanding</li><li>● testing revaluations made during the year to ensure they are input correctly into your asset register</li><li>● evaluating the assumptions made by you for those assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value</li></ul></p> <p><b>Findings</b>            Our audit work has not identified any issues in respect of the valuation of property, plant and equipment thus far. Note that during the audit management made two adjustments to investment properties, at the date of writing this report we had looked at these as part of our audit work and we had not identified any issues with the adjustments made, but the work is still subject to Manager and Engagement Lead review. See Appendix B for further information.</p>
<p><b>(4) Valuation of pension fund net liability</b>            Your pension fund asset and liability as reflected in its balance sheet represent a significant estimate in the financial statements.             We identified the valuation of the pension fund net liability as a risk requiring special audit consideration.</p>	<p><b>Auditor commentary</b>            Our audit work included:<ul style="list-style-type: none"><li>● identifying the controls put in place by you to ensure that the pension fund net liability is not materially misstated and assessing whether those controls were implemented as expected and whether they were sufficient to mitigate the risk of material misstatement</li><li>● evaluating the competence, expertise and objectivity of the actuary who carried out your pension fund valuation. We have gained an understanding of the basis on which the valuation was carried out</li><li>● undertaking procedures to confirm the reasonableness of the actuarial assumptions made</li><li>● checking the consistency of the pension fund asset and liability and disclosures in the notes to the financial statements with the actuarial report from your actuary</li></ul></p> <p><b>Findings</b>            Our audit work has not identified any issues in respect of the pension fund net liability thus far. Note that the pensions disclosures were drafted on the estimated valuations of Dacorum's share of the fair value pension fund assets as at Quarter 3. However, the actual Quarter 4 data was available to the administrating body Hertfordshire County Council (HCC). As a result HCC commissioned the actuary – Hyman Robertson LLP to re-estimate the actuarial estimates resulting in a proportionately small (in proportion to the overall liability) but overall material decrease in the pensions liability in the Balance Sheet. Dacorum Borough council have revised their pensions disclosures as a result of the update to the IAS19 reports. See Appendix B for further information.</p>

# Reasonably possible audit risks

Risks identified in our Audit Plan	Commentary
<p><b>5 Employee remuneration</b> Payroll expenditure represents a significant percentage (19%) of your operating expenses.</p> <p>As the payroll expenditure comes from a number of individual transactions there is a risk that payroll expenditure in the accounts could be understated. We therefore identified completeness of payroll expenses as a risk requiring particular audit attention</p>	<p><b>Auditor commentary</b></p> <p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> <li>evaluated your accounting policy for recognition of payroll expenditure for appropriateness</li> <li>gained an understanding of your system for accounting for payroll expenditure and evaluated the design of the associated controls</li> <li>performed an substantive analytical review of employee remuneration expenditure to gain assurance that the total expenditure is in line with expectations formed from the prior year gross employee expenditure and movements in staff numbers</li> <li>re-performed the year end payroll reconciliation and tested whether payroll accruals (e.g. tax and pension creditors, unpaid leave accruals) have been recognised and are not understated</li> </ul> <p><b>Findings</b></p> <p>Our audit work has not identified any other issues in respect of the completeness of payroll expenditure thus far.</p>
<p><b>6 Operating expenses</b> Non-pay expenses on other goods and services also represents a significant percentage (81%) of your operating expenses. Management uses judgement to estimate accruals of un-invoiced costs.</p> <p>We identified completeness of non- pay expenses as a risk requiring particular audit attention:</p>	<p><b>Auditor commentary</b></p> <p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> <li>evaluated your accounting policy for recognition of non-pay expenditure for appropriateness;</li> <li>gained an understanding of your system for accounting for non-pay expenditure and evaluating the design of the associated controls;</li> <li>documented and assessed the accruals process, and tested whether year end operating expenditure accruals have been recognised and not understated;</li> <li>tested operating expenses on a sample basis as in prior years;</li> <li>tested the year end reconciliation of operating expenditure recorded in the general ledger to the gross expenditure per the accounts</li> </ul> <p><b>Findings</b></p> <p>Our audit work has not identified any other issues in respect of the completeness of non-pay expenditure thus far.</p>

# Other issues

This section provides commentary on new issues and risks which were identified during the course of the audit that were not previously communicated in the Audit Plan.

Issue	Commentary	Auditor view
① Jarman Park Disposal	<p>During the 2017-18 year in October 2017 the Council disposed of Jarman Park a site which had been contractually leased out at peppercorn rent for a period of 150 years (subsequent to the payment of an initial premium) and hence was not in the financial statements as an asset. You invited potential bids to purchase the leased asset on the premise that the lessor would surrender their lease. Negotiations meant the disposal could only be effected by the lessor surrendering the lease for a premium (a % of the sale proceeds to compensate for the original premium paid). On the date of contractual surrender of the lease and disposal of the asset, the asset was re-recognised in the accounts (at the fair value of the portion of the asset related to the proceeds due to the Council) and subsequently disposed of in the statements at that value.</p>	<p>We have discussed the events and facts around the disposal to understand the substance of the transaction. We have challenged management on the accounting treatment and looked at the transaction in the light of IFRS and the CIPFA Code of Practice guidance.</p> <p>Our working papers for this transaction are currently undergoing Manager and Engagement Lead quality review, which may raise additional queries around the transaction, but so far we have not identified issues with your proposed accounting treatment and disclosure of this transaction.</p>
② Adjustment to long term creditors	<p>Note that during the audit, management made an adjustment to long term creditors related to accelerate the amortisation of the above mentioned lease premium paid, as the creditor was no longer necessary to be held. Our working papers for this transaction are currently undergoing Manager and Engagement Lead quality review, which may raise additional queries around the transaction, but so far we have not identified issues with your proposed accounting treatment and disclosure of this transaction. Further details of this adjustment are shown in Appendix B.</p>	

# Going concern

## Our responsibility

As auditors, we are required to “obtain sufficient appropriate audit evidence about the appropriateness of management's use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the entity's ability to continue as a going concern” (ISA (UK) 570).

## Going concern commentary

### Management's assessment process

The consideration and assessment of the relevance of the going concern basis of accounting was incorporated into the 2018/19 budget plan, which has been approved by the Senior Management Team and the Cabinet. This assessment was:

- consistent with the previous Medium Term Financial Plan, and
- judgements and assumptions taken.

### Auditor commentary

- Management's formal assessment of the use of the going concern basis of accounting covered the period 1 April 2018 to 31 March 2019. We consider Management's process in reaching its judgements to be adequate. There is transparent disclosures of the key risks that are likely to impact the 2018/19 financial plans.

### Work performed

We have:

- held regular discussions with officers about the financial standing of the Council;
- reviewed management's assessment of going concern assumptions and supporting information, including 2018/19 budget plan and the Medium Term Financial Strategy; and
- reviewed the completeness and accuracy of going concern disclosures in the financial statements.

### Auditor commentary

- Management have a reasonable expectation that the services provided by you will continue for the foreseeable future through the Medium Term Financial Strategy which covers the period to 2022. For this reason, you continue to adopt the going concern basis in preparing the financial statements.

## Concluding comments

- We have reviewed management's assessment and are satisfied that the going concern basis is appropriate for the 2017/18 financial statements.

# Accounting policies

Accounting area	Summary of policy	Comments	Assessment
Revenue recognition	<p>Revenue in respect of services provided is recognised when, and to the extent that, performance occurs, and is measured at the fair value of the consideration receivable.</p> <p>You have three principal revenue streams:</p> <ol style="list-style-type: none"> <li>1) Taxation revenues in respect of council tax and business rates are recognised in the year that the tax was levied with Dacorum Borough Council as a billing authority</li> <li>2) Grants and other contributions are recognised in accordance with the conditions of the grant agreement, whether specific or non-specific, and when there is reasonable assurance that the grant or contributions will be received</li> <li>3) Income from fees and charges in the provision of services is recognised when the service has been provided or when the title to goods has passed.</li> </ol>	<ul style="list-style-type: none"> <li>• The revenue recognition policy is in line with the CIPFA 2017/18 Accounting Code. You use accruals based accounting recognising revenue when significant risks and rewards of ownership to the purchaser and it is probable that economic benefits or service potential associated with the transaction will flow to you.</li> </ul>	 <b>Green</b>
Judgements and estimates	<p>Key estimates and judgements include:</p> <ul style="list-style-type: none"> <li>– Useful life of PPE</li> <li>– Revaluations</li> <li>– Impairments</li> <li>– Accruals</li> <li>– Provisions</li> <li>– Valuation of pension fund net liability</li> </ul>	<ul style="list-style-type: none"> <li>• The valuation of property, plant and equipment and the valuation of pension fund net liability have been considered in detail as significant risks. There were no issues identified with the appropriateness of respective policies and assumptions used in the estimate.</li> <li>• We did not identify any issues in relation to any of the other areas of estimation and judgement reflected within the financial statements.</li> </ul>	 <b>Green</b>
Other critical policies		<p>We have reviewed your policies against the requirements of the CIPFA Code of Practice. Your accounting policies are appropriate and consistent with previous years.</p>	 <b>Green</b>

**Assessment**

- Marginal accounting policy which could potentially be open to challenge by regulators
- Accounting policy appropriate but scope for improved disclosure
- Accounting policy appropriate and disclosures sufficient

# Other communication requirements

We set out below details of other matters which we, as auditors, are required by auditing standards and the Code to communicate to those charged with governance.

Issue	Commentary
1	<b>Matters in relation to fraud</b> We have previously discussed the risk of fraud with the Audit Committee. We have not been made aware of any other incidents in the period and no other issues have been identified during the course of our audit procedures.
2	<b>Matters in relation to related parties</b> We are not aware of any related parties or related party transactions which have not been disclosed.
3	<b>Matters in relation to laws and regulations</b> You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work.
4	<b>Written representations</b> A standard letter of representation has been requested from you. We are expecting to receive the signed letter at the 25 <sup>th</sup> July 2018 Audit Committee meeting.
5	<b>Confirmation requests from third parties</b> <ul style="list-style-type: none"> <li data-bbox="522 622 2003 696">We obtained direct confirmations from the Public Works Loans Board for loans and we requested from management permission to send requests to banking institutions to confirm deposits or investments held. This permission was granted and the requests were sent in April 2018, all requests were returned with positive confirmation, confirming balances as at 31<sup>st</sup> March 2018.</li> <li data-bbox="522 708 2003 764">We sent a letter to your legal counsel during the year. The response received corroborated the information provided by you. No issues noted.</li> </ul>
6	<b>Disclosures</b> Our review found no material omissions in the financial statements only minor discrepancies were found.
7	<b>Audit evidence and explanations</b> All information and explanations requested from management was provided. The finance team was very cooperative and we would like to thank the whole team for their approach to the 2017/18 audit.
8	<b>Significant difficulties</b> We experienced difficulties in obtaining listings of transactions or balances in a number of areas including support for movements in PPE balances and listings of debtors/creditors at the year end. This led to some delays and subsequent inefficiencies in sampling. Whilst we recognise your difficulties in obtaining these listings, we will work with your finance team to identify opportunities to streamline the process for the next financial year.

# Other responsibilities under the Code

We set out below details of other matters which we, as auditors, are required by the Code to communicate to those charged with governance.

	<b>Issue</b>	<b>Commentary</b>
1	<b>Other information</b>	<ul style="list-style-type: none"> <li>• We are required to give an opinion on whether the other information published together with the audited financial statements (including the Statement of Accounts, Annual Governance Statement (AGS) and Narrative Report), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.</li> </ul> <p>No inconsistencies have been identified. We plan to issue an unqualified opinion in this respect – refer to appendix E</p>
2	<b>Matters on which we report by exception</b>	<p>We are required to report on a number of matters by exception in a numbers of areas:</p> <ul style="list-style-type: none"> <li>• If the Annual Governance Statement does not meet the disclosure requirements set out in the CIPFA/SOLACE guidance or is misleading or inconsistent with the other information of which we are aware from our audit</li> <li>• If we have applied any of our statutory powers or duties</li> </ul> <p>We have nothing to report on these matters.</p>
3	<b>Specified procedures for Whole of Government Accounts</b>	<p>We are not required to carry out specified procedures (on behalf of the NAO) on the Whole of Government Accounts (WGA) consolidation pack as you do not exceed the threshold.</p>
4	<b>Certification of the closure of the audit</b>	<p>We intend to certify the closure of the 2017/18 audit in the audit opinion, as detailed in Appendix D.</p>

# Value for Money

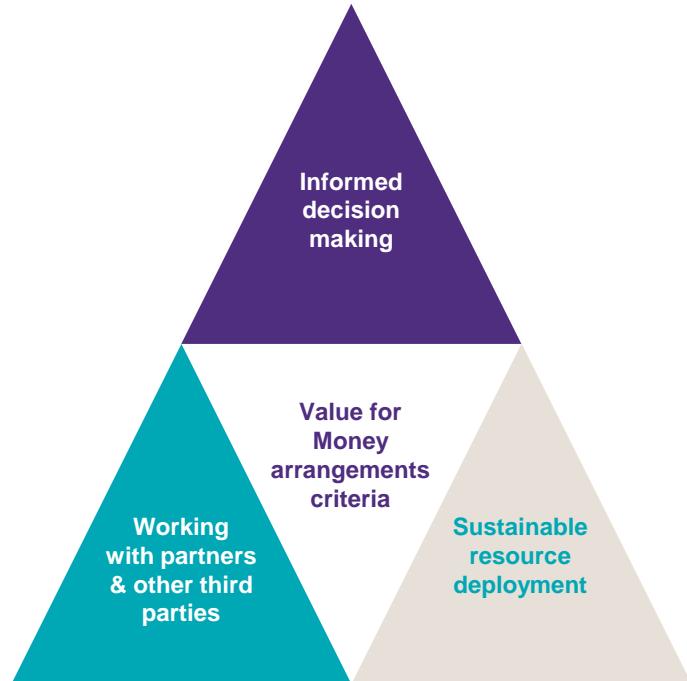
## Background to our VFM approach

The NAO issued its guidance for auditors on Value for Money work for 2017/18 in November 2017. The guidance states that for local government bodies, auditors are required to give a conclusion on whether you have proper arrangements in place.

The guidance identifies one single criterion for auditors to evaluate:

*"In all significant respects, the audited body takes properly informed decisions and deploys resources to achieve planned and sustainable outcomes for taxpayers and local people."*

This is supported by three sub-criteria, as set out below:



## Risk assessment

We carried out an initial risk assessment in March 2018 and identified one significant risk in respect of specific areas of proper arrangements using the guidance contained in AGN03.

We communicated this risk to you in our Audit Progress Report and Sector Update to the Audit Plan dated 28 March 2018. The risk identified related to your Medium Term Financial Resilience. We have continued our review of relevant documents up to the date of giving our report, and have not identified any further significant risks where we need to perform further work.

We carried out further work only in respect of the significant risk we identified from our initial and ongoing risk assessment.

## Our work

AGN 03 requires us to disclose our views on significant qualitative aspects of your arrangements for delivering economy, efficiency and effectiveness.

We have focused our work on the significant risk we identified. In arriving at our conclusion, our main considerations were:

- you have delivered a small £0.091 million net surplus in 2017/18 (which continues your track record of delivering surplus results of £1.1 million 2016/17, and £0.4 million in 2015/16), demonstrating sound and accurate budget setting and monitoring;
- you have performed detailed medium term financial planning based upon reasonable assumptions that indicate that you are in a position to deliver balanced budgets over the period to 31 March 2022; and
- we were satisfied that your considerations and assumptions to monitor reserves levels at a safe level are reasonable.

We have set out more detail on the risks we identified, the results of the work we performed and the conclusions we drew from this work on pages 15 to 17.

## Overall conclusion

Based on the work we performed to address the significant risks, we concluded that:

- you have proper arrangements in all significant respects to ensure it delivered value for money in its use of resources.

The text of our report, which confirms this can be found at Appendix D.

## Significant difficulties in undertaking our work

We did not identify any significant difficulties in undertaking our work on your arrangements which we wish to draw to your attention.

## Significant matters discussed with management

There were no matters where no other evidence was available or matters of such significance to our conclusion or that we required written representation from management or those charged with governance.

## Key findings

We set out below our key findings against the significant risks we identified through our initial risk assessment.

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Significant risk	Findings
<b>Medium term financial resilience</b> <b>Efficiency Savings Gap</b> <p>Looking ahead over the 4 years to 2021/22, you have identified a savings gap of £3.6 million. You have identified £1.6 million of these savings in the 2018/19 approved budget. You have also set out a 3 year efficiency/savings plan to address the gap which is service focussed, leading to a further £0.75 million of savings being identified.</p> <p>Your current financial position indicates this is under control, but the medium term savings gap remains a challenge and one which can be affected unpredictably by central government funding and taxation decisions.</p>	<p><b>Revenue outturn for 2017/18</b></p> <p>Despite the continued challenging funding settlement for local authorities nationally, you have continued your good track record of delivery of services within budget and attainment of planned savings and income generation targets.</p> <p>You delivered a budget surplus for 2017/18 of £0.091 million. At a directorate level:</p> <ul style="list-style-type: none"> <li>- Within Finance and Resources there was an net underspend of £0.406 million mainly driven by staffing pressures in Revenues and Benefits and Financial Services which required the use of offsite processing and external services to maintain delivery. This was offset by additional parking income through increased usage of your owned car parks, and the fact that the Council did not require its full budget allocation for uninsured losses;</li> <li>- Within Strategic Planning and Environment there was a net budget overspend of £0.065 million due to employee cost pressures in Building and development Control, a reduction in Building Control revenues and reduced customer numbers affecting commercial waste income. This was partially offset by £0.24 million of additional income from a high volume of planning applications and a January 2018 price review. There was a further £0.19 million of additional income from a Hertfordshire County Council incentive payment for improved rates of recycling;</li> <li>- Within Housing and Communities a net budget underspend of £0.139 million was achieved through additional income as your own properties have been used to house tenants on a temporary basis rather than using expensive bed and breakfast accommodation;</li> <li>- Remaining variances in revenue outturn were due to a slight £0.042 million increase in investment property income, and corporate items being £0.480 million over budget which was attributable to a reduction in transfer from reserves compared to budget.</li> </ul> <p><b>Housing Revenue Account outturn for 2017/18</b></p> <p>Within the Housing Revenue Account you achieved an operating underspend of £0.387 driven by variances including £0.219 million increased income for dwelling rents and service charges, £0.543m additional other income, arising from telecommunications lease income and works chargeable to leaseholders, and £0.420 million underspend in repairs/maintenance/supervision/management. This was offset by £0.642 million increase in depreciation costs driven by the upwards revaluation of housing stock.</p> <p>After the 2017-18 outturn results, technical accounting adjustments and movements in earmarked reserves this leaves the Council's "available for spending" reserves at a consistent level of £12.2 million (£12.3 million in 2016/17).</p> <p>The Council maintains the general fund at 5-15% of net service expenditure a policy unchanged from the prior two years. There is no "correct" level of reserves to hold and it very much depends on local circumstances, risk analysis and risk</p>

Significant risk	Findings
<b>Medium term financial resilience</b> <b>(continued)</b>	appetite. We were satisfied that the considerations and assumptions that management have in place to monitor reserves levels at what they consider to be a safe level are reasonable and are fully disclosed for consideration and approval by those responsible for monitoring of risk levels.

### The Budget for 2018/19 and beyond

Your Medium Term Financial Strategy (MTRS) is the key financial planning document which sets out the financial implications of your corporate strategy over 5 years for the purposes of decision making and for you to provide assurance that you have a sustainable position in place to deliver service priorities and other investments in the local area.

You established your Medium Term Financial Strategy by using the current year 2017/18 year budget as a baseline and then made adjustments for known changes. As discussed above, your outturn position for 2017/18 was very close to the agreed budget and therefore you have used this as a starting baseline.

You face the following immediate challenges:

- Reduction in the Settlement Funding Assessment from Central Government by 46%, over the 3 year period to 2019/20
- Continued reduction in the Revenue Support Grant to a nil position for the next 2 years
- In 2019/20 you also expect a tariff adjustment which will further reduce income by £1 million in that year, followed by £1.6 million in 2020/21, and £2.4 million in 2021/22
- Forecast pay increases of 1.5% per annum through to 2021/22
- Forecast increases in utilities and fuel costs of 5% per annum through to 2021/22
- Forecast increases to suppliers and services costs of 2-2.4% per annum through to 2021/22

You also expect increased revenue from:

- Increases in retained business rates in line with a forecast increase in rateable values (between 2-2.4% through to 2021/22);
- Increases in council tax of the maximum level which would not trigger a referendum, equating to an increase in these revenues of 3-3.3% per annum through to 2021/22
- Expected increases in fee and charges revenues of 2-2.4% per annum through to 2021/22
- Expected increase in investment income of 0.85% per annum through to 2021/22

Significant risk	Findings
I Medium term financial resilience (continued)	<p>We have analysed your detailed breakdown of anticipated and estimated reductions/increases in income and expenditure and 2018/19 and subsequent periods. We discussed the key items with management and looked at the key assumptions in the MTFS. Through this work we concluded that they were realistically and prudently estimated.</p> <p>You identified a savings requirement of £2.8 million through to 2020/21 to achieve balanced positions and maintain the general fund at its current level. You communicate that broad savings target to directorates as a notional 5% saving on gross expenditure and income. Managers formulate efficiency and savings plans which then go through a series of scrutiny steps, including checking of the proposals by the finance team to ensure they appear reasonable and achievable in the assumptions. Savings plans are monitored through budget monitoring processes and management discuss plans which were falling behind and mitigations. In 2017/18, 90% of your planned savings were achieved as planned, while the 10% unachieved were replaced by other delivered efficiencies. Based on your track record of successfully achieving savings targets, you have appropriate planning and monitoring arrangements to achieve the current savings requirement in the MTFS.</p> <p>With efficiencies becoming harder to find after several years of concentrating on this as the source of savings, you are increasingly focussing on becoming more commercial and plans which increase income through getting more from your existing asset base. An example of this is your recent competitive re-tender process for the operation of your leisure portfolio. The outcome of this process indicates you expect to receive revenue from the new operator of the portfolio where before you had made payments to the previous operator.</p> <p>You continue to progress your various capital investment plans which aim to attract new residents to the area and provide additional capital receipts. You have a number of plans at very different stages of development but examples include:</p> <ul style="list-style-type: none"> <li>- ongoing delivery of new social housing for the borough</li> <li>- potential formation of a development company or partnership to develop the old Civic Site into a mixture of properties for social rental, private sector rental and sale</li> </ul> <p>All these plans aim to increase your council tax base revenues and aim to ensure your longer term financial sustainability whilst also providing opportunities for continued investments to improve the quality of life in the borough for your residents.</p>

# Independence and ethics

## Independence and ethics

- We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Financial Reporting Council's Ethical Standard and confirm that we, as a firm, and each covered person, are independent and are able to express an objective opinion on the financial statements

We confirm that we have implemented policies and procedures to meet the requirements of the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.

Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in December 2017 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

Details of fees charged are detailed in Appendix D

## Audit and Non-audit services

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to you. The following non-audit services were identified.

Service	£	Threats	Safeguards
<b>Audit related</b>			
Certification of Housing capital receipts grant	£2,000	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £2,000 in comparison to the total fee for the audit of £73,350 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.

The amounts detailed are fees agreed to-date for audit related and non-audit services to be undertaken by Grant Thornton UK LLP in the current financial year. Any changes and full details of all fees charged for audit related and non-audit related services by Grant Thornton UK LLP and by Grant Thornton International Limited network member Firms will be included in our Audit Findings report at the conclusion of the audit.

None of the services provided are subject to contingent fees.

# Action plan

We have identified one recommendation for the Council as a result of issues identified during the course of our audit. We have agreed our recommendations with management and we will report on progress on these recommendations during the course of the 2018/19 audit. The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

Assessment	Issue and risk	Recommendations
<span style="color: #ffcc00;">●</span> <b>Amber</b>  <span style="font-size: 2em; vertical-align: middle;">Page 20</span>	<ul style="list-style-type: none"> <li>Journals generated in Agresso generate are automatically assigned a unique voucher number which is sequential. However, journals generated can then be deleted which removes the audit trail. There is no way to see the value of the transaction or the reason the journal was deleted. Therefore it has been difficult to obtain assurance over the completeness of journals</li> <li>This has been deemed a low risk however, as the journal transaction does not impact the ledger until it is approved. Once it has been approved it cannot be deleted.</li> </ul>	<ul style="list-style-type: none"> <li>We would recommend that you keep a log or run regular exception reports to ensure there is an audit trail of deleted journals.</li> </ul> <p><b>Management response</b></p> <ul style="list-style-type: none"> <li>To ensure next implementation of Agresso includes a functionality to retain deleted data.</li> </ul>

## Controls

- High – Significant effect on control system
- Medium – Effect on control system
- Low – Best practice

# Audit Adjustments

We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management.

## Impact of managements adjustments to the financial statements

A number of changes were made to the draft financial statements by the council resulting in a number of late amendments. The details of the significant changes are noted below and each of the revised disclosures have been re-audited.

Detail	Impact on notes to accounts	Auditor view on amendment
1 Classification of Investment Property – a number of significant assets have been reclassified from investment property to assets held for sale due to a change in their determination.	Assets held for sale have increased from £0.938 million to £2.853 million. The movement of £1.915 million has also been reflected in the reduction in investment properties.	The assets transferred meet the definition of assets held for sale per the accounting standards thus the change has been deemed appropriate.
2 <del>Classification of Investment Property – an asset has been reclassified as a surplus asset as it no longer held to generate revenues for the council.</del>  <del>Classification of Investment Property – an asset has been reclassified as a surplus asset as it no longer held to generate revenues for the council.</del>	An additional asset category 'surplus assets' has been included in the property, plant and equipment note disclosing the value of the asset as £4.921 million. As before, the equivalent value has been used to reduce the investment property balance.	The asset reclassified as a surplus asset meets the definition of an asset that is not being used to deliver services and does not meet the criteria of either an investment property or asset held for sale. Therefore the change in classification is deemed appropriate.
3 Revision to Pension Fund Disclosures - The pensions disclosures were drafted on the estimated valuations of Dacorum's share of the fair value pension fund assets as at Quarter 3. However, the actual Quarter 4 data was available to the administering body Hertfordshire County Council (HCC). As a result HCC commissioned the actuary – Hyman Robertson LLP to re-estimate the actuarial estimates resulting in a proportionately small (in proportion to the overall liability) but overall material decrease in the pensions liability in the Balance Sheet.  Dacorum Borough council have revised their pensions disclosures as a result of the update to the IAS19 reports.	The amendments to the disclosures relating to the LGPS has resulted in an increase on both the return on and fair value of plan assets. This has resulted in a 2% decrease of £2.790 million in the net liability arising from the defined benefit obligation.	The revised disclosures are based on the most current information available and thus it is appropriate to update these if possible to provide the latest position of post-employment benefits.  Note that we consider it appropriate for the actuarial estimate to be produced on Quarter 3 data and this is a method used to produce this estimate at most local authorities.
4 Reduction in long term creditors – in responding to our audit query on the variance in long term creditors, management identified a material adjustment was required to acknowledge the removal of a lease agreement of a lease agreement.	Long term creditors have been reduced from £9.193 million to £5.934 million to reflect accelerated amortisation of the lease premium paid relating to the Jarman Park lease.	Our working papers for this transaction are currently undergoing Manager and Engagement Lead quality review, which may raise additional queries around the transaction, but so far we have not identified issues with your proposed accounting treatment and disclosure of this transaction.

# Audit Adjustments

## Misclassification and disclosure changes

The table below provides details of misclassification and disclosure changes identified during the audit which have been made in the final set of financial statements.

Disclosure omission	Detail	Auditor recommendations	Adjusted?
1	Disclosures	Various minor amendments to the disclosures in the accounts to improve the presentation of the financial statements.	✓
2	Disclosures	Note. 15 Remuneration of employees should be amended to reflect 5 employees are in receipt of £50,000-£54,999.	✓

## P Impact of unadjusted misstatements

The table below provides details of adjustments identified during the 2017/18 audit which have not been made within the final set of financial statements. The Audit Committee is required to approve management's proposed treatment of all items recorded within the table below:

Detail	Comprehensive Income and Expenditure Statement £'000	Balance Sheet £' 000	Impact on total net expenditure £'000	Reason for not adjusting
1 Collection Fund – The final levy due to the CLG is £462,886.60. The council did not accrue for the amount payable.	£462,886.60		£462,886.6	Below our tolerable error threshold.
2 Cash Flow Statement – The cash flow reconciliation shows a difference of £325,000 which is a monetary discrepancy between the useable capital receipts per note 20 and the proceeds from the disposal of property, plant and equipment. After thorough investigation the client is unable to resolve the discrepancy.		• N/A this was a disclosure discrepancy.		Below our tolerable error threshold.

## I Impact of prior year unadjusted misstatements

There were no prior year unadjusted misstatements.

# Fees

We confirm below our final fees charged for the audit and provision of non-audit services.

## Audit Fees

	Proposed fee	Final fee
Council Audit	£73,350	£73,350
Grant Certification	£22,220	£TBC
<b>Total audit fees (excluding VAT)</b>	<b>£95,570</b>	<b>£TBC</b>

The proposed fees for the year were in line with the scale fee set by Public Sector Audit Appointments Ltd (PSAA). Our fees for grant certification cover only housing benefit subsidy certification, which falls under the remit of Public Sector Audit Appointments Limited. Fees in respect of other grant work, such as reasonable assurance reports, are shown under 'Fees for other services'.

## Non Audit Fees

Fees for other services	Fees £'000
<b>Audit related services:</b>	
Certification of Housing capital receipts grant	£2,000
	<b>£2,000</b>

# Audit opinion

We anticipate we will provide the Council with an unmodified audit report:

## Independent auditor's report to the members of Dacorum Borough Council

### Report on the Audit of the Financial Statements

#### Opinion

We have audited the financial statements of Dacorum Borough Council (the 'Authority') for the year ended 31 March 2018 which 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, the Collection Fund Statement and notes to the financial statements, including a summary of significant accounting policies. 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 2017/18.

In our opinion the financial statements:

- give a true and fair view of the financial position of the Authority as at 31 March 2018 and of its expenditure and income for the year then ended;
- have been prepared properly in accordance with the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2017/18; and
- have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

#### Basic for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Authority 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 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.

#### Who we are reporting to

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the Authority's members those matters we are required to state to them in an auditor's 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 Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

#### Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Corporate Director (Finance and Operations)'s use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Corporate Director (Finance and Operations) has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Authority's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

#### Other information

The Corporate Director (Finance and Operations) is responsible for the other information. The other information comprises the information included in the Statement of Accounts set out on pages 5 to 19, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, 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 of the Authority obtained in the course of our work including that gained through work in relation to the Authority's arrangements for securing value for money through economy, efficiency and effectiveness in the use of its resources 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 or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

#### Other information we are required to report on by exception under the Code of Audit Practice

Under the Code of Audit Practice published by the National Audit Office on behalf of the Comptroller and Auditor General (the Code of Audit Practice) we are required to consider whether the Annual Governance Statement does not comply with the 'Delivering Good Governance in Local Government: Framework (2016)' published by CIPFA and SOLACE or is misleading or inconsistent with the information of which we are aware from our audit. We are not required to consider whether the Annual Governance Statement addresses all risks and controls or that risks are satisfactorily addressed by internal controls.

We have nothing to report in this regard.

#### Opinion on other matter required by the Code of Audit Practice

In our opinion, based on the work undertaken in the course of the audit of the financial statements and our knowledge of the Authority gained through our work in relation to the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources, the other information published together with the financial statements in the Statement of Accounts, for the financial year for which the financial statements are prepared is consistent with the financial statements.

#### Matters on which we are required to report by exception

Under the Code of Audit Practice we are required to report to you if:

- we have reported a matter in the public interest under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we have made a written recommendation to the Authority under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we have exercised any other special powers of the auditor under the Local Audit and Accountability Act 2014.

We have nothing to report in respect of the above matters.

#### **Responsibilities of the Authority, the Corporate Director (Finance and Operations) and Those Charged with Governance for the financial statements**

As explained more fully in the Statement of Responsibilities for the Annual Statement of Accounts, the Authority is required to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the Corporate Director (Finance and Operations). The Corporate Director (Finance and Operations) 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 2017/18, which give a true and fair view, and for such internal control as the Corporate Director (Finance and Operations) determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Corporate Director (Finance and Operations) 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 lacks funding for its continued existence or when policy decisions have been made that affect the services provided by the Authority.

The Audit Committee is Those Charged with Governance.

#### **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.

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

#### **Report on other legal and regulatory requirements - Conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources**

##### **Conclusion**

On the basis of our work, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in November 2017, we are satisfied that the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2018.

##### **Responsibilities of the Authority**

The Authority is responsible for putting in place proper arrangements for securing 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 review of the Authority's arrangements for securing 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 be satisfied 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.

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in November 2017, as to whether in all significant respects the Authority had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined this criterion as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves 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 2018.

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 be satisfied that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

#### **Report on other legal and regulatory requirements - Certificate**

We certify that we have completed the audit of the financial statements of the Authority in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice.

[Signature]

Sarah Ironmonger

for and on behalf of Grant Thornton UK LLP, Appointed Auditor

30 Finsbury Square  
London  
EC2A 1AG

[Date]

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