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**Audit  
Agenda**

**Thursday 18 July 2019 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 Herbert Chapman (Chairman)

Councillor Mahmood

Councillor Silwal

Councillor Symington

Councillor Townsend

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

**AGENDA**

**1. MINUTES AND ACTIONS (Pages 4 - 6)**

To confirm the minutes of the previous meeting and consider the actions

There are no outstanding Actions at this time.

**2. APOLOGIES FOR ABSENCE**

To receive any apologies for absence

**3. DECLARATIONS OF INTEREST**

To receive any declarations of interest

A member with a disclosable pecuniary interest or a personal interest in a matter who attends a meeting of the authority at which the matter is considered -

- (i) must disclose the interest at the start of the meeting or when the interest becomes apparent  
and, if the interest is a disclosable pecuniary interest, or a personal interest which is also prejudicial
- (ii) may not participate in any discussion or vote on the matter (and must withdraw to the public seating area) unless they have been granted a dispensation.

A member who discloses at a meeting a disclosable pecuniary interest which is not registered in the Members' Register of Interests, or is not the subject of a pending notification, must notify the Monitoring Officer of the interest within 28 days of the disclosure.

Disclosable pecuniary interests, personal and prejudicial interests are defined in Part 2 of the Code of Conduct For Members

[If a member is in any doubt as to whether they have an interest which should be declared they should seek the advice of the Monitoring Officer before the start of the meeting]

#### **4. PUBLIC PARTICIPATION**

An opportunity for members of the public to make statements and ask questions in accordance with the rules as to Public Participation

#### **5. FINANCIAL OUTTURN REPORT 2018/19 (Pages 7 - 18)**

#### **6. STATEMENT OF ACCOUNTS 2018/19 AND LETTER OF REPRESENTATION (Pages 19 - 110)**

#### **7. 2018-19 GRANT THORNTON AUDIT FINDINGS REPORT (Pages 111 - 135)**

#### **8. HEAD OF INTERNAL AUDIT OPINION AND ANNUAL REPORT 2018/19 (Pages 136 - 151)**

#### **9. ANNUAL REVIEW OF THE INTERNAL AUDIT CHARTER (Pages 152 - 163)**

#### **10. INTERNAL AUDIT PROGRESS REPORT 2019/2020 (Pages 164 - 175)**

#### **11. INTERNAL SERVICE REPORTS (Pages 176 - 222)**

Reports to be Presented:

- Business Continuity
- Budgetary Control
- Core Financial Systems
- IT Change Management

## **12. FUTURE WORK PROGRAMME**

To decide items for the future work programme

# Agenda Item 1

## DACORUM BOROUGH COUNCIL AUDIT COMMITTEE MINUTES 27 March 2019

### Present:

#### Councillors:

Taylor (Chairman)	McLean
Birnie	Silwal
Douris	Tindall

#### Also Attended:

Councillor Elliot, Portfolio Holder for Finance & Resources.

#### Officers:

J Deane	Corporate Director (Finance and Operations)
N Howcutt	Assistant Director (Finance & Resources)
J Doe	
F Jump	Group Manager (Financial Services)
B Hosier	Group Manager Procurement & Contracted Services
S Whelan	
M Sells	Corporate & Democratic Support Officer

#### Others:

M Towler	Mazars
S Ironmonger	Grant Thornton
A Banister	Grant Thornton

The meeting began at 7.30 pm

### 1. APOLOGIES FOR ABSENCE

Apologies were received from Councillor Elliot and Councillor McLean

### 2. DECLARATIONS OF INTEREST

There were no declaration of interest

### 3. MINUTES AND ACTIONS (Agenda Item 3)

The minutes of the meeting held on ..... Were agreed by the members present and signed by the Chairman.

### 4. PUBLIC PARTICIPATION (Agenda Item 4)

There was no Public Participation

## **5. EXTERNAL AUDIT PROGRESS REPORT**

Sarah Knowles presented an update regarding the External Audit Progress Report

Councillor Tindall would like to know when they can expect to see the fair funding review, J.Deane confirmed he hadn't received any communication to suggest it would be delayed and therefore it should be late November as usual.

## **6. INTERNAL AUDIT PROGRESS REPORT**

Mark Towler presented an update regarding the Internal Audit Progress Report

Councillor Birnie would like to know if 22 recommendations is acceptable or out of the ordinary, M.Towler confirmed it was within normal range.

## **9. INTERNAL AUDIT: SERVICE REPORT**

The Internal Audit Service Reports were presented to the committee

Ben Hosier provided further explanation regarding the procurement strategy Report.

Regarding recommendation 2 Councillor Birnie enquires if choosing the wrong supplier for projects is a risk that solely sits with the procurement team, B.Hosier confirms this is the case and stresses the importance of ensuring transparency regarding requirements and having a robust tender process to ensure the correct suppliers are selected.

Councillor Douris and Councillor Taylor congratulated B.Hosier on his handling of the recommendations and thanked him and his team for their hard work and professionalism.

J.Doe and S.Whelan provided an update on the Development Service Report.

Councillor Douris enquires if DBC use any kind of "handcuff agreement" if an employee leaves within a certain timeframe after receiving training. J.Doe confirms in some cases there is a payback period but this only applies to long term education rather than general training.

Councillor Douris would like to know if the number of staff in planning enforcement has increased, J.Doe confirms they have increased by 0.5 FTE, but that the productivity of the department has dramatically increased.

## **10. AUDIT COMMITTEE WORK PROGRAMME**

The new work plan will be completed after the May elections when the new Chair has been appointed.

Councillor Taylor has made the decision to stand down at the next elections, therefore this was his final Audit meeting, and The Committee thanked Councillor Taylor for his contribution to the Audit Committee over the past 12 years and wished his well for the future.

The meeting ended at 20:20

# Agenda Item 5



## AGENDA ITEM:

### SUMMARY

<b>Report for:</b>	<b>AUDIT COMMITTEE</b>
<b>Date of meeting:</b>	<b>18 July 2019</b>
<b>PART:</b>	<b>I</b>
If Part II, reason:	

<b>Title of report:</b>	<b>Final Outturn 2018/19</b>
Contact:	Cllr Graeme Elliot, Portfolio Holder for Finance and Resources  James Deane, Corporate Director (Finance and Operations)  Nigel Howcutt, Assistant Director (Finance and Resources)
Purpose of report:	The purpose of this report is to present the Council's final outturn for 2018/19.
Recommendations:	It is recommended that Members of the Audit Committee:  a) review the final financial outturn for 2018/19 (Appendices A and B); b) approve a contribution to the Management of Change reserve of £22k, as set out at 6.5 and; c) review the capital slippage for 2018/19 (Appendix C).
Corporate objectives:	Delivering an efficient and modern council.
Statutory Officer Comments:	<b>Section 151 Officer:</b>  My comments are included within the body of this report and within the commentary and explanatory foreword to the Statement of Accounts.  <b>Monitoring Officer:</b> No further comments to add.
Consultees:	None
Background papers:	Provisional Outturn 2018/19 Cabinet 21 May 2018/19 Agenda item 7

## **1. Background**

1.1 The purpose of this report is to present the final outturn for 2018/19.

## **2. Executive summary**

- 2.1 The provisional outturn for 2018/19 was presented to Cabinet on 21 May 2019 and reported a balanced budget position for both the General Fund and Housing Revenue Account. The position incorporated reserve movements which were recommended for approval by Council at the meeting. The Capital programme provisional outturn position reported slippage of £5.5m against budget and an underspend variance of £45k (0.1% of budget).
- 2.2 The final outturn report for 2018/19 has been produced following the completion of the draft accounts publication and external audit process. The overall reported position for both the General Fund and Housing Revenue Account has not changed from the provisional outturn. Appendices A, B and C provide more detail on the General Fund, Housing Revenue Account and Capital position for 2018/19.

## **3. General Fund Revenue Outturn**

3.1 Appendix A shows the final outturn position on the General Revenue Fund. This is summarised in the table below:

Scrutiny Committee Area	Current Budget	Outturn	Variance	Variance
	£000	£000	£000	%
Finance and Resources	13,366	13,600	234	1.7%
Housing and Community	361	192	(169)	(46.8%)
Strategic Planning and Environment	7,717	8,359	642	8.3%
<b>Net cost of services</b>	<b>21,444</b>	<b>22,151</b>	<b>707</b>	<b>3.3%</b>
Non-controllable budgets	(17,331)	(18,035)	(704)	4.1%
<b>Surplus or deficit on provision of services</b>	<b>4,113</b>	<b>4,115</b>	<b>2</b>	<b>0.1%</b>
Recharge to HRA and reserve movements	(4,114)	(4,115)	(1)	0.0%
Contribution (to)/ from General Fund Working Balance	(1)	0	1	0.0%

- 3.2 The overall General Fund Revenue position has changed between provisional and final outturn. Following minor adjustments in the finalisation of the outturn position, including some technical accounting adjustments, a further transfer to the Management of Change reserve of £22k is proposed. The impact of this reserve transfer is reflected in the table above.
- 3.3 Key variances to budget within the General Fund are unchanged between the provisional and final outturn. These include:
- Leisure contract- a pressure of £196k has arisen relating to the implementation of the new leisure contract, which began in this financial

year. Set-up costs are necessary in order to establish the contract, which will generate revenue savings for the Council in future years. These one-off costs have been funded from a drawdown from the Management of Change reserve.

- Building Control- a pressure £130k has been experienced in Building Control due to an ongoing requirement for temporary resource. A shortage of professional skills across the sector has led to continuing recruitment and retention issues. Options for the future delivery of the service within approved budgets are being progressed.
- Waste Service- a pressure of £490k has arisen in the Waste service from the disposal of co-mingled waste. The downturn in the global market for recycled material is leading to a cost for disposal of material, which is affecting all Waste Disposal Authorities. This is an ongoing pressure which has been factored into the budget for 2019/20.
- Commercial Waste income – a pressure of £180k has been experienced in the Commercial Waste service due to an ongoing loss of customers. An external review of all elements of the Waste Service, and opportunities for increased income, is currently underway and will be considered as part of future years' budget setting once complete.
- Planning - £395k of additional income has been generated due to a high volume of planning applications and significant large one-off fees received in year.
- Garages- there has been an underachievement of income on Garages of £350k. This has been partially offset by an underspend against repairs and maintenance within the service of £250k. A full review of the garage service is underway.
- Temporary Accommodation-additional income of £240k has been generated as a result of the high demand in the borough. The Council's own properties are being used to house tenants on a temporary basis rather than more expensive bed and breakfast accommodation.
- New Burdens grants- at year end, £336k of new burdens grants have been received in 2018/19. Included in this is £78k of funding relating to the Revenues and Benefits service to cover the additional costs incurred in the delayed Universal Credit roll out, £68k of new burdens funding relating to the Strategic Planning service, and £64k in Homelessness Reduction funding.
- Interest income has exceeded budget by £282k. Cash balances have exceeded expectation in 2018/19, assisted by slippage in the capital programme. The General Fund apportionment of this additional income was greater than previously anticipated.
- The Minimum Revenue Provision, which is a statutory adjustment to pay off accumulated capital spend, is £140k lower than budgeted. This is as a result of a combination of reduced capital spend against budget and a technical review of accounting treatment.

#### **4. Housing Revenue Account**

- 4.1 The final outturn position is detailed at Appendix B to this report. The overall position for the Housing Revenue Account has not changed between the provisional and final outturn. Final outturn expenditure is £76k higher than reported at provisional outturn and is offset by a reduction in revenue contribution to capital. The difference reflects the finalisation of depreciation charges for the year and the transfer of relevant leaseholder contributions received to a reserve for the lift replacements. Key variances to budget within the Housing Revenue Account are detailed below.

Dwelling Rent and Tenants Charges- £141k under budget

- 4.2 The variance on dwelling rents is due to the void rate in the first 6 months of the year running at 1%, which was higher than the anticipated 0.8%. This has given rise to a variance of approximately £60k. The balance is due to change in the number of new build properties being let from assumptions used at budget setting time, partially offset by lower number of right to buy sales (55 expected, 29 actual).

Tenants charges- £148k over-achievement of income

- 4.3 The variance in this area arises mainly from the recovery of service charges being higher than anticipated (£110k) and also from the receipt of a grant from Hertfordshire County Council for Housing Related Support which was expected to have ceased (£56k).

Provision for Bad Debts- £394k under budget

- 4.4 An increase of £400k was factored into the budget for 2018/19 to allow for potential increases in rent arrears due to the roll-out of Universal Credit. As the roll out has not progressed as quickly as expected, the full budget has not been required. This reduction has been allocated to the revenue contribution to capital.

Depreciation - £1.1m over budget

- 4.5 This increased charge is due to housing stock having increased in value and as a result, capital charges have also seen an increase. The depreciation charge is allocated to the Major Repairs Reserve to fund future maintenance requirements on the HRA housing stock.

Revenue Contributions to Capital - £622k under budget

- 4.6 The impact of the additional depreciation charge and the reduced bad debt requirements is a reduction in the revenue contribution to capital.

#### **5. Capital Programme**

- 5.1 Appendix C shows the capital outturn in detail by scheme. The final capital outturn position is unchanged from the provisional position. The table below summarises the overall capital outturn position. The 'Slippage' column refers to projects where expenditure is still expected to be incurred, but it will now be in 2019/20 rather than 2018/19. The 'Variance' column refers to projects which are

now complete, but have come in under or over budget and projects which are no longer required.

	Current Budget £000	Slippage	Revised Budget £000	Provisional Outturn £000	Variance £000	%
Finance & Resources	7,419	(1,851)	5,568	5,489	(79)	-1.1%
Strategic Planning & Environment	2,564	(32)	2,532	2,551	19	0.7%
Housing & Community	7,370	(2,097)	5,273	5,308	35	0.5%
<b>GF Total</b>	<b>17,353</b>	<b>(3,980)</b>	<b>13,373</b>	<b>13,348</b>	<b>(25)</b>	<b>-0.1%</b>
<b>HRA Total</b>	<b>26,287</b>	<b>(1,542)</b>	<b>24,745</b>	<b>24,725</b>	<b>(20)</b>	<b>-0.1%</b>
<b>Grand Total</b>	<b>43,640</b>	<b>(5,522)</b>	<b>38,118</b>	<b>38,073</b>	<b>(45)</b>	<b>-0.1%</b>

#### General Fund Major Variances

5.2 There is overall slippage of £4m on the General Fund. The repassing to future years includes:

- Line 30: slippage of £150k on Berkhamsted Sports centre – Building Management System. These works have been put on hold until the options appraisal for the leisure centre is complete.
- Line 31: slippage of £285k on Tring Swimming Pool refurbishment. This project has been completed in early 2019/20.
- Line 33: slippage of £1.15m on Berkhamsted Multi-Storey Car Park. The construction programme has been delayed as utilities diversion works have not been carried out as planned, in particular Cadent Gas delayed commencing their work, causing a 12 week delay to the programme.
- Line 47: accelerated spend of £106k on Verge Hardening Programme. The scheme has moved more quickly than anticipated, completing a total of sixteen schemes in year.
- Line 51: slippage of £2.1m on Affordable Housing Development Fund. This budget is for the payments of grants to Housing Associations. The variance is due to timing on payments of the grants, which will now take place in 2019/20.

5.3 Within the overall net underspend of £25k, there is an overspend as follows:

- Line 45: unbudgeted spend of £134k on The Forum. Essential upgrade works to the door entry system and the roof were required in year.

#### Housing Revenue Account Capital

5.4 There is slippage on the HRA capital programme of £1.5m.

- Line 78: slippage of £935k on DBC Commissioned Capital Works. £465k relates to the gain share element on the Osborne contract, which could not

be reliably projected as this is performance and saving based. In addition there was an underspend in the Gas and Heating capital budget due to a relatively mild winter, combined with correctly targeted investment/boiler replacement in first 3 quarters, which resulted in a reduced need for boiler replacement in quarter 4. This was also combined with a gain share that was not practical to reinvest in final quarter.

- In addition, the capital programme includes a proportion of projects with leaseholder impact and subsequent service charge recovery. This work will now take place in 2019/20 once the necessary leaseholder consultation has been carried out.
  - Line 81: additional spend of £239k on Martindale against what was forecast at quarter 3. A mild winter during quarter 4 has meant that progress has been faster than anticipated once start on site was achieved.
  - Line 83: slippage of £500k on Stationers Place. The start on site has been delayed due to protracted discussions with Hertfordshire County Council to agree site access.
- 5.5 The nature of large capital build projects is that there is often some slippage on projects due to the volume of differing variables involved. The finance team have worked closely with project leads to re-profile the 2019-23 capital programme.

## **6. Balances and Reserves**

- 6.1 The Reserves Summary at Appendix D reflects the movements approved by Council in February 2019 and updated for the reserve movements as set out below.
- 6.2 In cases where reserves were to be drawn down in 2018/19 to fund budgeted expenditure which was not spent in full, only the amount required to fund actual expenditure was drawn down. Where the balance is now required in 2019/20, the carry forward of unspent reserve budgets was recommended for Council approval by Cabinet on 21 May 2019.
- 6.3 Variances over £50k on recommended reserve movements compared to the original budget and additional movements approved in year are as follows:
  - Earmarked Grants Reserve - £64k contribution to reserves of additional grant income received relating to Homelessness prevention. This grant has been set aside to be spent in 2019/20.
- 6.4 Cabinet recommended to Council to approve the following additional reserve movements on 21 May 2019 arising from year- end adjustments:
  - Management of Change Reserve – net £125k contribution to reserve. A contribution to the Management of Change Reserve is recommended which is the net effect of £345k draw down from reserves to fund the expected one-off costs associated with the implementation of the leisure contract, offset by a contribution of £470k from various year end technical adjustments described in section 3.

- Local Development Framework (LDF) Reserve - £375k contribution to reserve to support the Hemel Garden Communities development.
  - Funding Equalisation Reserve - £2.8m contribution to reserve arising from a combination of timing differences in Collection fund Income (Council tax and Non-Domestic Rates) received or paid by the council and additional government grants received to fund the collection service.
- 6.5 Following finalisation of the outturn position, it is recommended that Members recommend to Council to approve the following additional reserve movement:
- Management of Change Reserve – a £22k contribution to reserve following final adjustments to the year- end position. This will reduce the net draw down from this reserve made in 2018/19.

## **7. Conclusion**

- 7.1 The final 2018/19 outturn position for the both the General Fund and Housing Revenue Account shows no overall change from the reported provisional outturn. Members are asked to recommend to Council an additional transfer to the Management of Change reserve of £22k following the finalisation of the General Fund position for 2018/19.



## Dacorum Borough Council

### General Fund Final Outturn 2018/19

	<i>Full Year</i>		
	Budget £000	Outturn £000	Variance £000
<b>Cost of Services</b>			
Finance and Resources	13,366	<b>13,600</b>	234
Housing and Community	361	<b>192</b>	<b>(169)</b>
Strategic Planning and Environment	7,717	<b>8,359</b>	642
<b>Net Cost of Services</b>	<b>21,444</b>	<b>22,151</b>	<b>707</b>
<b>Other Items</b>			
Investment Property	(4,103)	<b>(4,050)</b>	53
Investment Income	(158)	<b>(440)</b>	<b>(282)</b>
Interest Payments and MRP	970	<b>830</b>	<b>(140)</b>
Parish Precept Payments	778	<b>778</b>	0
Government Grants	(2,086)	<b>(2,420)</b>	<b>(334)</b>
Revenue Contribution to Capital	2,111	<b>2,110</b>	<b>(1)</b>
Taxation (Council Tax and Business Rates)	(14,843)	<b>(14,843)</b>	(0)
<b>Total Other Items</b>	<b>(17,331)</b>	<b>(18,035)</b>	<b>(704)</b>
<b>Transfers between Reserves / Funds</b>			
Net Recharge to the HRA	(4,114)	<b>(4,115)</b>	<b>(1)</b>
<b>Net Movement on General Fund Working Balance</b>	<b>(1)</b>	<b>0</b>	<b>1</b>



**Dacorum Borough Council**  
**Housing Revenue Account Final Outturn 2018/19**

	Adjusted Budget £000	Final Outturn £000	Variance £000	%
<b>Income:</b>				
Dwelling Rents	(53,044)	(52,903)	141	-0.3%
Non-Dwelling Rents	(102)	(148)	(46)	45.1%
Tenants Charges	(1,512)	(1,660)	(148)	9.8%
Leaseholder Charges	(487)	(513)	(26)	5.3%
Interest and Investment Income	(390)	(328)	62	-15.9%
Contribution towards Expenditure	(535)	(623)	(88)	16.4%
<b>Total Income</b>	<b>(56,070)</b>	<b>(56,175)</b>	<b>(105)</b>	<b>0.2%</b>
<b>Expenditure:</b>				
Repairs & Maintenance	12,113	12,153	40	0.3%
Supervision & Management	12,043	11,972	(71)	-0.6%
Rent, Rates, Taxes & Other Charges	34	60	26	76.5%
Interest Payable	11,594	11,594	0	0.0%
Provision for Bad Debts	700	306	(394)	-56.3%
Depreciation	12,000	13,137	1,137	9.5%
HRA Democratic Recharges	301	244	(57)	-18.9%
Revenue Contribution to Capital	7,285	6,663	(622)	-8.5%
<b>Total Expenditure</b>	<b>56,070</b>	<b>56,129</b>	<b>59</b>	<b>0.1%</b>
Transfer to / (from) Housing Reserves	0	46	46	0.0%
<b>HRA Deficit / (Surplus)</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0.0%</b>
<b>Housing Revenue Account Balance:</b>				
Opening Balance at 1 April 2018	(2,892)	(2,892)	0	0.0%
Deficit / (Surplus) for year	0	0	0	0.0%
Proposed Contributions to Reserves	0	0	0	0.0%
<b>Closing Balance at 31 March 2019</b>	<b>(2,892)</b>	<b>(2,892)</b>	<b>0</b>	<b>0.0%</b>

Dacorum Borough Council Capital Programme Final Outturn 2018/19

Scheme	Budget Holder	Current Budget	YTD Spend	Outturn	Slippage	Over / (Under)
<b>General Fund</b>						
<b>Finance &amp; Resources</b>						
<b>Commercial Assets and Property Development</b>						
1 Old Town Hall - Cafe Roof and stonework renewal	Richard Rice	0	0	0	0	0
2 Demolition of Civic Centre	Richard Rice	645,712	607,185	607,185	(38,527)	0
3 Old Town Public Convenience Refurbishment	Richard Rice	12,908	30,263	30,263	0	17,355
4 Bennetts End Community Centre - Replace Roof	Richard Rice	35,000	30,187	30,187	0	(4,813)
5 Adeyfield Community Centre - replace roof	Richard Rice	69,230	106,501	106,501	0	37,271
6 Tring Community Centre - new play area for Children's Nursery	Richard Rice	2,110	1,966	1,966	(144)	(0)
7 Warners End Community Centre heating and doors	Richard Rice	34,000	35,031	35,031	0	1,031
8 Tring Community Centre Door Upgrade	Richard Rice	15,000	15,005	15,005	0	5
9 Rossgate Shopping Centre - Structural Works	Richard Rice	0	0	0	0	0
10 Leys Road - Roof	Richard Rice	55,000	34,240	34,240	0	(20,760)
11 The Denes Shopping Centre - Renew Walkway & Canopy Covering	Richard Rice	80,000	52,714	52,714	(27,286)	(1)
12 Silk Mill - Renew asphalt tanking to stairs	Richard Rice	8,200	17,800	17,800	0	9,600
13 58 High St (Old Town), Hemel - Remove and Rebuild Wall	Richard Rice	42,000	1,100	1,100	(40,900)	0
14 100 High St (Old Town), Hemel - Window Replacement	Richard Rice	0	0	0	0	0
15 Half Moon Yard - Replace soffit/facia & external facade	Richard Rice	18,000	0	0	(18,000)	0
16 Long Chauden Roof	Richard Rice	0	980	980	980	0
17 Bellgate - Walkway Renovation	Richard Rice	0	0	0	0	0
18 Bennettsgate - Window Renewal	Richard Rice	0	4,250	4,250	4,250	0
19 Kingshill Cemetery - Toilet Provision	Richard Rice	147,124	117,622	117,622	(29,502)	0
20 Heath Lane Chapel - Replace roof	Richard Rice	14,000	0	0	(14,000)	0
21 Kingshill Cemetery Infrastructure (New Burial Area)	Richard Rice	40,000	0	0	(40,000)	0
22 Bunkers Farm	Richard Rice	75,179	101,447	101,447	26,268	0
23 Demolish Gadebridge Park Green-Keeper's Shed	Richard Rice	0	0	0	20,000	(20,000)
		1,293,463	1,156,289	1,156,289	(156,861)	19,687
<b>Procurement and Contracted Services</b>						
24 Berkhamsted Sports Centre - Roof Replacement	Ben Hosier	250,000	153,331	153,331	(1,100)	(95,569)
29 Berkhamsted Sports Centre - Installation of new hot water calorifiers	Ben Hosier	50,000	0	0	(50,000)	0
30 Berkhamsted Sports Centre - Building Management System	Ben Hosier	150,000	0	0	(150,000)	0
31 Tring Swimming Pool	Ben Hosier	1,834,725	1,475,473	1,475,473	(284,527)	(74,725)
32 Car Park Refurbishment	Ben Hosier	351,000	395,325	395,325	44,325	0
33 Multi Storey Car Park Berkhamsted	Ben Hosier	2,085,000	936,450	936,450	(1,148,550)	0
		4,720,725	5,921,159	2,960,579	(1,760,146)	(170,294)
<b>Information, Communication and Technology</b>						
34 Rolling Programme - Hardware	Ben Trueman	525,000	494,204	494,204	0	(30,796)
35 Software Licences - Right of Use	Ben Trueman	50,000	45,059	45,059	0	(4,941)
36 Website Development	Ben Trueman	16,478	14,637	14,637	(1,841)	0
37 Future vision of CRM	Ben Trueman	133,650	137,306	137,306	3,656	0
38 Improvement works to The Forum	Ben Trueman	475,000	380,207	380,207	(94,793)	0
		1,200,128	1,071,413	1,071,413	(92,978)	(35,737)
<b>Revenues, Benefits and Fraud</b>						
39 Revenues and Benefits new servers	Chris Baker	23,000	11,000	11,000	(12,000)	0
		23,000	11,000	11,000	(12,000)	0
<b>People</b>						
40 EIS Replacement	Matt Rawdon	70,000	0	0	(70,000)	0
41 Capital Grants - Community Groups	Matt Rawdon	20,000	17,900	17,900	0	(2,100)
		90,000	17,900	17,900	(70,000)	(2,100)
<b>Development Management and Planning</b>						
42 Planning Software Replacement	Sara Whelan	36,964	22,350	22,350	(14,614)	0
		36,964	22,350	22,350	(14,614)	0
<b>Legal and Corporate Services</b>						
43 Election Management System Replacement	Mark Brookes	30,000	0	0	0	(30,000)
		30,000	0	0	0	(30,000)
<b>Housing &amp; Regeneration Management</b>						
44 Gade Zone	Mark Gaynor	24,938	29,796	29,796	0	4,858
45 The Forum (Public Service Quarter)	Mark Gaynor	0	134,227	134,227	0	134,227
		24,938	164,024	164,024	0	139,086
<b>Finance &amp; Operations Management</b>						
46 Civic Zone Regeneration Upgrade (DevCo)	James Deane	0	85,129	85,129	85,129	0
		0	85,129	85,129	85,129	0
<b>Totals: Finance &amp; Resources</b>		7,419,218	5,488,684	5,488,684	7,419,218	(1,851,175)
						(79,358)

Dacorum Borough Council Capital Programme Final Outturn 2018/19

APPENDIX C

Scheme	Budget Holder	Current Budget	YTD Spend	Outturn	Slippage	Over / (Under)
<b>Housing &amp; Community</b>						
<b>People</b>						
47 Verge Hardening Programme	Matt Rawdon	284,128	390,191	390,191	106,063	0
48 Storage Facility at Grovehill Adventure Playground	Matt Rawdon	25,000	0	0	(25,000)	0
		309,128	390,191	390,191	81,063	0
<b>Procurement and Contracted Services</b>						
49 Rolling Programme - CCTV Cameras	Ben Hosier	25,000	22,686	22,686	0	(2,314)
50 Alarm Receiving Centre	Ben Hosier	65,000	31,373	31,373	(33,627)	0
		90,000	54,059	54,059	(33,627)	(2,314)
<b>Strategic Housing</b>						
51 Affordable Housing Development Fund	David Barrett	5,995,000	3,932,433	3,932,433	(2,062,567)	0
52 Westerdale (Garage Development)	David Barrett	207,843	21,065	21,065	(186,778)	(0)
53 Northend (Garage Development)	David Barrett	207,843	345,806	345,806	137,963	0
54 Wood House - Office Space Fit Out	David Barrett	500,000	536,901	536,901	0	36,901
55 Temporary Accommodation - creation of new units	David Barrett	60,000	27,289	27,289	(32,711)	0
		6,970,686	4,863,493	4,863,493	(2,144,094)	36,901
<b>Totals: Housing &amp; Community</b>		<b>7,369,814</b>	<b>5,307,743</b>	<b>5,307,743</b>	<b>(2,096,657)</b>	<b>34,586</b>
<b>Strategic Planning &amp; Environment</b>						
<b>Environmental Services</b>						
56 Wheeled Bins & Boxes for New Properties	Craig Thorpe	20,000	10,609	10,609	0	(9,391)
57 Play Area Refurbishment Programme	Craig Thorpe	298,722	311,002	311,002	0	12,280
58 Waste & Recycling Service Improvements	Craig Thorpe	90,000	108,586	108,586	18,586	0
59 Commercial Waste Collection System	Craig Thorpe	25,000	23,300	23,300	(1,700)	0
60 Gadebridge Park - Splash Park	Craig Thorpe	252,224	219,450	219,450	0	(32,774)
61 Gadebridge Park - Infrastructure Improvements	Craig Thorpe	121,783	130,210	130,210	0	8,427
62 Gadebridge Park - Renovation of White Bridge	Craig Thorpe	50,000	40,574	40,574	(9,426)	0
63 Walled Garden Irrigation System (Gadebridge Park)	Craig Thorpe	15,000	15,350	15,350	0	350
64 Fleet Replacement Programme	Craig Thorpe	877,833	846,010	846,010	(31,823)	0
65 Fleet Services Renew Plant & Equipment	Craig Thorpe	0	0	0	0	0
66 Fleet Service Management System Upgrade	Craig Thorpe	0	22,000	22,000	22,000	0
		1,750,562	1,727,092	1,727,092	(2,363)	(21,108)
<b>Property and Place</b>						
67 Disabled Facilities Grants	Alan Mortimer	755,043	744,373	744,373	(10,670)	(0)
		755,043	744,373	744,373	(10,670)	(0)
<b>Strategic Planning and Regeneration</b>						
69 Maylands Business Centre	Chris Taylor	0	12,944	12,944	0	12,944
70 Water Gardens	Chris Taylor	18,430	47,814	47,814	0	29,384
71 Town Centre Access Improvements	Chris Taylor	20,000	879	879	(19,121)	0
72 Hemel Street Furniture	Chris Taylor	20,000	18,017	18,017	0	(1,983)
73 The Bury - Conversion into Museum and Gallery	Chris Taylor	0	0	0	0	0
		58,430	79,655	79,655	(19,121)	40,346
<b>Totals: Strategic Planning &amp; Environment</b>		<b>2,564,035</b>	<b>2,551,120</b>	<b>2,551,120</b>	<b>(32,154)</b>	<b>19,238</b>
<b>Totals - Fund: General Fund</b>		<b>17,353,067</b>	<b>13,347,547</b>	<b>13,347,547</b>	<b>(3,979,986)</b>	<b>(25,534)</b>
<b>Housing Revenue Account</b>						
<b>Property &amp; Place</b>						
74 Planned Fixed Expenditure	Alan Mortimer	11,479,274	11,171,026	11,171,008	0	(308,266)
75 Pain/Gain Share (Planned Fixed Expenditure)	Alan Mortimer	0	(465,004)	(465,004)	0	(465,004)
76 M&E Contracted Works	Alan Mortimer	600,000	621,148	621,148	0	21,148
77 Communal Gas & Heating	Alan Mortimer	2,975,000	2,634,840	2,634,840	0	(340,160)
78 DBC Commissioned Capital Works	Alan Mortimer	1,096,000	1,253,254	1,253,254	(935,030)	1,092,284
79 Special Projects	Alan Mortimer	50,000	43,147	43,147	(6,853)	0
		16,200,274	15,258,410	15,258,391	(941,883)	0
<b>Strategic Housing</b>						
80 New Build - General Expenditure	David Barrett	(336,953)	0	0	(228,542)	565,495
81 Martindale	David Barrett	1,785,764	2,025,173	2,025,173	239,409	(0)
82 Kylna Court (Previously known as Wood House)	David Barrett	5,454,805	4,841,594	4,841,594	0	(613,211)
83 Stationers Place / Apsley Paper Mill	David Barrett	1,469,127	969,169	969,169	(499,958)	(0)
84 Able House	David Barrett	19,246	0	0	0	(19,246)
85 Swing Gate Lane	David Barrett	572,921	754,861	754,861	0	181,940
86 Swing Gate Lane Conversion	David Barrett	889,553	764,577	764,577	0	(124,977)
87 Bulbourne	David Barrett	9,500	5,344	5,344	(4,156)	(0)
88 Coniston Road	David Barrett	18,800	800	800	(18,000)	0
89 Eastwick Row	David Barrett	64,000	52,471	52,471	(11,529)	0
90 St Margaret's Way	David Barrett	100,000	20,852	20,852	(79,148)	(0)
91 Paradise Fields	David Barrett	20,000	14,261	14,261	(5,739)	(0)
92 3 London Road	David Barrett	10,000	0	0	0	(10,000)
93 Gaddesden Row	David Barrett	10,000	17,668	17,668	7,668	(0)
		10,086,763	9,466,768	9,466,768	(599,995)	(20,000)
<b>Totals - Fund: Housing Revenue Account</b>		<b>26,287,037</b>	<b>24,725,178</b>	<b>24,725,160</b>	<b>(1,541,878)</b>	<b>(19,999)</b>
<b>Totals</b>		<b>43,640,104</b>	<b>38,072,725</b>	<b>38,072,707</b>	<b>(5,521,864)</b>	<b>(45,533)</b>

<b>Dacorum Borough Council General Fund Reserves Summary</b>	<b>Balance as at 31/03/2018 £'000</b>	<b>Adjusted Budget 2018/19 £'000</b>	<b>Outturn 2018/19 £'000</b>	<b>Balance as at 31/03/2019 £'000</b>
Civic Buildings Major Repairs Reserve	200			200
Capital Development Reserve	465	(165)	(165)	300
Earmarked Grants Reserve	103	(61)	3	106
Management of Change Reserve	1,425	(484)	(312)	1,113
Technology Reserve	56	200	200	256
Savings Efficiencies Reserve	0	604	604	604
On Street Car Parking Reserve	212	(20)	(10)	202
Local Development Framework Reserve	66		353	419
Dacorum Development Reserve	164	(210)	(128)	36
Planning Enforcement & Appeals Reserve	54			54
Planning & Regeneration Project Reserve	141	(67)	(38)	103
Litigation Reserve	201		86	287
Vehicle Replacement Reserve	1,050	350	350	1,400
Invest to Save	248	(50)	(50)	198
Tring Swimming Pool Repairs Reserve	8	8		8
Youth Provision Reserve	61	(40)	(17)	44
Election Reserve	90	30	30	120
Uninsured Loss Reserve	586		(86)	500
Training & Development Reserve	56	(22)	(33)	23
Housing Conditions Survey Reserve	96	15		96
Dacorum Partnership Reserve	39			39
Dacorum Rent Aid - Guarantee Scheme	15			15
Rent Guarantee Scheme Reserve	15			15
Funding Equalisation Reserve	2,480		2,817	5,297
Pensions Reserve	1,773	200	200	1,973
Maylands Plus Reserve	46	23		46
<b>Total Earmarked Reserves</b>	<b>9,650</b>	<b>311</b>	<b>3,803</b>	<b>13,454</b>
<b>Working Balance</b>	<b>2,502</b>	<b>7</b>	<b>0</b>	<b>2,502</b>
<b>Total General Fund Reserves</b>	<b>12,152</b>	<b>318</b>	<b>3,803</b>	<b>15,956</b>

# Agenda Item 6



## AGENDA ITEM:

### SUMMARY

<b>Report for:</b>	<b>AUDIT COMMITTEE</b>
<b>Date of meeting:</b>	<b>18 July 2019</b>
<b>PART:</b>	<b>I</b>
If Part II, reason:	

<b>Title of report:</b>	<b>Statement of Accounts 2018/19</b>
Contact:	Cllr Graeme Elliot, Portfolio Holder for Finance and Resources  James Deane, Corporate Director (Finance and Operations)  Nigel Howcutt, Assistant Director (Finance and Resources)
Purpose of report:	The purpose of this report is to present the Council's Statement of Accounts for 2018/19. It covers: <ul style="list-style-type: none"><li>· Account and Audit Regulations 2015</li><li>· Section 21(2) Local Government Act 2003</li><li>· Statement of Accounts</li><li>· Commentary on financial statements</li></ul>
Recommendations:	It is recommended that Members of the Audit Committee: <ol style="list-style-type: none"><li>a) review the Statement of Accounts 2018/19 (Appendix A) and raise any matters on which assurance is sought in order to approve the Statements on behalf of the Council;</li><li>b) subject to consideration of the External Auditor's Audit Findings Report, approve the Letter of Representation (Appendix B) in the capacity of those charged with Governance and;</li><li>c) subject to a) and b) above, approve the Statement of Accounts for 2018/19.</li></ol>
Corporate objectives:	Delivering an efficient and modern council.
Statutory Officer Comments:	<b>Section 151 Officer:</b>  My comments are included within the body of this report and within the commentary and explanatory foreword to the Statement of Accounts.

	<b>Monitoring Officer:</b>  The Council has a statutory duty to approve the Statement of Accounts by 31st July in accordance with the Account and Audit Regulations 2015.
Consultees:	None
Background papers:	Audit Findings Report 2018/19 Audit Committee July 2019.

## 1. Background

- 1.1 The purpose of this report is to present the final outturn and the final Statement of Accounts for 2018/19 for Members' approval.

## 2. Executive summary

- 2.1 The Account and Audit Regulations 2015 require that local authorities must approve their financial statements by 31 July. The appointed Auditor must complete their audit and issue the relevant audit opinion to ensure the statutory deadline is met. The Council's appointed Auditor is Grant Thornton UK LLP.
- 2.2 The purpose of the external audit of the financial statements is to give an opinion on:
- whether they present a "true and fair" view of the financial position of the audited body and its expenditure and income for the year in question; and
  - whether they have been prepared properly in accordance with relevant legislation and applicable accounting standards.

- 2.3 The Auditor's opinion is added to the Statement of Accounts, with further detail of the audit findings provided in the Audit Findings Report to the Council. The Audit Findings Report appears as a separate agenda item for Audit Committee on 18 July 2019.

- 2.4 The Statement of Accounts has been prepared in accordance with the Code of Practice on Local Authority Accounting 2018/19 (the Code) issued by the Chartered Institute of Public Finance and Accountancy (CIPFA).

## 3. Statement of Accounts

- 3.1 It is the role of the Corporate Director (Finance and Operations) to present the Council's annual Statement of Accounts to this Committee for formal approval.
- 3.2 The published accounts of the Council are an essential means by which it accounts for its stewardship of the resources at its disposal and its financial performance in the use of those resources. The Corporate Director (Finance and Operations), is required to:
- ensure the regularity of transactions, by putting in place systems of internal control to ensure that financial transactions are lawful;

- maintain proper accounting records; and
  - prepare financial statements that give a true and fair view of the financial position of the body and its expenditure and income.
- 3.3 The Statement of Accounts includes a Narrative Report which provides a user-friendly guide to the most significant matters reported in the accounts together with an overview of the Council's financial performance throughout the year.
- 3.4 The Council is required to submit a letter of representation to its appointed Auditor. This letter confirms the basis upon which the Council has produced its Statement of Accounts and how the Council has participated in the external audit process. This letter is contained at Appendix F to this report.
- 4. Changes to the Draft Accounts Approved by the Corporate Director (Finance and Operations) on 31 May 2019**
- 4.1 The Council published its draft Statement of Accounts on 31 May 2019, in line with statutory deadlines. Since its publication, Council officers have agreed the following amendments to the Statement of Accounts with the appointed Auditor. These are:
- Comprehensive Income and Expenditure Statement (CIES) and Balance Sheet (Net Pensions Liability). In order to reflect the impact of two judicial rulings expected to impact upon the Local Government Pension Scheme, relevant entries within the CIES have been increased by £668k, with a corresponding increase to the Council's net pension liability within the balance sheet.
  - Financial Instruments disclosure note 37 to the accounts. This note has been amended to include cash and cash equivalents within financial asset disclosures. The figure disclosed for short-term debtors has been amended from £11.444m to £10.769m.
  - Fair valuation disclosures- additional narrative has been provided in the accounts in relation to asset valuation techniques, in order to fully meet the requirements of the Code and to assist the readers of the accounts in their understanding.
- 4.2 The amendments detailed above are set out in the Audit Findings Report.
- 4.3 There have been no other material changes to the Statement of Accounts since the publication of the draft accounts on 31 May 2019.
- 5. Expenditure and Funding Analysis**
- 5.1 The Expenditure and Funding Analysis shows how annual expenditure is used and funded from income (government grants, rents, council tax and business rates) in comparison with the income and expenditure in accordance with generally accepted accounting practices. It shows how this expenditure is allocated for decision making purposes between the Council's committee. Income and expenditure accounted for under generally accepted accounting practices is presented more fully detailed the Comprehensive Income and Expenditure Statement.

## **6. Comprehensive Income and Expenditure Statement**

- 6.1 The Comprehensive Income and Expenditure Statement (CIES) reports the net cost for the year of all functions for which the Council is responsible and demonstrates how that cost has been financed from general government grants and income from local taxpayers.
- 6.2 The CIES for 2018/19 reflects a net gain of £139.5m and consists of the following:
- Surplus on the Provision of Services of £14.8m (2017/18 surplus of £3.2m);
  - Other Comprehensive Income of £154.3m (2017/18 income of £58.7m).
- 6.3 The change in Surplus on the Provision of Services of £18.0m between years is due to:
- An increase in Total Cost of Services of £17.5m;
  - A reduction in Other Operating Expenditure of £4.2m;
  - A reduction in Financing and Investment Income and Expenditure of £0.1m;
  - A reduction in taxation and Non Specific Grant Income £3.5m.
- 6.4 Other Comprehensive Income and Expenditure for the year was £154.3m and consists of:
- £161.1m surplus on revaluation of property, plant and equipment;
  - £6.8m actuarial loss on pension asset/ liabilities.

## **7. Balance Sheet**

- 7.1 The Balance Sheet is fundamental to understanding the Council's financial position at the year end. It shows the balances and reserves and its long term indebtedness and the fixed and net current assets employed in its operations, together with summarised information on the fixed assets held.
- 7.2 The Council's net worth was £908.6m as at 31 March 2019, which represents an increase of £139.4m on the previous financial year. The change between years is driven by Other Comprehensive Income of £154.3m (2017/18 £58.7).

## **8. Movement in Reserves Statement**

- 8.1 The Movement in Reserves statement shows the movement in the year on the different reserves held by the Council, analysed into 'useable reserves' (i.e. those that can be used to fund expenditure or reduce local taxation) and 'other reserves'.

## **9. Cash Flow Statement**

- 9.1 The Cash Flow Statement shows the movement in cash and cash equivalents held by the Council throughout the year. The statement shows how the Council generates and uses cash and cash equivalents by classifying cash flows as operating, investing and financing activities.

## **10. Housing Revenue Account**

- 10.1 The Housing Revenue Account (HRA) is ‘ring-fenced’ from the General Fund. This reflects the Council’s statutory obligation to maintain a separate revenue account for local authority housing provision in accordance with Part 6 of the Local Government and Housing Act 1989.
- 10.2 The HRA statement shows a deficit of £12.4m for 2018/19. This is an increase of £11.2m to the deficit reported in 2017/18, which was £1.2m. The increased deficit in 2018/19 relates largely to an increase in asset impairment and depreciation charges for the year and a reduction in gain on disposal on non-current assets.

## **11. Collection Fund**

- 11.1 This account reflects the statutory requirement for billing authorities to maintain a separate Collection Fund, which shows the transactions of the billing authority in relation to Non-Domestic Rates and Council Tax, and illustrates the way in which these have been distributed to preceptors and the General Fund.

## **12. Conclusion**

- 12.1 The Statement of Accounts represents a detailed picture of the Council’s financial activity for 2018/19. Members are asked to review the accounts and Letter of Representation presented to them today and approve these documents.



Dacorum Borough Council

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# Statement of Accounts 2018/19

# CONTENTS

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Introduction by the Leader of the Council	2
Introduction by Corporate Director (Finance and Operations)	3
Audit Opinion (to be inserted post-audit)	
Narrative Report by the Corporate Director (Finance and Operations)	4
Statement of Responsibilities for the Annual Statement of Accounts	12
Annual Governance Statement	13
<b>Core Financial Statements</b>	
Expenditure and Funding Analysis	25
Comprehensive Income and Expenditure Account	26
Movement in Reserves Statement	27
Balance Sheet	28
Cash Flow Statement	29
Notes to the Core Financial Statements	30
<b>Supplementary Financial Statements</b>	
Housing Revenue Account and Notes	74
Collection Fund and Notes	78
Glossary of Terms	81

# Introduction – Leader of the Council

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Welcome to Dacorum Borough Council's Statement of Accounts for the financial year 2018/19.

I take great pride in the Council's achievements during 2018/19. Our Statement of Accounts shows you how we managed our finances whilst delivering against our key priorities:

- A clean, safe and enjoyable environment
- Building strong and vibrant communities
- Ensuring economic growth and prosperity
- Providing good quality, affordable homes, in particular for those most in need
- Delivering an efficient and modern council.

During 2018/19, the Council has:

- Completed 79 affordable new homes at Kylna Court, Hemel Hempstead, as part of our plan to deliver at least 300 new homes between 2013 and 2020.
- Provided grant funding to our Housing Association partners to support the delivery of 12 affordable homes across the borough during the year. A total 65 homes has been delivered since the commencement of the grant programme.
- Opened the new Kylna Business centre providing facilities, support and advice to new businesses in Dacorum.
- Secured £750k from the Ministry of Housing, Communities and Local Government to support the development of Hemel Garden Communities. This proposed urban extension of Hemel Hempstead is planned to deliver around 11,000 new homes and associated infrastructure over a 25-year period.
- Continued to support healthy communities via a new leisure management offering. This includes commencement of £2.3m of new investment in leisure facilities right across the borough. This includes works at Tring Swimming Pool and Hemel Hempstead Leisure Centre. A feasibility study is currently underway to consider the delivery of an improved leisure centre in Berkhamsted.
- Completed £1m of investment in a new play area, outdoor gym and splash park in Gadebridge Park, which was a hugely popular throughout the summer.
- Achieved the coveted Green Flag Award for five of our parks and green spaces in recognition of our excellent standards of park management.
- Celebrated local achievements via our Community Champion Award ceremony and Community Grant Awards evening, awarding over £70k to 40 organisations. The Council paid around £700k in total to the voluntary and community sector in 2018/19 to help support Dacorum residents.
- Welcomed Herts Valley Clinical Commissioning Group as new tenants in our main offices at The Forum.

During 2019/20, we will:

- Continue to build new Council homes for local people.
- Continue to invest in facilities across the borough, including a new multi-storey car park in Berkhamsted.

The Council continues to seek service improvements and the delivery of efficiencies in order to provide excellent and financially sustainable services to local residents and businesses.

**Councillor Andrew Williams**  
**Leader of the Council**

# Introduction – Corporate Director

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As the Council's Chief Financial Officer, I have pleasure in writing the Narrative Report for Dacorum Borough Council's Statement of Accounts for 2018/19.

The financial future for Local Government remains extremely uncertain. The Government's Fair Funding Review, a review of the needs of local authorities and the resources available to them, may mean changes to way in which the Council is funded. The prudent approach that we have taken to modelling the impact of core spending power has allowed us to develop sustainable plans for investing in the Borough and to continue to support the provision of new facilities and housing growth.

We will respond to economic challenges by ensuring that we regularly review our Medium Term Financial Strategy and ensure that our forecasts are both robust and prudent. We will continue adapting to maximise value for money for our tax-payers and aim to avoid impact on front-line service provision. To this end, I believe that we have the financial governance structures in place that will enable the Council to remain successful throughout the medium term and beyond.

The work of the Council's finance team is critical in ensuring that the proper protection and stewardship of public funds is conducted efficiently and effectively. The work that the team does, working with colleagues to challenge spend and to help improve and deliver value for money is critical in ensuring that high quality services continue to be delivered to our residents.

I hope that the Narrative Report and the notes that follow give you a clear picture of the figures that make up our Statement of Accounts and show you how the cash you paid became the service you received. The Statement of Accounts is required by law and covers various statutory requirements and other relevant information.

I would welcome your comments and feedback on the format of the Statement of Accounts to enable us to make them as accessible as possible.

**James Deane MA, BA, ACMA, CGMA  
Corporate Director (Finance & Operations)  
Leader of the Council**

### Borough Profile

The Borough approximately has a population of around 153,000 living in around 60,000 households. There are 111,000 residents on the Electoral Register.

Dacorum's population is split across 3 main urban towns of Hemel Hempstead, Tring and Berkhamsted and covers approximately 13% of the Hertfordshire population. Hemel Hempstead is by far the largest settlement in Dacorum, and narrowly the largest in Hertfordshire, with a population of over 90,000.

Almost 80% of the land in Dacorum is classified as rural land with 60% of the land designated as Green belt. This land mix brings contrasting pressures and difficulties across the borough for the services delivered by Dacorum.

### Corporate Plan 2015-2020

Dacorum Borough Council's five priorities for the community were reviewed and set during 2016 for the period 2015-2020. The priorities drive the Council's Improvement Plan and enable the Council and partners to deliver the Community Plan.

The five priorities are:

- **A clean, safe and enjoyable environment**
- **Building strong and vibrant communities**
- **Ensuring economic growth and prosperity**
- **Providing good quality affordable homes**
- **Delivering and efficient and modern council**

### Political and Strategic Framework

The Council holds elections for all Members once every four years. As at 31 March 2019, the Council was made up of 43 Conservatives, 5 Liberal Democrats, 2 Labour Councillors and 1 Independent. Elections were held in May 2019 resulting in 31 Conservatives, 19 Liberal Democrats and 1 Independent.

The Council operates with a Cabinet, three Overview and Scrutiny Committees and an Audit Committee responsible for corporate governance and approval of the Statement of Accounts. There is also a Development Control Committee, Licensing Committee and a Standards Committee.

Financial reporting within the Council is based on the scrutiny committee structure to support and open and transparent process for fiscal scrutiny.

The Cabinet is chaired by the Leader of the Council. The Cabinet has executive decision making powers and meets monthly. Each of the members of the Cabinet has a portfolio for which they have responsibility.

Although a number of areas of decision making are delegated to the Cabinet and Senior Officers, the full Council retains ultimate responsibility for the Policy and Budgetary Framework of Dacorum Borough Council.

### Council Structure and Services

The Council offers the following services within the borough:

**Environmental services-** including waste management, refuse collection and the management of the Council's parks and green spaces.

## Narrative Report

**Environmental and community protection services-** including emergency planning and environmental health.

**Housing services-** including management of the council's housing revenue account (HRA) housing stock and the provision of information and service for Council tenants and leaseholders.

**Planning and regeneration services-** including building control, planning enforcement and economic development.

**Revenues and benefits provision-** including the collection of Council Tax and Non Domestic Rates and payment of housing benefit and Council Tax support.

**Community services-** including leisure, arts and entertainment provision and community grant funding.

### Governance

The Annual Governance Statement included within these accounts highlights any issues around governance that have emerged during 2018/19. Details of these can be found at page 24 of the accounts.

### Challenges and Opportunities

Financially, the borough faces challenges and opportunities in the coming years. These include:

- Local Authority funding mechanism changes as a result of the Fair Funding Review and the subsequent changes to business rates retention could impact on the amount of retained business rates for the Council as well as increasing future risk of appeals and business rate reductions.
- Lifting of the HRA debt cap- announced at the end of 2018, the lifting of the HRA debt cap provides the Council with further options for investment in the provision of housing stock for local people
- Brexit- the financial Impact of the United Kingdom's exit from the European Union continues to be uncertain. Interest and inflation rates, labour costs, property and rental values may all be affected either adversely or beneficially.

### Performance- Operational

The Council has achieved the following during 2018/19 against its corporate objectives:

#### A clean, safe and enjoyable environment

- The opening of the new outdoor gym, play area and Splash Park at Gadebridge Park
- Achieved a recycling rate of 52.5%, collecting from 68,000 properties across the borough
- Rolled out an enhanced recycling services to flats
- Collected 9,562 tonnes of food waste
- Maintained parks and gardens across Dacorum including 62 play areas, 5 Green Flag parks and 2 Queen Elizabeth II Fields In Trust
- Dealt with 2,754 planning applications

#### Building strong and vibrant communities

- Continued our programme of community grants
- Secured £750k funding for the delivery of Hemel Garden Communities, a new garden town
- Entertained around 12,000 people with performances at the Old Town Hall Theatre
- Managed 24 car parks, 19 of which have Park Mark for safety
- Welcomed around 32,250 children to our adventure playgrounds

#### Ensuring economic growth and prosperity

- Opening of the new Kylna business centre on the Maylands site
- Supported local businesses and new start-ups with a total 469 individual support meetings

### Providing good quality affordable homes

- Completion of a flagship housing development at Kylna Court on the Maylands site
- Started the development of 133 new homes in the borough (inclusive of registered provider/housing association developments supported by Council grant funding) including 121 affordable homes.

### Delivering and efficient and modern council

- Handled 47,562 of calls in our Contact Centre
- Welcomed Herts Valley CCG as new tenants in our main offices at The Forum
- Identified £1.3m of savings as part of the 2018/19 budget setting process.

## Performance- Financial

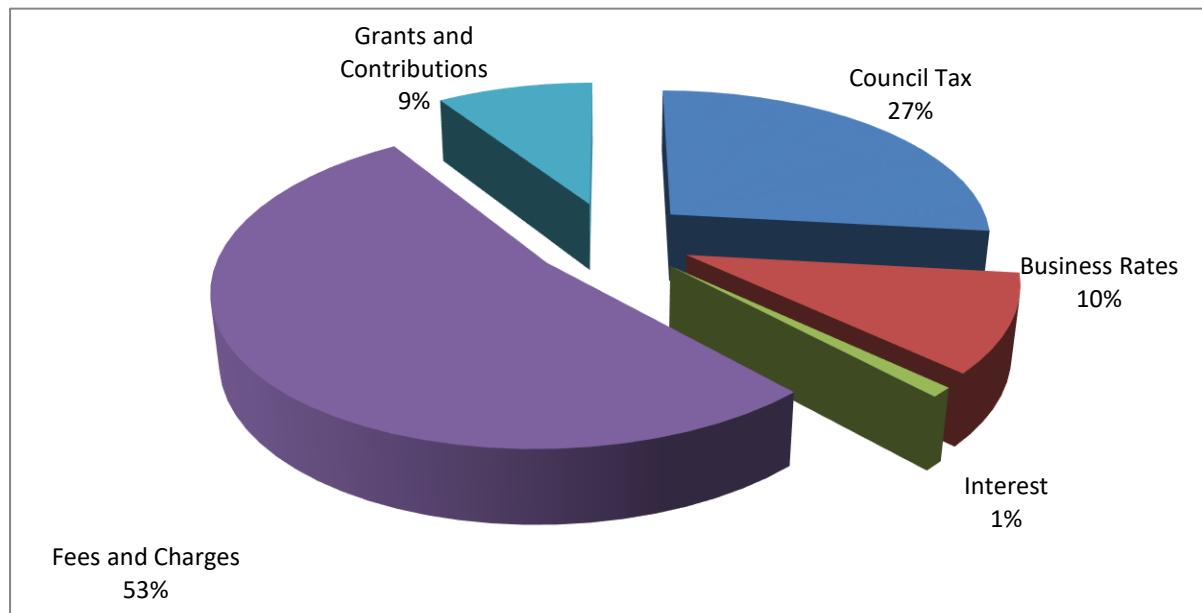
The review of the year for 2018/19 details performance within the Council's three main accounts:

- **General Fund Revenue Account**  
The General Fund incorporates all services not related to the Council's Housing Landlord function. Revenue expenditure is generally incurred on day to day items that are consumed within one year. Expenditure is financed principally from Government Grant, Taxation, and fees and charges.
- **Housing Revenue Account (HRA)**  
The HRA refers to services related to the Council's Housing Landlord function. HRA expenditure must be wholly funded from Rental and Service charge income generated from Council Houses. Rental income cannot be used to fund General Fund expenditure.
- **Capital Programme**  
Capital expenditure is incurred when an asset is acquired or enhanced and a benefit is derived for a period in excess of one year. Capital expenditure is financed from Capital Receipts, Government Grants, Revenue contributions and Borrowing.

### General Fund Revenue Account

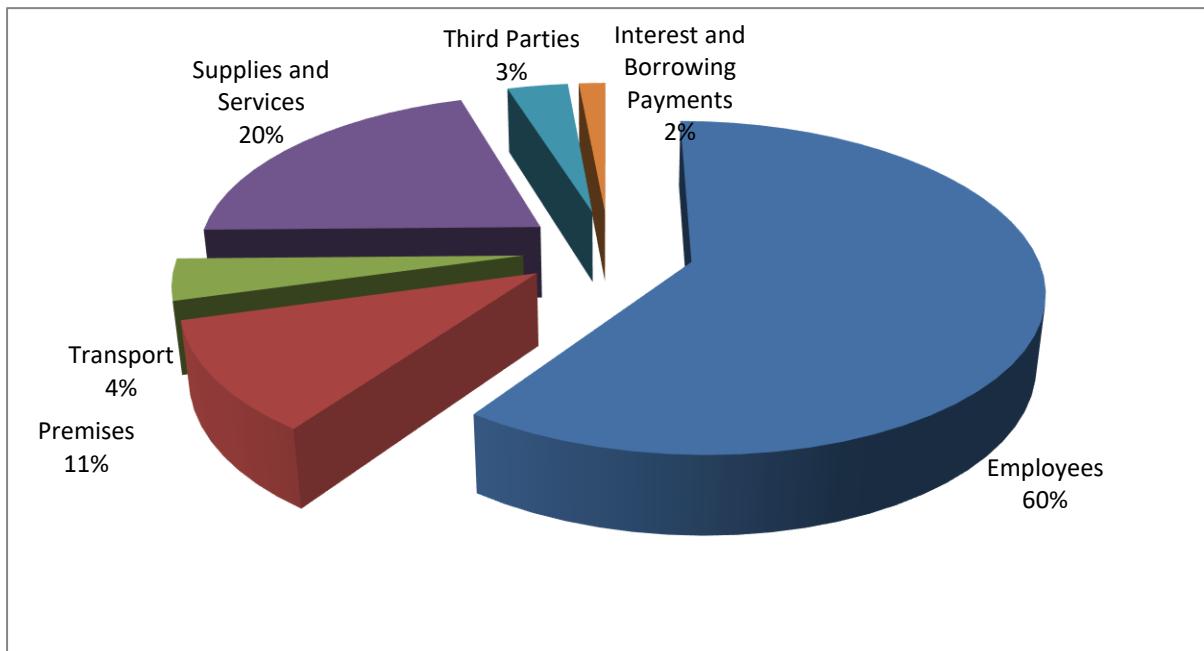
The following charts outline where the Council's revenue money came from, how it was spent and on which services.

#### *Where the Money Came From (Excluding Housing Benefits)*

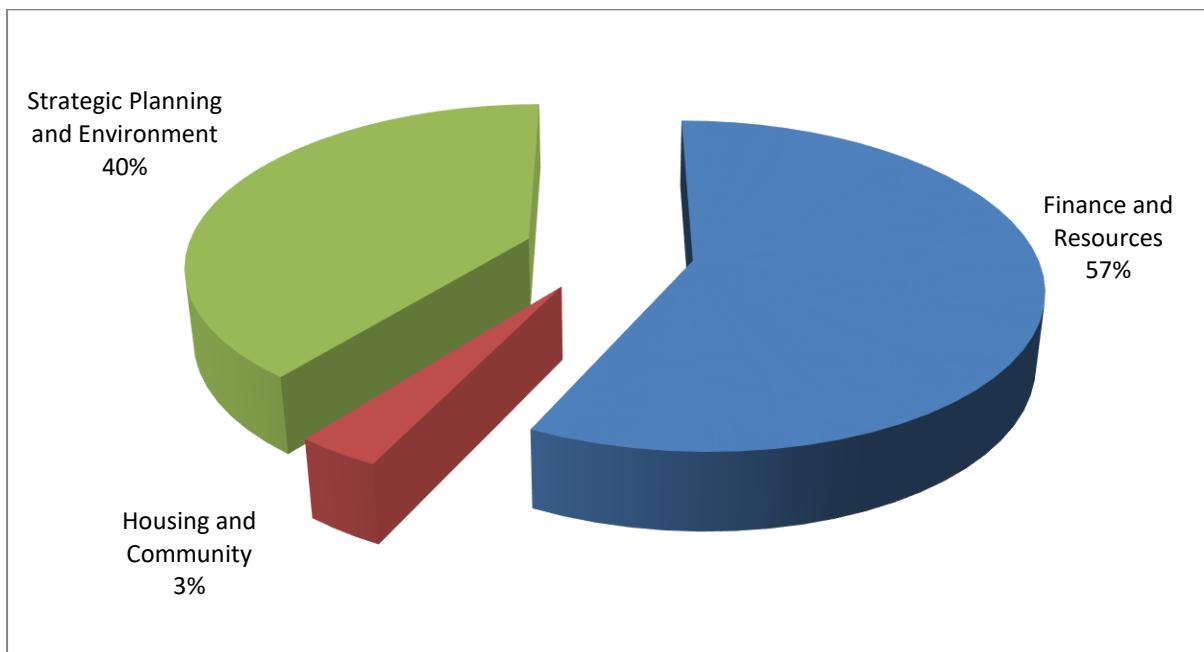


## Narrative Report

*How the Money was Spent (Excluding Housing Benefits)*



*What General Fund Services Have Been Provided with the Money?*



The three committees shown play an important role in guiding and examining our policies and performance. They are involved in keeping the Council's activities under review. They scrutinise the proposals, actions and decisions of the Cabinet and Council; as well as developing and reviewing policy areas and making recommendations of their own.

There are three Overview and Scrutiny Committees with different areas of responsibility:

- Finance and Resources (includes community centres, cemeteries, leisure management, public conveniences, parking services and support services).

## Narrative Report

- Housing and Community (includes services such as arts and entertainment, adventure playgrounds, the management of anti- social behaviour and homelessness). This committee is also responsible for the Council Landlord Function (the Housing Revenue Account), which is identified separately throughout the accounts).
- Strategic Planning and Environment (includes services such as waste collection, planning and development).

Each committee's membership is appointed at Annual Council each year. The committees are politically balanced, to reflect the composition of the Council as a whole. The Chairman and Vice-Chair can be from any of the political groups.

The table below summarises the Council's General Fund Revenue Account for 2018/19:

	<b>Budget</b> <b>£000</b>	<b>Actuals</b> <b>£000</b>	<b>Variance</b> <b>£000</b>
Finance and Resources	12,044	12,094	50
Housing and Community	1,062	716	(347)
Strategic Planning and Environment	8,027	8,354	326
<b>Net Cost of Services</b>	<b>21,134</b>	<b>21,164</b>	<b>30</b>
Investment Property	(4,103)	(4,050)	53
Interest Receipts, Payments and Minimum Revenue Provision	812	390	(422)
Parish Precept Payments	778	778	0
Government Grants	(2,086)	(4,010)	(1,924)
Revenue Contribution to Capital	2,111	2,110	(1)
Taxation (Council Tax and Business Rates)	(14,843)	(16,070)	(1,227)
<b>Surplus / Deficit on Provision of Services</b>	<b>(17,331)</b>	<b>(20,852)</b>	<b>(3,521)</b>
Net Recharge to the HRA	(4,114)	(4,115)	(1)
Contribution To / (From) Earmarked Reserves	311	3,803	3,492
<b>Net Movement on General Fund Working Balance</b>	<b>0</b>	<b>0</b>	<b>(0)</b>

Key budget variances during the year include those relating to the disposal of co-mingled waste and the underachievement of income from Council- owned garages. These pressures have been managed in year via underspends and approved reserve draw downs.

The Council's working balance remains in line with the Council's Medium Term Financial Strategy. A detailed breakdown of the movements to and from reserves can be seen in Note 13 to the Accounts.

### **Housing Revenue Account (HRA)**

The Working Balance for the Housing Revenue Account is now £2.9m, which is consistent with the minimum target balance of 5% of income stated in the Medium Term Financial Strategy.

## Narrative Report

The table below summarises the financial position on the Council's Housing Revenue Account for 2018/19:

	Budget £000	Actuals £000	Variance £000
Dwelling Rents and Service Charges	(54,556)	(54,564)	(8)
Interest on Investment Income	(390)	(328)	62
Other Income	(1,124)	(1,285)	(161)
<b>Net Cost of Services</b>	<b>(56,070)</b>	<b>(56,177)</b>	<b>(107)</b>
Repairs and Maintenance	12,113	12,153	40
Supervision and Management	12,043	11,973	(70)
Revenue Contribution to Capital and Depreciation	19,285	19,801	516
Interest Payable	11,594	11,594	0
Other Expenditure and contributions to reserves	1,035	656	(379)
<b>Total Expenditure</b>	<b>56,070</b>	<b>56,177</b>	<b>107</b>
(Surplus)/ Deficit for the year	0	0	0
Working Balance Brought Forward	(2,894)	(2,894)	0
<b>Working Balance Carried Forward</b>	<b>(2,894)</b>	<b>(2,894)</b>	<b>0</b>

### Capital Programme

The Council has undertaken capital investment during the year, including £24.7m on housing development, £1.3m on car parking and £1.6m on improving leisure facilities within the borough.

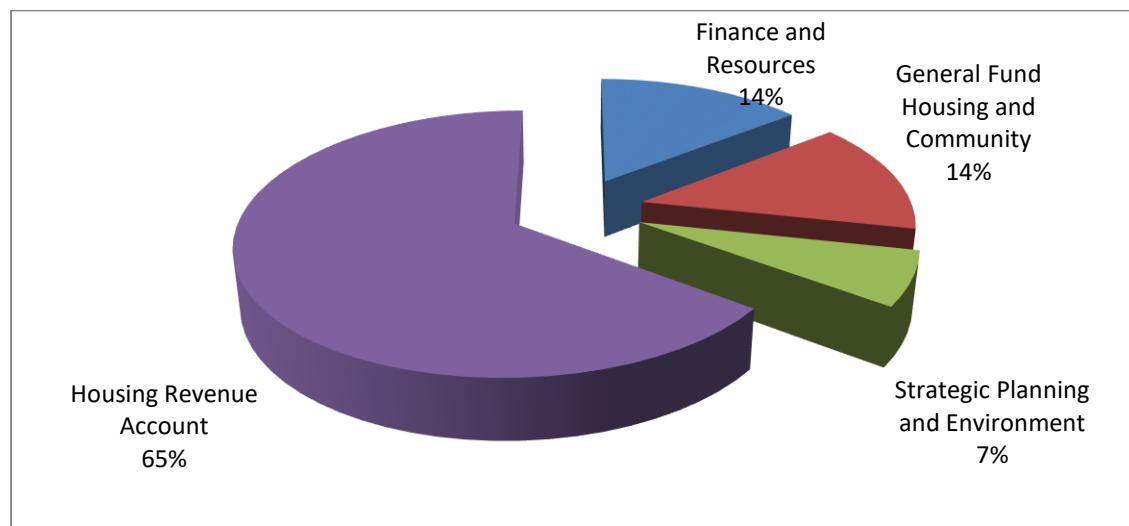
Key new housing investment in the borough includes:

- Kylna Court, Hemel Hempstead
- the former Martindale school site, Hemel Hempstead
- Stationers Place, Apsley
- Swing Gate Lane, Berkhamsted

Other projects include:

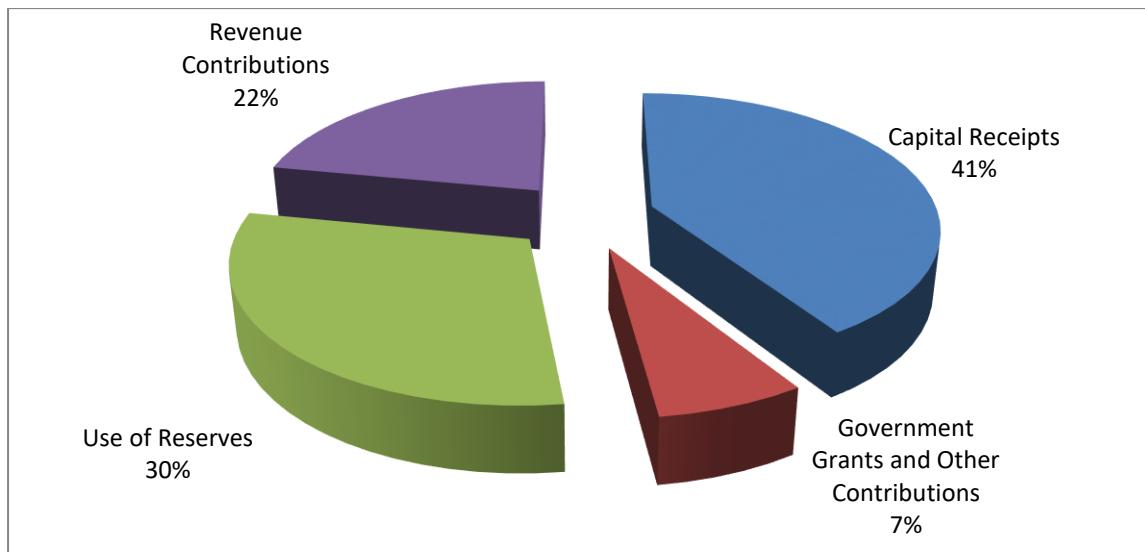
- the new splash park within Gadebridge Park
- the refurbishment of Tring swimming pool

### *Capital investment by service area*



The investment is financed largely by capital receipts and capital reserves as well as revenue contributions and government grants.

### *Capital Financing by source*



## **The Council's Financial Outlook**

The Council's budget for 2019/20 and Medium Term Financial Forecast were approved by Full Council in February 2019. The Council is projecting continuing pressures on income streams and services. The Council has plans and resources in place to manage successfully through the medium term.

The Council's medium term capital plans will provide a significant level of investment into the Borough. It is expected that this will have a positive impact on the local economy as well as acting as a catalyst to attract private sector investment and development in Dacorum. The aim of this is to have a further positive impact within the Borough and for the Council through increased business rates or New Homes Bonus.

### **Council Tax Collection**

The net collectable amount in respect of 2019/20 precepting and billing authority Council Tax was £96.9m (2017/18 £90.7m). The Council achieved a collection rate of 98.3% (2017/18 98.5%). Council Tax arrears for precepting authorities (for all years) amounted to £4.7m (2017/18 £4.8m).

### **75% Business Rates Pilot**

The Council is part of a one year pilot for the local retention of business rates across the Hertfordshire area. This arrangement is expected to result in an increase in retained business rates income, estimated at £0.5m in 2019/20.

## **Structure of the Statement of Accounts**

The Accounts that follow show how the cash you paid became the service you received in line with the Council's priorities.

## Narrative Report

Dacorum Borough Council's Statement of Accounts (the Accounts) has been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2018/19 (the Code), issued by the Chartered Institute of Public Finance and Accountancy (CIPFA).

The Corporate Director (Finance & Operations), is responsible for the proper administration of the Council's financial affairs, and is required by law to confirm that the Council's system of internal controls can be relied upon to produce an accurate Statement of Accounts. This confirmation is provided in the Statement of Responsibilities.

### Statements

The Accounts report the financial activity of the Council over financial year 2018/19, and the financial position of the Council as at 31 March 2019. In order to present this information clearly, the Accounts encompasses the following elements:

The Main Financial Statements are:

#### Expenditure and Funding Analysis

This shows funding available to the Council has been used in providing services compared with those resources used by local authorities in with the income and expenditure in accordance with generally accepted accounting practices.

#### Comprehensive Income and Expenditure Statement

This statement shows the income and expenditure for the authority in accordance with International Financial Reporting Standards. This will differ from the cash position for the authority.

#### Movement in Reserves Statement

This statement shows the movement in the year on the different reserves held by the Council, analysed into 'usable reserves' (i.e. those that can be used to fund expenditure or reduce local taxation) and 'total unusable reserves'.

#### Balance Sheet

The Balance Sheet shows the value as at 31 March 2019 of the assets and liabilities recognised by the Council. The net assets of the authority (assets less liabilities) are matched by the reserves held by the Council.

#### Cash Flow Statement

This statement takes the surplus or deficit from the income and expenditure statement and reconciles it to the actual cash movement shown on the balance sheet.

Other notes and additional Statements providing further additional information are:

#### Annual Governance Statement

This describes the Council's approach to the effective exercise of its functions, including the management of risk.

#### Accounting policies

These are the main accounting policies under which the financial statements have been prepared.

#### Housing Revenue Account and Notes

The Housing Revenue Account (HRA) reflects the Council's statutory duty to maintain a separate account to measure the resources generated and consumed in the provision of council housing during 2018/19, and the cumulative HRA balance.

#### Collection Fund and Notes

This note shows the income and expenditure transactions of the Council in respect of the collection and distribution of Council Tax and Non-Domestic (Business) Rates.

# Statement of Responsibilities for the Annual Statement of Accounts

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## The Council's responsibilities

The Council 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 Council that officer is the Corporate Director (Finance and Operations).
- Manage its affairs to secure economic, efficient and effective use of resources and to safeguard its assets.
- Approve the Statement of Accounts by 31 July 2019. Approval of the Statement of Accounts has been delegated to the Audit Committee.

In accordance with the requirements of regulation 10 of the Accounts and Audit Regulations 2015, I confirm that the Statement of Accounts for the year ended 31 March 2019 was approved by resolution of the Audit committee of Dacorum Borough Council on 18<sup>th</sup> July 2019.

**Councillor Herbert Chapman**  
**Audit Committee Chairman**

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## The Corporate Director's (Finance and Operations) responsibilities:

The Corporate Director (Finance and Operations) is responsible for the preparation of the Council's Statement of Accounts in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom (the Code).

In preparing this Statement of Accounts, the Corporate Director (Finance and Operations) has:

- selected suitable accounting policies and then applied them consistently
- made judgements and estimates that were reasonable and prudent
- complied with the local authority Code

The Corporate Director (Finance and Operations) has also:

- kept proper accounting records which were up to date
- taken reasonable steps for the prevention and detection of fraud and other irregularities

I certify that this Statement of Accounts presents a true and fair view of the financial position of the Council as at 31 March 2019, and its income and expenditure for the year ending 31 March 2019.

**James Deane**  
**Corporate Director (Finance and Operations)**

# Annual Governance Statement

## Annual Governance Statement 2018/19

### Annual Governance Statement 2018/19

#### Introduction

Dacorum Borough Council is committed to ensuring that good governance principles and management practices are adopted. This Annual Governance Statement has been produced in accordance with the CIPFA/SOLACE<sup>1</sup> framework *Delivering Good Governance in Local Government* (2016) and meets the statutory requirement set out in Regulation 6(1) and 6(2) of the Accounts and Audit Regulations 2015, which requires authorities to prepare the statement in accordance with proper practices.

The statement is an open and honest self-assessment of the Council's performance across all of its activities and contains a statement of the actions being taken or required in the future to address areas of concern. It is inevitable that, during a rigorous review of the Council's operations, issues will be identified to be addressed and a key element of good governance is to ensure that there is a clear action plan for addressing these issues.

The governance statement covers all significant corporate systems, processes and controls, spanning the whole range of the Council's activities. The statement includes details of how the Council:

- implements its policies;
- delivers high quality services efficiently and effectively;
- meets its values and ethical standards;
- complies with laws and regulations;
- adheres to required processes;
- ensures financial statements and other published performance information are accurate and reliable;
- manages human, financial, environmental and other resources efficiently and effectively.

The self-assessment contained within this statement has been undertaken taking account of assurance statements provided by managers from across the organisation together with regular reviews of risk management. It has also taken account of Internal Audit reports. In preparing this statement, account has been taken of both the statutory codes and the ethical governance tool-kit produced by the IDeA<sup>2</sup> and CIPFA.

#### The importance of Governance

Good governance leads to good management, good performance, good stewardship of public money, good public involvement and, ultimately, good results for residents and other service users. Good governance enables the Council to pursue its 'vision' (as defined in its corporate planning documents) as well as underpinning that vision with mechanisms for control and management of risk. Whatever our successes in the past, we can make no assumptions about the future. In a fast-changing world the maintenance of high standards of good governance requires constant vigilance.

Good governance means:

- focusing on the purpose of the authority and results for the community and creating and implementing a vision for the local area;
- members and officers working together to achieve a common purpose with clearly defined functions and roles;

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<sup>1</sup> CIPFA – Chartered Institute of Public Finance and Accountancy  
SOLACE – Society of Local Authority Chief Executives and Senior Managers

<sup>2</sup> IDeA - Improvement and Development Agency

# Annual Governance Statement

- promoting the values of the Council and upholding high standards of conduct and behaviour;
- taking informed and transparent decisions which are subject to effective scrutiny, and managing risk;
- developing the capacity and capability of members and officers to be effective;
- involving local people and other stakeholders to ensure strong public accountability.

## Scope of responsibility

Dacorum Borough Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for and used economically, efficiently and effectively. The Council also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

In discharging this overall responsibility, the Council is responsible for putting in place proper arrangements for the governance of its affairs including the management of risk.

Whilst the Cabinet and senior management are responsible for delivering the Council's services and activities within these arrangements, the Audit Committee is responsible for reviewing the effectiveness of these arrangements on behalf of the Council. The Committee is also responsible for making any recommendation necessary as a result of its review or of any issue it identifies as a result of reports from external bodies such as internal or external audit or the Local Government Ombudsman.

## Purpose of the Governance Framework

The governance framework comprises the systems, processes, culture and values by which the authority is directed and controlled and through which it accounts to, involves and leads the community. It enables the Council to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate, cost-effective services.

The Council's system of internal control is a key element of the framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies and objectives and can therefore only provide reasonable, and not absolute, assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the Council's policies and objectives. It evaluates the likelihood of those risks coming to fruition, their impact should they do so and identifies ways to manage them efficiently, effectively and economically.

The governance framework has been in place throughout the financial year which ended on 31 March 2019 and continues to be in place up to the date of the approval of the statement of accounts.

In drawing together this Statement, the Governance Framework has been examined by reviewing the Council's arrangements for the following issues:

- The arrangements for identifying and communicating Dacorum Borough Council's 'vision' and intended outcomes
- Reviewing the 'vision' and its implications for governance arrangements
- Measuring the quality of services for users, ensuring that they are delivered in accordance with our objectives and represent best value for money
- Defining and documenting the roles and responsibilities of members and officers
- Developing, communicating and embedding codes of conduct and defining standards of behaviour for members and staff
- Reviewing and updating the Constitution; Financial Regulations; Scheme of Delegation; and Commissioning & Procurement Standing Orders which clearly define how decisions are taken and the processes and controls to manage risks
- Undertaking the core functions of an Audit Committee
- Ensuring that laws, regulations and internal policies and procedures are complied with and that expenditure is lawful

## **Annual Governance Statement**

- Whistle-blowing and investigating complaints from the public
- Identifying the development needs of Members and Senior Officers and providing appropriate training
- Establishing clear channels of communication with all sections of the community and stakeholders and encouraging open consultation
- Incorporating good governance arrangements in respect of Partnerships

### **The Governance Framework**

#### **Arrangements for identifying and communicating Dacorum Borough Council's vision and intended outcomes.**

During 2015/16 the Council reviewed its overall vision and priorities for its local communities. The Council's aims are captured within its Corporate Plan 2015-2020 which was adopted by the Council in February 2016 and sets out five local community priorities. The five priorities included in the 2015-20 Corporate Plan are:

- A clean, safe and enjoyable environment
- Building strong and vibrant communities
- Ensuring economic growth and prosperity
- Providing good quality affordable homes
- Delivering an efficient and modern Council

To help engage communities in setting and achieving this vision and priorities, Dacorum Borough Council is committed to reviewing and improving services to make sure it is providing the services needed by local people. Throughout the year an independent market research company, Opinion Research Services undertakes a residents' tracker survey on our behalf. It is part of our ongoing efforts to understand our residents' opinions and helps us track residents' changing perceptions of their local area. It is part of a Hertfordshire wide survey along with County Council and other districts. The Council has also taken steps to improve communications with service users through its website (to improve accessibility), the corporate complaints procedure, 'GovMetric' (to obtain customer satisfaction information), and the use of social media such as Facebook and Twitter.

To support its overall vision and aims, the Council has continued to review its Medium Term Financial Strategy and 5 year Capital Programme. Reviews were undertaken during 2018/19 and also as part of the budget preparation for 2019/20. With regard to the Capital Programme, this has included aligning resources to priorities through the appraisal of new schemes based on the Council's key priorities. Our 2019/20 budget consultation also included a residents' deliberative forum.

The organisation has a robust framework for project management which ensures that all project proposals follow a standard approval and review process involving four key stages. Every project is defined and resourced with named individuals responsible for project and programme delivery. In addition the organisation employs a specialist project management resource to promote high standards of project management across the organisation.

#### **Reviewing the 'vision' and its implications for governance arrangements**

The Council's Corporate Plan is reviewed by Cabinet and then agreed by Council. The plan is designed to cover the five year period 2015-20 and is reviewed annually to ensure that it remains relevant. The latest Corporate Plan was updated and adopted by Council in February 2016.

Cabinet, Scrutiny committees and the Corporate Management Team (CMT) also review performance indicators. All objectives included in business plans are aligned to the vision and priorities and are reviewed corporately by CMT and other senior managers to test completeness and consistency. A corporate review of 2017/18 performance objectives including setting new targets was undertaken by Assistant Directors and Corporate Directors in March 2018.

## Annual Governance Statement

The Corporate Improvement and Innovation Team lead and advise on standards in relation to performance and project management and they have introduced a number of initiatives to ensure the organisation makes progress in this area. This includes performance clinics and reviews of operational performance management.

The Performance Board has an advisory and scrutiny role and makes recommendations on the types of projects and how they are to be resourced to the Cabinet or Portfolio Holder (as appropriate), so that the Board's recommendations can be carried forward into formal decisions. In addition, CMT receive updates on the work and recommendations of five working groups:

- Corporate Growth and Infrastructure;
- New Normal (Organisational Transformation);
- Community and Wellbeing;
- Sustainable Environment;
- Property Management.

### **Measuring the quality of services for users, ensuring that they are delivered in accordance with our objectives and represent best value for money**

The Council specifies service standards for those aspects of service delivery which are reflected in Service Plans. Satisfaction surveys are undertaken by key services following the provision of services.

In the preparation of their service plans, managers are required to consider a number of items including measuring the value for money provided by their service and to set out measures for improving it in the future.

The Council has also rolled out a programme of actions to promote evidence based decision making which supports teams to make better use of data and ensure that actions are closely linked to outcomes and impacts.

In the External Auditor's Audit Findings report for 2017/18, the most recent undertaken, (reported to the Audit Committee on 25 July 2018), the Auditor concluded that the Council had made appropriate arrangements to secure economy, efficiency and effectiveness of its resources.

### **Defining and documenting the roles and responsibilities of Members and Officers.**

The Council aims to ensure that the roles and responsibilities for governance are defined and allocated so that accountability for decisions made and actions taken are clear, and these are included in the Council's Constitution.

In May of each year the Council appoints the Mayor, Deputy Mayor and the Leader of the Council. The Leader appoints the Deputy Leader and the Cabinet Members and allocates to them responsibility for the various executive functions or "Portfolios".

Additionally, the Council appoints Committees to discharge the Council's regulatory and scrutiny responsibilities. These, together with the delegated responsibilities of officers, are set out in Part 3 of the Council's Constitution (Responsibility for Functions). Appropriate training for members is provided. All Committees and the various internal corporate officer groups supporting the Council's governance framework also have defined terms of reference. The officer groups include the five Corporate Working Groups. These are the Corporate Growth and Infrastructure Board, New Normal, Community and Wellbeing, Sustainable Environment and the Property Management Board. The Audit Committee provides assurance to the Council on the effectiveness of the governance arrangements and internal control environment.

The Council's Chief Executive, as the Council's Head of Paid Service, has overall corporate policy management and operational responsibility and chairs the Corporate Management Team. Cross-organisational management groups are also in place for Assistant Directors and Group Managers to address cross-directorate operational issues.

## **Annual Governance Statement**

All staff have clear conditions of employment and job descriptions which set out their roles and responsibilities. Job descriptions are reviewed as part of the annual performance appraisal.

The Corporate Director (Finance & Operations), as the Council's Section 151 Officer, has overall responsibility for the administration of the financial affairs of the Council, for keeping proper financial records and accounts and for maintaining an effective system of internal financial control. The finance function provides support for the budget preparation and financial monitoring process. The Corporate Director (Finance & Operations) is the lead officer for the Audit Committee. The Corporate Director (Finance & Operations) has appointed the Assistant Director (Finance & Resources) as the Deputy Section 151 Officer in his absence.

The Assistant Director, Corporate and Contracted Services, as the Council's Monitoring Officer, had overall responsibility for legal compliance during 2018/19 and appointed two Legal Governance Team Leaders as the Deputy Monitoring Officer who covered the role for six months each. For the 19/20 financial year the Deputy Monitoring Officer role will be carried out by a new post which has been created and named Group Manager, Corporate and Contracted Services. All Legal Services staff work closely with departments to advice on legal requirements. The Assistant Director, Corporate and Contracted Services was also the lead officer on Member and employee conduct and supports the Standards Committee and its Sub-Committees during 2018/19.

### **Developing, communicating and embedding codes of conduct and defining standards of behaviour for Members and staff**

The Council has adopted a 'local' Code of Conduct for Members in accordance with the Localism Act 2011. The Code was adopted in July 2012 and includes the mandatory provisions relating to the registration and declaration of Disclosable Pecuniary Interests.

Rachel Keil was the Council's Independent Person for the purposes of the Localism Act as part of the Council's arrangements for dealing with complaints about Members, although her term ends in May 2019 and recruitment has begun to replace her

All elected and co-opted Members are aware of the Code and have entered their interests in the Register of Members' Interests. The Register is published on the Council's website as required by the Localism Act.

The Council also re-appointed the Standards Committee, which will continue to oversee the promotion of high standards among Members and will deal with allegations of breaches of the Members' Code.

Part 5 of the Constitution contains the Code of Conduct for Members. It sets out seven general principles: Selflessness, Honesty, Integrity, Objectivity, Accountability, Openness and Leadership. The Code requires Members to show respect for others and uphold the law. Compliance with the Code is monitored by the Standards Committee. Part 5 of the Constitution also contains sections on:

- Code of Conduct for Employees;
- Protocol for Member/Officer relations;
- Planning Code of Practice;
- Whistle Blowing Policy.

Training on the Employees' Code of Conduct as well as governance issues, has been provided during the year. The Employees' Code of Conduct is included within the officer Induction Training Programme for all new employees.

### **Reviewing and Updating the Constitution, Financial Regulations, Scheme of Delegation and Commissioning & Procurement Standing Orders which clearly define how decisions are taken and the processes and controls to manage risks**

The Council's Constitution sets out how the Council operates and the processes for policy and decision making. Various amendments were made to the Constitution and approved by Council during 2018/19

## Annual Governance Statement

to enable the Constitution to remain fit for purpose. It has not been necessary to make more substantial changes to the Constitution during 2018/19.

Financial Regulations were reviewed in July 2018. Commissioning & Procurement Standing Orders were updated in December 2015.

During 2015/16 the Council reviewed the authorisation levels for awarding contracts. Previously any contract which was valued above £50,000 was subject to a Portfolio Holder decision.

After a review of this process it was agreed by Full Council that only contracts that were valued at £500,000 or above were subject to a Portfolio Holder Decision, for all contract values below this figure a certificate of authorisation must be signed by the officer with the relevant authority as stipulated in the Financial Regulations.

For contracts valued between £50,001 and £499,999 an officer decision record sheet is produced and is sent to Statutory Officers to review and comment upon before being signed by the officer with the relevant authority as stipulated in the Financial Regulations and is then sent to Member Support for publication.

The Council has overall responsibility for the approval of the financial and policy framework, namely: the Council's Budget, Medium Term Financial Strategy, the Corporate Plan, the Development Plan and other plans and strategies that have a borough-wide application.

The Cabinet is responsible for the discharge of most of the main functions of the authority that are not the responsibility of full Council. As such, the Cabinet is the main decision-making body of the Council and its decisions, whilst subject to scrutiny, are ultimately not capable of being overturned, other than through legal proceedings. The Cabinet also makes recommendations to Council for approval on financial and policy framework matters.

The decision-making process is reviewed by a scrutiny function which has the power to call in decisions made. It also undertakes some pre-decision scrutiny and some policy development work.

Authority to make day-to-day operational decisions is detailed in Part 3 of the Council's Constitution 'Responsibility for Functions'.

Procedures governing the Council's operations include Financial Regulations, Commissioning & Procurement Standing Orders and the Risk Management Strategy. Ensuring compliance with these procedures is the responsibility of managers across the Council. Internal Audit checks procedures are complied with as part of the Annual Audit Plan. In addition, key corporate strategies provide the framework for key decisions: these include the Corporate Plan, Medium Term Financial Strategy, and Asset Management Plan.

The Finance & Resources Overview and Scrutiny Committee oversee the effectiveness of the risk management arrangements.

The Procurement Governance Framework includes the Commissioning & Procurement Standing Orders, Commissioning & Procurement Strategy, Selling to the Council Guide, Small and Medium Entity Protocol and Terms of Reference for the Procurement Board.

The Council's Corporate Business Continuity Plan was reviewed and updated in light of the programme of Information and Communications Technology (ICT) infrastructure improvements. The Council also has a number of service-specific business continuity plans in place which are updated as part of the service plan process.

### **Undertaking the core functions of an Audit Committee**

The Audit Committee has been established by the Council. When the Committee was established its terms of reference were prepared to ensure that it complies fully with the advice provided by CIPFA<sup>3</sup>.

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<sup>3</sup> Audit Committee – Practical Guidance for Local Authorities published 2005.

## Annual Governance Statement

The key areas covered by the terms of reference of the Committee are Audit Activity, Regulatory Framework, Accounts and Ombudsman.

### **Ensuring that laws, regulations, internal policies and procedures are complied with and that expenditure is lawful.**

All reports going to Cabinet or Portfolio Holders are properly scrutinised for governance issues by the Statutory Officers. Reports to Council, Cabinet and Portfolio holders for Portfolio Holder decisions contain comments from the Monitoring Officer and the Section 151 Officer. In addition, all key executive decisions taken by officers under delegated powers are required to be recorded on an executive decision sheet which must include the comments of the section 151 officer and the Monitoring Officer.

All Cabinet draft reports are made available for the Statutory Officers to review and comment upon prior to submission to Member Support for publication. Any legal or financial issues arising out of the draft reports are discussed with the report author and resolved prior to the report being issued to Member Support who then compile the agenda and publish the reports.

The Report Template requires the report author to consider and provide the following information:

- Whether the report is part I or part II (part II items contain confidential or exempt information from which the general public are excluded – when an item is classified as part II then a reason has to be provided);
- Purpose of the report;
- Recommendations;
- Link to Corporate Objectives;
- Financial and Value For Money Implications;
- Risk Implications;
- Equalities Implications;
- Health and Safety Implications;
- Monitoring Officer Comments;
- S151 Officer Comments;
- Consultees;
- Background papers.

Statutory Officers, Corporate Directors and Assistant Directors provide further representations and assurances in the form of signed assurance statements, that sound systems of internal control and processes for managing risk have been implemented within the service areas for which they are responsible, and that the Council's own internal controls have been complied with. Assurance statements have to be submitted annually to the Monitoring Officer.

### **Compliance with the Regulation of Investigatory Powers Act (RIPA)**

The Council is required to monitor its use of covert surveillance under RIPA. The Monitoring Officer submits an annual statistical return to the Office of the Surveillance Commissioner (OSC) on the use of covert surveillance.

In compliance with the revised Home Office Codes of Practice, the Solicitor to the Council was designated as the Council's Senior Responsible Officer with overall responsibility for ensuring that the Council complies with RIPA and with the Council's own policy and procedures on the use of covert surveillance during 2018/19.

During 2018/19 one application was made for an authorisation under RIPA to carry out covert surveillance. The Council therefore remains a sparing user of directed surveillance.

All local authorities are subject to a three- year cycle of inspections carried out on behalf of the Chief Surveillance Commissioner. In July 2018 the Council received an inspection audit from the Assistant

## Annual Governance Statement

Surveillance Commissioner. The subsequent inspection report concluded that the Council's RIPA structure remains in good working order, with a sound Policy and good record keeping. The report contained two relatively minor recommendations which are being implemented.

### **Compliance with the Data Protection Act (DPA)**

Under the DPA 2018 the Council is required to take appropriate technical and organisational measures against the unauthorised or unlawful processing of personal data and against accidental loss or destruction of, or damage to, personal data and to ensure an appropriate level of security.

The Information Security Team Leader post, reporting to the Assistant Director, Corporate and Contracted Services is the Council's designated Senior Information Risk Officer (SIRO). The SIRO has responsibility for managing information risk on behalf of the Chief Executive and Corporate Management Team. The Information Security Team Leader has adopted the ICO's reporting template for potential breaches.

Data Protection Act and Information Security workshop training is mandatory and is provided on a quarterly basis to current and new staff. The training has been updated to focus on types of breaches, offences, and how to report a breach and direction is given to where the policies and procedures are located. All Data Protection and Information Security Policies are linked to the Council's conduct procedures.

The requirement to achieve compliance to the Cabinet Office's Public Sector Network (PSN) framework has consequentially provided robust policies and information technology security.

### **Whistle-blowing and investigating complaints from the public.**

The Council takes fraud, corruption and maladministration very seriously and has the following policies that aim to prevent or deal with such occurrences:

- Anti-fraud Policy
- Whistle-blowing Policy
- Human resources policies regarding the disciplining of staff involved in such incidents.

Fraud Awareness, Anti-Money Laundering and Whistle-blowing training are Compulsory Training Requirements for all staff.

A corporate complaints procedure is in place for the Council to receive and investigate any complaint made against it, or against a member of staff. Complaints against Members relating to alleged breaches of the Members Code of Conduct are subject to a separate complaints process for which the Monitoring Officer and Standards Committee are responsible for dealing with, as referred to above.

### **Identifying the development needs of Members and Senior Officers and providing appropriate training.**

The Council aims to ensure that Members and employees have the skills, knowledge and capacity they need to discharge their responsibilities and recognises the value of well trained and competent people in effective service delivery. All new Members and staff undertake an induction to familiarise them with protocols, procedures, values and aims of the Council.

In 2009/10 the Council achieved Elected Member Charter Status and, while not renewing the status the Council has continued to show the commitment to Member Development developed during this exercise. The Council is committed to developing and supporting elected members. The processes put in place to achieve the Charter have helped the Council adopt a structured approach to Councillor Development and to build elected member capacity. This is particularly important given the ever changing skills and competencies essential to fulfil the requirements of being a councillor and to deal with the influx of new Members as a result of all our elections in May 2019.

## Annual Governance Statement

As part of the commitment to the Member training programme, attendance is registered and monitored. During 2018/19, Members attended 11 specific events and also attended additional courses and conferences. Details of the events and attendance levels are set out in the table below:

Course	Date	Attendance
Homeless Reduction Act	28 June 2018	9
Highways advice to the local planning authority	19 July 2018	16
Negotiating and Influencing	13 September 2018	6
Standards Committee training	20 September 2018	4
CIL	11 October 2018	11
Planning code of Conduct/Member Officer Relations	30 October 2018	15
Universal Credit	14 November 2018	10
Role as a DBC nominated trustee on outside bodies	22 November 2018	4
Budget Process	28 November 2018	11
Effective Ward Advocacy	6 December 2018	10
Safe, Confident and Effective Use of Social Media	24 January 2019	7

Annual Performance Appraisals of staff are carried out which identify competencies and any training needs. These competencies have been developed to reflect skills and abilities needed to deliver services throughout the organisation. All Council employees have individual training records providing details of the courses attended.

The Council sets standards of behaviour and performance for all staff and assessments of these standards are undertaken as part of annual performance reviews undertaken at year-end and interim reviews carried out during the year.

### **Establishing clear channels of communication with all sections of the community and stakeholders and encouraging open consultation**

The Council's planning and decision-making processes are designed to include consultation with local people and stakeholders and to take account of their views.

Arrangements for consultation and gauging local views include consultation with the Town and Parish Councils, the Tenant and Leaseholder Committee, Citizens Panel and resident associations.

The Council runs a Local Petition Scheme which helps neighbourhood action groups to set the agenda for future improvements to local areas. Our magazine Dacorum Digest and the Dacorum Borough Council website are the main methods for communicating with the Borough's residents about our roles and responsibilities and our plans for the future. We have also developed close relationships with local broadcast and newspaper journalists. We have social media accounts on Facebook, Twitter and YouTube. We also run campaigns on specific issues which make use of community noticeboards and campaign materials in our three Civic reception areas, as well as occasionally making use of radio and newspaper advertising.

### **Incorporating good governance arrangements in respect of Partnerships**

The Council participates in a number of partnerships aimed at improving services provided to the community, such as the Dacorum Strategic Network and Destination Dacorum and various Community Safety Partnerships.

When drawing together different partners with varying organisational cultures and methodologies for handling governance issues, it is important that clear protocols are established at an early stage to minimise and manage risk. The Council keeps its register of Partnerships under constant review.

# Annual Governance Statement

## A Review of the Effectiveness of the Governance Framework and System of Internal Control

Dacorum Borough Council has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control. The review of effectiveness is informed by the work of the senior managers within the Council who have responsibility for the development and maintenance of governance systems, the Internal Audit Annual Report, and also recommendations and comments made by the External Auditors and other review agencies and inspectorates.

Throughout 2018/19, the Council's Internal Audit service was provided by Mazars Public Sector Internal Audit Limited. The independent opinion on the adequacy and effectiveness of the Council's system of internal control has been provided by Mazars Public Sector Internal Audit Limited, and is based on an internal audit methodology that complies with international auditing standards.

### The process applied in maintaining and reviewing the effectiveness of the governance framework

The key elements of the process are summarised in the following table:

Key element	Role and Activity during the year
Council	<ul style="list-style-type: none"><li>○ Approve Constitution including: Financial Regulations; Codes of Conduct; Commissioning &amp; Procurement Standing Orders; Scheme of Delegation</li><li>○ Set budget and policy framework</li></ul>
Cabinet	<ul style="list-style-type: none"><li>○ Financial, performance and risk management of service delivery within the Budget and Policy Framework set by Council – quarterly reports</li><li>○ Responsibility for key decisions and initiating corrective action in relation to risk and internal control issues</li><li>○ Monthly public meetings (excluding any summer recess)</li><li>○ Regular briefings with Chief Officers</li></ul>
Audit Committee	<ul style="list-style-type: none"><li>○ Five scheduled meetings per annum</li><li>○ Review and scrutinise the outcome of Internal and External audit reports and those of other external agencies such as the Ombudsman</li><li>○ Monitor the Governance arrangements within the Council</li><li>○ Delegated responsibility to scrutinise and approve the Financial Statements on behalf of the Council</li><li>○ To consider the External Auditor's report to those charged with Governance on issues arising from the audit of the accounts</li></ul>
Overview and Scrutiny Committees: ○ Housing & Community ○ Strategic Planning & Environment ○ Finance & Resources	<ul style="list-style-type: none"><li>○ To provide overview and scrutiny and policy development role in relation to business associated with the Cabinet Portfolios</li><li>○ To monitor the performance of relevant Council services, including services which are provided under contract or agreement by external organisations or private sector companies</li></ul>
Standards Committee	<ul style="list-style-type: none"><li>○ Consider allegations of breaches of the Code of Conduct</li><li>○ Promote and maintain high standards of conduct by the members of the Council</li></ul>
Internal Audit – (outsourced service provided by Mazars)	<ul style="list-style-type: none"><li>○ Set overall internal audit strategy to meet the Council's overall direction</li><li>○ Undertake an annual programme of audits</li><li>○ Present audit reports to Management and Audit Committee</li><li>○ Present progress reports to Audit Committee measuring performance against the Audit Plan</li></ul>

## Annual Governance Statement

Chief Executive (Head of Paid Service)	<ul style="list-style-type: none"> <li>○ Overall corporate policy management and operational responsibility</li> <li>○ Chairman of Corporate Management Team</li> </ul>
Monitoring Officer (Assistant Director, Corporate and Contracted Services ) (During 2018/19)	<ul style="list-style-type: none"> <li>○ Maintain the Constitution</li> <li>○ Ensure lawfulness and fairness of decision making</li> <li>○ Supporting the Standards Committee</li> <li>○ Receive complaints and decide whether they merit further investigation. If the complaint is investigated to report the outcome to the Standards Committee for a decision and ensure the correct procedural steps are followed and appropriate assistance is given to the Committee throughout the process</li> <li>○ Act as the Senior Information Risk Officer</li> <li>○ Act as the Senior Responsible Officer (RIPA)</li> <li>○ Proper officer for access to information</li> <li>○ Advise whether Cabinet and Portfolio Holder decisions are within the Council's budget and policy framework</li> <li>○ Provide advice and contribute to corporate management as a member of Corporate Management Team</li> </ul>
Section 151 Officer (Corporate Director (Finance & Operations))	<ul style="list-style-type: none"> <li>○ Ensure lawfulness and financial prudence of decision making</li> <li>○ Responsibility for administration of financial affairs of the Council and keep proper financial records and accounts for maintaining an effective system of internal financial controls</li> <li>○ Contribute to corporate management as a member of Corporate Management Team</li> <li>○ Provide professional financial advice to Members including the scope of powers and authority to take decisions, maladministration, financial impropriety, probity and budget and policy framework issues</li> <li>○ Provide financial information to the media, members of the public and community</li> </ul>
Statutory Officers Comments – Monitoring Officer and Section 151 Officer	<ul style="list-style-type: none"> <li>○ Statutory officers review all Cabinet, Portfolio Holder and Officer Decision reports to consider and comment within the report on legal and financial implications arising out of the report</li> <li>○ Review of governance issues arising out of day to day working practices</li> <li>○ Consider issues arising out of the annual assurance statements</li> </ul>
Corporate Directors	<ul style="list-style-type: none"> <li>○ Overall strategic and operational management of those services falling within each individual directorate</li> <li>○ Contribute to corporate management as a member of Corporate Management Team</li> </ul>
Corporate Management Team	<ul style="list-style-type: none"> <li>○ Monthly review of budget, performance and Improving Dacorum Programme</li> <li>○ Quarterly review of strategic risk management</li> </ul>
Performance Board	<ul style="list-style-type: none"> <li>○ Review performance against Council Vision and Priorities</li> <li>○ Review Dacorum Delivers improvement programme projects</li> </ul>
Corporate Working Groups	<ul style="list-style-type: none"> <li>○ Officer/Member groups drawn from service directorates and including relevant Portfolio Holders as appropriate</li> <li>○ Oversee and review delivery of all relevant operational matters and establish and receive reports from sub-groups as necessary</li> <li>○ Consider options appraisals and make recommendations for CMT and Cabinet consideration</li> </ul>
Assistant Directors and Group Managers	<ul style="list-style-type: none"> <li>○ Operational management for the services falling within each individual service area</li> <li>○ Assurance Statements covering all of the Council's key internal controls, including: Financial Regulations; Commissioning &amp; Procurement Standing Orders; Employees Code of Conduct; Corporate Policies; and risk management.</li> </ul>

# Annual Governance Statement

## **Statement by Leading Member (Leader of the Council) and Leading Officer (Chief Executive) of the Council**

We have been advised of the result of the review of the effectiveness of the governance framework by the Audit Committee and a plan to address the weaknesses and ensure continuous improvement of the system is in place. We have identified the significant governance issues below.

### **Significant governance issues**

The Council's Internal Audit service, Mazars Public Sector Internal Audit Limited have issued 10 finalised reports relating to 2018/19 as at 31 May 2019.

Two Priority 1 recommendations have been raised during the year. Priority 1 recommendations relate to issues that are deemed to be fundamental to the systems concerned and upon which immediate action has been taken. These relate to:

**Planning** – The Acolaid case management system requires updating to ensure that no breaches of scheme delegation occur.

The provider of the Acolaid system has implemented a solution on permissions within Acolaid. Acolaid is being replaced with a new system, Uniform, during 2019/20. This new system will restrict user permissions.

**Business Continuity** – The Council should ensure that the Corporate Business Continuity Plan and the Service Level Business Continuity Plans are reviewed and updated. These should be aligned to ensure that critical function for the Council are appropriately covered within the Service Level plans. The Council should consider adopting an annual review timetable to ensure that all plans are appropriately reviewed and updated across the year.

All service level business continuity plans were reviewed and updated by Group Managers early in 2019. The updated Corporate Business Continuity Plan is being reviewed and updated.

Further details of the reviews undertaken by Internal Audit during 2018/19 are available upon request. Published internal audit reports are available on the Council's website [www.dacorum.gov.uk](http://www.dacorum.gov.uk). The Internal Auditor's Annual Report for 2018/19 is expected in July 2019 and will be published on the Council's website.

Where this Governance Statement has identified other areas for improvement we propose to take steps to enhance our governance arrangements further. We are satisfied that these steps will address the need for improvements that were identified in our review of effectiveness and will monitor their implementation and operation as part of our next annual review.

We give our assurance that the Council as a whole is committed to continuous improvement and believe that we have established the relevant foundations on which to create further capacity to continue to develop our governance arrangements.

We give our further assurance that the Council's financial management arrangements conform to the governance requirements of the CIPFA *Statement on the role of the Chief Financial Officer in Local Government* (2016).

Signed .....  
(Councillor Andrew Williams – Leader of the Council)

Signed .....  
(Sally Marshall – Chief Executive)

## Expenditure and Funding Analysis

	2018/19			2017/18		
	Net Expenditure Chargeable to the General Fund & HRA Balances	Adjustments Between the Funding & Accounting Basis (Note 7)	Net Expenditure in the Comprehensive Income & Expenditure Statement	Net Expenditure Chargeable to the General Fund & HRA Balances	Adjustments Between the Funding & Accounting Basis (Note 7)	Net Expenditure in the Comprehensive Income & Expenditure Statement
	£'000	£'000	£'000	£'000	£'000	£'000
Finance and Resources (GRF)	12,095	7,566	19,661	11,125	177	11,302
Housing and Community (GRF)	716	6,371	7,087	1,605	6,989	8,594
Strategic Planning & Environment (GRF)	8,353	3,134	11,488	8,326	3,056	11,382
Housing and Community (HRA)	(22,093)	24,013	1,920	(24,834)	16,187	(8,647)
<b>Net Cost of Services</b>	<b>(930)</b>	<b>41,085</b>	<b>40,156</b>	<b>(3,778)</b>	<b>26,409</b>	<b>22,631</b>
Other Income and Expenditure	(2,918)	(22,432)	(25,350)	3,899	(29,771)	(25,872)
<b>(Surplus)/Deficit on Provision of Services</b>	<b>(3,848)</b>	<b>18,653</b>	<b>14,805</b>	<b>121</b>	<b>(3,362)</b>	<b>(3,241)</b>
		2018/19	2017/18			
Opening Balance on General Fund, Earmarked Reserves and HRA Balance			(33,144)		(33,264)	
Less Surplus/Deficit on Provision of Services on Provision of Services			(3,848)		121	
<b>Closing Balance on General Fund, Earmarked Reserves and HRA Balance</b>			<b>(36,992)</b>		<b>(33,144)</b>	

## Comprehensive Income and Expenditure Statement

Note		2018/19			2017/18		
		Gross Expenditure	Gross Income	Net Expenditure	Gross Expenditure	Gross Income	Net Expenditure
		£'000	£'000	£'000	£'000	£'000	£'000
Finance and Resources (GRF)		71,420	(51,759)	19,661	64,011	(52,709)	11,302
Housing and Community (GRF)		12,137	(5,050)	7,087	13,154	(4,560)	8,594
Strategic Planning and Environment (GRF)		18,803	(7,315)	11,488	17,119	(5,737)	11,382
Housing and Community (HRA)		57,929	(56,009)	1,920	48,502	(57,149)	(8,647)
<b>Total Cost of Services</b>		<b>160,289</b>	<b>(120,133)</b>	<b>40,156</b>	<b>142,786</b>	<b>(120,155)</b>	<b>22,631</b>
Other Operating Expenditure	9			(4,999)			(9,162)
Financing and Investment Income and Expenditure	10			4,422			4,550
Taxation and Non Specific Grant Income	11			(24,773)			(21,260)
<b>(Surplus)/Deficit on Provision of Services</b>				<b>14,805</b>			<b>(3,241)</b>
(Surplus)/ Deficit on Revaluation of Property Plant, Equipment	33			(161,114)			(49,400)
Actuarial (Gains)/Losses on Pension Asset / Liabilities	39			6,847			(9,315)
<b>Other Comprehensive Income and Expenditure</b>				<b>(154,267)</b>			<b>(58,715)</b>
<b>Total Comprehensive Income and Expenditure</b>				<b>(139,462)</b>			<b>(61,956)</b>

## Movement in Reserves Statement

Note	General Fund	Earmarked Reserves General Fund	Housing Revenue Account	Earmarked Reserves HRA	Major Repairs Reserve*	Capital Grants Unapplied	Capital Receipts Reserve*	Total Usable Reserves	Total Unusable Reserves	Total Council Reserves
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
<b>Balance at 31 March 2017</b>	2,502	9,771	2,892	18,100	774	885	21,481	56,405	650,757	707,162
Movement in Reserves During 2017/18:										
Surplus or (Deficit) on Provision of Services	2,007	0	1,235	0	0	0	0	3,242	0	3,242
Other Comprehensive Income and Expenditure	0	0	0	0	0	0	0	0	58,715	58,715
<b>Total Comprehensive Income and Expenditure</b>	<b>2,007</b>	<b>0</b>	<b>1,235</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>3,242</b>	<b>58,715</b>	<b>61,957</b>
Adjustments Between Accounting Basis and Funding Basis Under Regulations:	(12)	(2,128)	0	(1,235)	0	1,379	1,199	7,775	6,990	(6,990)
<b>Net Increase/(Decrease) Before Transfers to Earmarked Reserves</b>	<b>(121)</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>1,379</b>	<b>1,199</b>	<b>7,775</b>	<b>10,232</b>	<b>51,725</b>	<b>61,957</b>
Transfer (to)/from Earmarked Reserves	13	121	(121)	0	0	0	0	0	0	0
<b>Balance at 31 March 2018</b>	<b>2,502</b>	<b>9,650</b>	<b>2,892</b>	<b>18,100</b>	<b>2,153</b>	<b>2,084</b>	<b>29,256</b>	<b>66,637</b>	<b>702,482</b>	<b>769,119</b>
Movement in Reserves During 2018/19:										
Surplus or (Deficit) on Provision of Services	(2,402)		(12,403)	0	0	0	0	(14,805)	0	(14,805)
Other Comprehensive Income and Expenditure	0	0	0	0	0	0	0	0	154,267	154,267
<b>Total Comprehensive Income and Expenditure</b>	<b>(2,402)</b>	<b>0</b>	<b>(12,403)</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>(14,805)</b>	<b>154,267</b>	<b>139,462</b>
Adjustments Between Accounting Basis and Funding Basis Under Regulations:	(12)	6,205	0	12,450	0	(1,526)	3,586	(4,922)	15,792	(15,792)
<b>Net Increase/(Decrease) Before Transfers to Earmarked Reserves</b>	<b>3,804</b>	<b>0</b>	<b>46</b>	<b>0</b>	<b>(1,526)</b>	<b>3,586</b>	<b>(4,922)</b>	<b>987</b>	<b>138,475</b>	<b>139,462</b>
Transfer (to)/from Earmarked Reserves	13	(3,803)	3,803	(46)	46	0	0	0	0	0
<b>Balance at 31 March 2019</b>	<b>2,502</b>	<b>13,453</b>	<b>2,892</b>	<b>18,146</b>	<b>627</b>	<b>5,670</b>	<b>24,334</b>	<b>67,624</b>	<b>840,957</b>	<b>908,581</b>

\*opening balance has been restated

## Balance Sheet

	Note	1 April 2017 £'000	31 March 2018 £'000	31 March 2019 £'000
<b>Long-term Assets</b>				
Property, Plant & Equipment	28	993,945	1,041,220	1,187,631
Investment Property	30	81,266	75,782	80,575
Heritage Assets	36	9,103	9,103	9,104
Intangible Assets	31	734	558	309
Long-term Debtors	23	2,174	2,183	160
<b>Total Long Term Assets</b>		<b>1,087,222</b>	<b>1,128,846</b>	<b>1,277,779</b>
<b>Current Assets</b>				
Short-term Investments	37	59,583	70,097	79,680
Assets Held for Sale	32	1,438	2,853	372
Inventories		162	207	234
Short-term Debtors	24	14,378	14,567	16,187
Cash and Cash Equivalents	20	22,314	23,720	13,622
<b>Total Current Assets</b>		<b>97,875</b>	<b>111,444</b>	<b>110,095</b>
<b>Current Liabilities</b>				
Short-term Creditors	21	(23,601)	(24,986)	(25,540)
Short-term Borrowing	37	(1,065)	(3,220)	(4,719)
Revenue Grants and Contributions	19	(108)	(444)	(788)
Capital Grants and Contributions	19	(251)	(368)	(503)
Short-term Provisions	25	(4,449)	(4,777)	(5,231)
<b>Total Current Liabilities</b>		<b>(29,474)</b>	<b>(33,795)</b>	<b>(36,781)</b>
<b>Long-term Liabilities</b>				
Long-term Creditors	22	(9,193)	(5,934)	(3,813)
Long-term Borrowing	37	(364,816)	(362,383)	(358,441)
Net Pension Liability	38	(74,452)	(69,059)	(80,258)
<b>Total Long-term Liabilities</b>		<b>(448,461)</b>	<b>(437,376)</b>	<b>(442,512)</b>
<b>Net Assets (Assets Less Liabilities)</b>		<b>707,162</b>	<b>769,119</b>	<b>908,581</b>
<b>Usable Reserves</b>				
General Fund	12	2,502	2,502	2,502
Earmarked Reserves – General Fund	13	9,771	9,650	13,453
Housing Revenue Account (HRA)	12	2,892	2,892	2,892
Earmarked Reserves – HRA	13	18,100	18,100	18,146
Major Repairs Reserve*	12	774	2,153	627
Capital Grants Unapplied Account	12	885	2,084	5,670
Capital Receipts Reserve*	12	21,481	29,256	24,334
<b>Total Usable Reserves</b>		<b>56,405</b>	<b>66,637</b>	<b>67,624</b>
<b>Unusable Reserves</b>				
Revaluation Reserve	33	270,847	314,295	468,552
Capital Adjustment Account	34	455,038	457,126	454,216
Deferred Capital Receipts		2	0	0
Collection Fund Adjustment Account		(564)	259	(1,427)
Pension Reserve	38	(74,452)	(69,059)	(80,258)
Accumulated Absences Account		(114)	(139)	(126)
<b>Total Unusable Reserves</b>		<b>650,757</b>	<b>702,482</b>	<b>840,957</b>
<b>Total Reserves</b>		<b>707,162</b>	<b>769,119</b>	<b>908,581</b>

\*restated from 1st April 2017

## Cashflow Statement

	2018/19 £'000	2017/18 £'000
<b>Net Surplus/(Deficit) on Provision of Services</b>	<b>(14,805)</b>	<b>3,241</b>
<b>Operating Activities</b>		
<b>Adjustments to surplus/deficit for non cash movements</b>		
Depreciation & Impairment & Valuations to the CIES for Property	43,280	30,365
Amortisation of Intangible Assets	125	283
Disposal of Assets	5,742	6,297
Changes in Inventory	(27)	(45)
Changes in Debtors	(41)	(221)
Changes in Creditors	2,242	(1,877)
Changes in Net Pension Liability	4,351	3,922
Other non-cash Movements	<u>(4,389)</u>	<u>(936)</u>
	<u>51,284</u>	<u>37,788</u>
<b>Adjustment for items included in the net surplus or deficit on the provision of services that are investing &amp; financing activities</b>		
Proceeds from short-term investments	(550)	0
Proceeds from the sale of non-current assets	(13,014)	(17,754)
Any other items for which the cash effects are investing or financing cash flows	<u>(6,377)</u>	<u>(2,693)</u>
	<u>(19,941)</u>	<u>(20,447)</u>
<b>Net Cash Flows from Operating Activities</b>	<b>16,537</b>	<b>20,582</b>
<b>Cash Flows from Investing Activities</b>		
Purchase of Property, Plant & Equipment, Investment Property and Intangibles	(31,050)	(29,308)
Net Changes in Short-term and Long-term Investments	(8,950)	(10,514)
Other payments for investing activities	(100)	0
Proceeds from the Disposal of Property, Plant and Equipment	12,860	17,754
Other receipts from investing activities	4,568	3,146
<b>Net Cash Flows from Investing Activities</b>	<b>(22,673)</b>	<b>(18,922)</b>
<b>Cash Flows from Financing Activities</b>		
Repayments of borrowing	(2,440)	(278)
Other payments for financing activities	(1,523)	24
<b>Net Cash Flows from Financing Activities</b>	<b>(3,963)</b>	<b>(254)</b>
<b>Net Increase/(Decrease) in Cash and Cash Equivalents</b>	<b>(10,098)</b>	<b>1,406</b>
<b>Cash and Cash Equivalents at the Beginning of the Period</b>	<b>23,720</b>	<b>22,320</b>
<b>Cash and Cash Equivalents at the End of the Period</b>	<b>13,622</b>	<b>23,720</b>
The cash flows for operating activities include the following items:		
Interest Receivable and Similar Income	685	(401)
Interest Payable and Other Similar Charges	(12,192)	12,203

## 1. Accounting Policies

### Summary of Significant Accounting Policies

The principal accounting policies applied in the preparation of the Statement of Accounts (the Accounts) are set out below.

#### Basis of Preparation

The Accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting 2018/19 (the Code) issued by the Chartered Institute of Public Finance and Accountancy (CIPFA). The preparation of the Accounts in conformity with the Code requires the use of certain critical accounting estimates and management to exercise judgement in the process of applying the accounting policies.

The accounting convention adopted in the Accounts is principally historic cost, modified by the revaluation of Property, Plant and Equipment and Investment Property.

#### Going Concern

The Accounts are prepared on a going concern basis, i.e. on the assumption the Council will continue to operate for the foreseeable future.

#### Accruals of Income and Expenditure

Activity is accounted for within the year that it takes place, not simply when cash payments are made or received. In particular:

- Revenue from the sale of goods is recognised when the Council transfers the 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 the Council.
- Revenue from the provision of services is recognised when the Council can measure reliably the percentage of completion of the transaction and it is probable that economic benefits or service potential associated with the transaction will flow to the Council.
- Expenses in relation to services received (including those provided by employees) are recorded as expenditure when the services are received rather than when payments are made.
- Supplies are recorded as expenditure when they are consumed – where there is a gap between the date supplies are received and their consumption, they are carried as inventories on the Balance Sheet.
- Long-term contracts are accounted for on the basis of charging the Surplus or Deficit on the Provision of Services with the value of works and services received under the contract during the financial year.

The only exception to this is Housing Benefit Payments, which are recorded on a cash basis.

A creditor is recognised in the Balance Sheet when goods and services are received prior to the reporting date and payment occurs after the reporting date.

## Notes to the Accounts

### Prior Period Adjustments, Changes in Accounting Policies and Estimates and Errors

Prior period adjustments may arise as a result of a change in accounting policies or to correct a material error. Changes in accounting estimates are accounted for prospectively.

Changes in accounting policies are only made when required by proper accounting practices or the change provides more reliable or relevant information about the effect of transactions, other events and conditions on the Council's financial position or financial performance. Where a change is made, it is applied retrospectively (unless stated otherwise) by adjusting opening balances and comparative amounts for the prior period as if the new policy had always been applied.

Material errors discovered in prior period figures are corrected retrospectively by amending opening balances and comparative amounts for the prior period.

### Council Tax and Non-Domestic Rates

Billing authorities act as agents, collecting council tax and non-domestic rates (NDR) on behalf of the major preceptors (including government for NDR) and, as principals, collecting council tax and NDR for themselves. Billing authorities are required by statute to maintain a separate fund (the Collection Fund) for the collection and distribution of amounts due in respect of council tax and NDR. Under the legislative framework for the Collection Fund, billing authorities, major preceptors and central government share proportionately the risks and rewards that the amount of council tax and NDR collected could be less or more than predicted.

The council tax and NDR income included in the Comprehensive Income and Expenditure Statement is the authority's share of accrued income for the year. However, regulations determine the amount of council tax and NDR that must be included in the authority's General Fund. Therefore, the difference between the income included in the Comprehensive Income and Expenditure Statement and the amount required by regulation to be credited to the General Fund is taken to the Collection Fund Adjustment Account and included as a reconciling item in the Movement in Reserves Statement. The Balance Sheet includes the authority's share of the end of year balances in respect of council tax and NDR relating to arrears, impairment allowances for doubtful debts, overpayments and prepayments and appeals.

### Community Infrastructure Levy

The Community Infrastructure Levy (CIL) was introduced by the planning Act 2008 and came into force through the Community Infrastructure Levy Regulations 2010.

The Council has elected to charge and collect the planning charge CIL. The levy is charged on new builds (chargeable developments for the authority) with appropriate planning consent and used to fund a number of infrastructure projects to support the development of the area.

CIL is received without outstanding conditions; it is therefore recognised at the commencement date of the chargeable development in the Comprehensive Income and Expenditure Statement in accordance with the accounting policy for government grants and contributions. CIL charges will be largely used to fund capital expenditure. A small proportion of the charges may be used to fund revenue expenditure.

### Government Grants and Other Contributions

Whether paid on account, by instalments or in arrears, government grants and third party contributions are recognised as due to the Council when there is reasonable assurance that:

- the Council will comply with the conditions attached to the payments; and
- the grants or contributions will be received.

Amounts recognised as due to the Council are not credited to the Comprehensive Income and Expenditure Statement until conditions attached to the grant or contribution have been satisfied. Conditions are stipulations that specify that the future economic benefits or service potential embodied

## Notes to the Accounts

in the asset in the form of the grant or contribution are required to be consumed by the recipient as specified, or future economic benefits or service potential must be returned to the transferor.

Monies advanced as grants and contributions for which conditions have not been satisfied are carried in the Balance Sheet as Creditors. When conditions are satisfied, the grant or contribution is credited to the relevant service line (attributable revenue grants and contributions) or Taxation and Non-Specific Grant Income (non-ringfenced revenue grants and all capital grants) in the Comprehensive Income and Expenditure Statement.

Where capital grants are credited to the Comprehensive Income and Expenditure Statement, they are reversed out of the General Fund Balance in the Movement in Reserves Statement. Where the grant has yet to be used to finance capital expenditure, it is posted to the Capital Grants Unapplied Reserve. Where it has been applied, it is posted to the Capital Adjustment Account. Amounts in the Capital Grants Unapplied Reserve are transferred to the Capital Adjustment Account once they have been applied to fund capital expenditure.

### Overheads and Support Services

The costs of overheads and support services are charged to the Housing Revenue Account in proportion to benefits/services received. The Comprehensive Income and Expenditure is shown before recharges.

### Charges to Revenue for Non-Current Assets

Services, support services and trading accounts are debited with the following amounts to record the cost of holding fixed assets during the year:

- depreciation attributable to the assets used by the relevant service;
- revaluation and impairment losses on assets used by the service where there are no accumulated gains in the Revaluation Reserve against which the losses can be written off;
- amortisation of intangible fixed assets attributable to the service.

### Fair Value

The Council values some of its non-financial assets such as surplus assets and investment properties at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. When applying the definition of fair value, non-financial assets shall be measured at highest and best use.

The Council uses valuation techniques that are appropriate in the circumstances and for which sufficient data is available, maximising the use of relevant observable inputs and minimising the use of unobservable inputs. Inputs to the valuation techniques in respect of assets and liabilities measured or disclosed at fair value are categorised within the fair value hierarchy, as follows:

Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities that the Council can access at the measurement date

Level 2 – inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly

Level 3 – unobservable inputs for the asset or liability.

### Property, Plant and Equipment

Assets that have physical substance and are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes and are expected to be used for more than one financial year are classified as Property, Plant and Equipment.

## Notes to the Accounts

Expenditure on Property, Plant and Equipment is capitalised at cost when it will bring benefits to the Council for more than one reporting period, subject to a de-minimis capitalisation threshold of £10,000 per scheme. Items below this limit are charged to the Comprehensive Income and Expenditure Statement. The Council does not capitalise borrowing costs incurred whilst assets are under construction.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits or service potential associated with the item will flow to the Council and the cost can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the Comprehensive Income and Expenditure Statement during the financial period in which they are incurred.

Land and buildings are subsequently measured at current value. Current values is determined as the amount that would be paid for the asset in its existing use. Where an asset is specialised and/or rarely sold current value is estimated using a depreciated replacement cost.

Council dwellings are subsequently measured at current value, determined using the Existing Use Value for Social Housing (EUV-SH).

For surplus assets, the current value measurement base is fair value, estimated at highest and best use from a market participant's perspective.

Infrastructure, community assets, and assets under construction, are measured at depreciated historical cost.

Non-property assets are measured at depreciated historical cost basis, which is deemed to be a proxy for current value as the assets have short useful lives and/or low values

Assets included in the Balance Sheet at fair value are revalued with sufficient regularity to ensure that their carrying amount is not materially different from their current value at the year-end, but as a minimum, every five years.

When an asset's carrying amount increases as a result of a revaluation, the increase is recognised in the Comprehensive Income and Expenditure Statement to the extent that it reverses a revaluation decrease of the same asset previously charged to the service. Any remaining increase is credited directly to the Revaluation Reserve. Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset, and the net amount is restated to the revalued amount of the asset.

When an asset's carrying amount decreases as a result of a revaluation, the decrease is debited directly to the Revaluation Reserve to the extent of any credit balance existing in respect of that asset. Any remaining decrease is recognised against the relevant service lines in the Comprehensive Income and Expenditure Statement.

The Revaluation Reserve contains revaluation gains recognised since 1 April 2007 only, the date of its formal implementation. Gains arising before that date have been consolidated into the Capital Adjustment Account.

## Notes to the Accounts

### Impairment

Assets are assessed at each year-end as to whether there is any indication that an asset may be impaired. Where indications exist and any possible differences are estimated to be material, the recoverable amount of the asset is estimated and, where this is less than the carrying amount of the asset, an impairment loss is recognised for the shortfall.

Where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains).

Where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line in the Comprehensive Income and Expenditure Statement.

Where an impairment loss is subsequently reversed, the reversal is credited to the relevant service line in the Comprehensive Income and Expenditure Statement, up to the amount of the original loss, adjusted for depreciation that would have been charged if the loss had not been recognised.

### Depreciation

Depreciation is calculated using the straight-line method to allocate an asset's carrying value to its residual value over its remaining estimated useful life. The basis of estimated useful lives is as follows:

Buildings/Council Dwellings	Remaining useful life is provided by the external valuers
Community Assets	Shorter of remaining life or 30 years
Infrastructure Assets	Shorter of remaining life or 30 years
Vehicles, Plant and Equipment	Remaining lease period, or remaining life as advised by a suitable officer

Where an asset comprises two or more major components with substantially different useful economic lives, each component is accounted for separately for depreciation purposes and depreciated over its individual useful life.

No depreciation is charged on land or assets under construction.

The assets' useful lives and residual values are reviewed, and adjusted if appropriate, at the end of each reporting period.

Each year the difference between depreciation based on the revalued carrying amount of the asset charged to the Comprehensive Income and Expenditure Statement, and depreciation based on the asset's historic cost, is transferred from the Revaluation Reserve to the Capital Adjustment Account.

### **Heritage Assets**

The Council holds various items classified as Heritage Assets. Heritage Assets are recognised and measured (including the treatment of revaluation gains and losses, acquisitions and disposals) in accordance with the Council's accounting policies on Property, Plant and Equipment. However, some of the measurement rules are relaxed in relation to Heritage Assets.

The carrying amounts of Heritage Assets are reviewed where there is evidence of impairment, e.g. where the item has suffered physical deterioration or breakage, or where doubt arises to its authenticity. The groups of Heritage Assets along with the measurement basis are as follows:

## Notes to the Accounts

### Land

The Council holds three areas of land which form part of the Borough's history. Within this land various sculptures and other cultural assets are on display. These assets are valued at fair value and revalued sufficiently regularly to ensure their carrying amount is not materially different from their fair value at the year-end, but as a minimum every five years. Fair value is primarily based on the amount that would be paid for the asset in its existing use.

### Civic Regalia/Treasuries

The Council holds various items of Regalia and Treasures, many are on display at The Forum, Hemel Hempstead. These include the Mayoral Chain, Badges, Silver Mace and the Charters. These items are reported in the Balance Sheet at insurance valuation which is based on market values. Valuations are reviewed sufficiently regularly to ensure that their carrying amount is not materially different from their valuation at the year-end, but as a minimum every five years.

### Sculptures/Statues/Artwork

The Council holds numerous sculptures and pieces of artwork located throughout the Borough. Those deemed to have historical, artistic or cultural significance are valued, and carried on the Balance Sheet. Where possible, these valuations are based on cost when acquired. For those items where cost information is unavailable, no value is reported in the Balance Sheet as it would involve incurring a disproportionate cost to value the assets in comparison to the benefits of the users of the accounts.

### Other Heritage Assets

The majority of other Heritage Assets are held and managed by the Dacorum Heritage Trust (DHT), which makes them available for public viewing on request. These assets are held on the Balance Sheet at insurance valuation. Valuations are reviewed sufficiently regularly to ensure that their carrying amount is not materially different from their valuation at the year-end, but as a minimum every five years. The miscellaneous assets not managed by the DHT are not reported on the Balance Sheet as the cost of valuation would be disproportionate to the benefits of the users of the accounts.

The 31 Memorials in the Borough are included within this group. Given the value of these could never adequately reflect the emotional value vested in them by the community and would not materially affect the accounts, it would be inappropriate and misleading to present a value based on purely material costs.

### Revenue Expenditure Funded From Capital Under Statute

Expenditure incurred during the year that may be capitalised under statutory provisions but that does not result in the creation of a non-current asset has been charged as expenditure to the relevant service in the Comprehensive Income and Expenditure Statement in the year. Where the Council has determined to meet the cost of this expenditure from existing capital resources or by borrowing, a transfer in the Movement in Reserves Statement from the General Fund Balance to the Capital Adjustment Account then reverses out the amounts charged so there is no impact on Council Tax.

### **Lease Classification**

Leases are classified as either finance leases or operating leases based on the substance of the arrangement. The lease of land and building is split at inception of the lease into a separate lease of land and a lease of buildings which are independently classified. Unless title is expected to pass to the lessee at the end of the lease term, leases of land have been classified as operating leases.

Arrangements that do not have the legal status of a lease but convey a right to use a specific asset in return for payment are accounted for under this policy where fulfilment of the arrangement is dependent on the use of specific assets.

## Notes to the Accounts

### Operating Leases (Council as Lessee)

Leases in which substantially all the risks and rewards of ownership are retained by the lessor are classified as operating leases.

Payments made under operating leases (net of any incentives received from the lessor) are charged on a straight-line basis over the term of the lease to the Comprehensive Income and Expenditure Statement as an expense of the services benefitting from use of the leased property, plant or equipment. Contingent rent is recognised in the period in which it arises.

### Finance Leases (Council as Lessee)

Leases of Property, Plant and Equipment where the Council has substantially all the risks and rewards of ownership are classified as finance leases.

Finance leased assets are capitalised at the commencement of the lease at the lower of the fair value of the leased Property, Plant and Equipment and the present value of the minimum lease payments. Up-front payments for a leasehold interest classified as a finance lease are capitalised as part of the asset.

Property, Plant and Equipment recognised under finance leases is accounted for using the policies applied generally to such assets, subject to depreciation being charged over the lease term if this is shorter than the asset's estimated useful life (where ownership of the asset does not transfer to the Council at the end of the lease period).

The corresponding lease obligations, net of finance charges, are included in Creditors. Interest is charged to the Comprehensive Income and Expenditure Statement over the lease period at a constant periodic rate of interest on the remaining balance of the liability for each period. Contingent rent is recognised as an expense in the period in which it arises.

### Operating Leases (Council as Lessor)

Where the Council grants an operating lease over a non-current asset, the leased asset remains on the Balance Sheet. The lease income is recognised over the term of the lease on a straight-line basis in the Income and Expenditure in Relation to Investment Properties line in the Comprehensive Income and Expenditure Statement and result in a gain for the General Fund Balance. Contingent rent is recognised in the period in which it arises.

Up-front payments received on the granting of a leasehold interest classified as an operating lease are recognised as a Creditor in the Balance Sheet and amortised over the lease term.

### Finance Leases (Council as Lessor) – Property, Plant and Equipment

Where the authority grants a finance lease over a property or an item of plant or equipment, the relevant asset is written out of the Balance Sheet as a disposal. At the commencement of the lease, the carrying amount of the asset in the Balance Sheet (whether property, plant and equipment or assets held for sale) is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. A gain, representing the authority's net investment in the lease, is credited to the same line in the Comprehensive Income and Expenditure Statement also as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal), matched by a lease (long-term debtor) asset in the Balance Sheet.

Lease rentals receivable are apportioned between:

- a charge for the acquisition of the interest in the property – applied to write down the lease debtor (together with any premiums received)
- finance income (credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement).

## Notes to the Accounts

The gain credited to the Comprehensive Income and Expenditure Statement on disposal is not permitted by statute to increase the General Fund Balance and is required to be treated as a capital receipt. Where a premium has been received, this is posted out of the General Fund Balance to the Capital Receipts Reserve in the Movement in Reserves Statement. Where the amount due in relation to the lease asset is to be settled by the payment of rentals in future financial years, this is posted out of the General Fund Balance to [the Deferred Capital Receipts Reserve in the Movement in Reserves Statement. [When the future rentals are received, the element for the capital receipt for the disposal of the asset is used to write down the lease debtor. At this point, the deferred capital receipts are transferred to the Capital Receipts Reserve].

The written-off value of disposals is not a charge against council tax, as the cost of non-current assets is fully provided for under separate arrangements for capital financing. Amounts are therefore appropriated to the Capital Adjustment Account from the General Fund Balance in the Movement in Reserves Statement.

### Finance Leases (Council as Lessor) – Investment property

Where the Council grants a finance lease over an Investment Property, the leased asset is derecognised from Investment Property as a disposal and a lease receivable is recognised for any leases with rental payments in excess of peppercorn rent. Peppercorn rents are recognised in the Income and Expenditure in Relation to Investment Properties line in the Comprehensive Income and Expenditure Statement.

### **Investment Property**

Investment Property comprises land and/or buildings are those used solely to earn rentals and/or for capital appreciation. The definition is not met if the property is used in any way to facilitate the delivery of services or production of goods or is held for sale.

Investment Property is measured initially at cost and subsequently at fair value (highest and best use).

Gains and losses on revaluations and disposals are posted to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.. Investment Properties are not depreciated but are revalued annually.

Revaluation and disposal gains and losses are not permitted by statutory arrangements to have an impact on the General Fund Balance. The gains and losses are therefore reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account and (for any sale proceeds greater than £10,000) the Capital Receipts Reserve.

### **Non-current Assets Held for Sale**

Assets are reclassified as Asset Held for Sale if its carrying amounting will be recovered principally through a sale transaction rather than continued use and the following criteria are met:

- The asset must be available for immediate sale in its present condition
- The sale must be highly probable
- The asset must be actively marketed at a price reasonable to its current fair value.
- The sale should be expected to qualify for recognition as a completed sale within one year

The asset is revalued immediately before reclassification and then carried at the lower of this amount and fair value less costs to sell. Where there is a subsequent decrease to the fair value less costs to sell, the loss is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Gains in fair value are recognised only up to the amount of any previous losses recognised in the Surplus or Deficit on Provision of Services. Depreciation is not charged on Assets Held for Sale.

If assets no longer meet the criteria to be classified as Assets Held for Sale, they are reclassified back to non-current assets and valued at the lower of their carrying amount before they were classified as Assets Held for Sale, adjusted for depreciation, amortisation or revaluations that would have been

## Notes to the Accounts

recognised had they not been classified as Assets Held for Sale, and their recoverable amount at the date of the decision not to sell.

Assets that are to be abandoned or scrapped are not reclassified as Assets Held for Sale.

### Disposals

When an asset is disposed of or decommissioned, the carrying amount of the asset in the Balance Sheet (whether Property, Plant and Equipment or Assets Held for Sale) is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. Receipts from disposals (if any) are credited to the same line in the Comprehensive Income and Expenditure Statement also as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal). Any revaluation gains accumulated for the asset in the Revaluation Reserve are transferred to the Capital Adjustment Account.

Amounts received for a disposal in excess of £10,000 are categorised as capital receipts. A proportion of receipts relating to housing disposals may be payable to the Government. The balance of receipts is credited to the Capital Receipts Reserve, and can then only be used for new capital investment. Receipts are appropriated to the Capital Receipts Reserve from the General Fund Balance in the Movement in Reserves Statement.

The written-off value of disposals is not a charge against council tax, as the cost of fixed assets is fully provided for under separate arrangements for capital financing. Amounts are appropriated to the Capital Adjustment Account from the General Fund Balance in the Movement in Reserves Statement.

### Intangible Assets

The Council accounts for its purchased software licences as intangible assets; to the extent it will bring benefits to the Council for more than one reporting period. Intangible assets are held at amortised historical cost.

Intangible assets are amortised on a straight-line basis over the shorter of remaining useful life or 5 years to the relevant service line in the Comprehensive Income and Expenditure Statement.

Any gain or loss arising on the disposal or abandonment of an intangible asset is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Where expenditure on intangible assets qualifies as capital expenditure for statutory purposes, amortisation, impairment losses and disposal gains and losses are not permitted to have an impact on the General Fund Balance. The gains and losses are therefore reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account and (for any sale proceeds greater than £10,000) the Capital Receipts Reserve.

### Minimum Revenue Provision

The Council is not required to use Council Tax to fund depreciation, revaluation and impairment losses or amortisation on Non-current assets. However, it is required to make an annual contribution from revenue towards provision for the reduction in its overall borrowing requirement equal to either an amount calculated on a prudent basis or as determined by the Council in accordance with statutory guidance.

Depreciation, revaluation and impairment losses and amortisations are therefore replaced by the Minimum Revenue Provision in the General Fund Balance by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement.

### Inventory

Inventory is measured at the lower of cost and net realisable value using first-in first-out method.

## Notes to the Accounts

### Cash and Cash Equivalents

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are investments that mature in no more than three months or less from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value.

In the Cash Flow Statement, cash and cash equivalents are shown net of bank overdrafts that are repayable on demand and form an integral part of the Council's cash management.

### Leave Accrual

The accrual represents leave earned as of the reporting date that will be utilised in the next reporting period. The leave accrual is measured at the amount of the benefit earned by the employees of the Council. The accrual is charged to Surplus or Deficit on the Provision of Services so that leave benefits are charged to expense in the financial year in which the leave absence occurs. To remove any impact on Council Tax Payers it is then reversed out through the Movement in Reserves Statement to the Accumulated Absences Account.

### Termination Benefits

Termination benefits are amounts payable as a result of a decision by the Council to terminate an employee's employment before the normal retirement date or an employee's decision to accept voluntary redundancy and are charged on an accruals basis to the appropriate service line in the Comprehensive Income and Expenditure Statement when the Council is demonstrably committed to the termination of the employment of an employee or group of employees or making an offer to encourage voluntary redundancy.

Where termination benefits involve the enhancement of pensions, statutory provisions require the General Fund balance to be charged with the amount payable by the Council to the pension fund or pensioner in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, appropriations are required to and from the Pensions Reserve to remove the notional debits and credits for pension enhancement termination benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year-end.

### Pensions

The Council provides retirement benefits as part of the terms and conditions of employment through the Local Government Pension Scheme, administered by Hertfordshire County Council. The benefits (retirement lump sums and pensions), which are based on pay and service, are earned over the term of employment.

The Local Government Scheme is accounted for as a defined benefits scheme as follows:

- The liabilities of the Hertfordshire County Council pension fund attributable to the Council are included in the Balance Sheet on an actuarial basis using the projected unit method – i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates, and projections of projected earnings for current employees;
- Liabilities are discounted to their value at current prices, using a discount rate annually reviewed and recommended by the Actuary;
- The assets of Hertfordshire County Council pension fund attributable to the Council are included in the Balance Sheet at their fair value;

- quoted securities – current bid price;
  - unquoted securities – professional estimate;
  - unitised securities – current bid price; and
  - property – market value.
- The change in the net pensions liability is analysed into the following components:
    - Service cost comprising:
      - current service cost - the increase in liabilities as a result of years of service earned this year – allocated in the Comprehensive Income and Expenditure Statement to the services for which the employees worked;
      - past service cost – the increase in liabilities as a result of a scheme amendment or curtailment whose effect relates to years of service earned in earlier years – debited to the Finance and Resources line in the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement
      - net interest on the net defined benefit liability (asset), i.e. net interest expense for the authority – the change during the period in the net defined benefit liability (asset) that rises from the passage of time charged to the Financing and Investment Income and Expenditure line of the Comprehensive Income and Expenditure Statement – this is calculated by applying the discount rate used to measure the defined benefit obligation at the beginning of the period to the net defined benefit liability (asset) at the beginning of the period – taking into account any changes in the net defined benefit liability (asset) during the period as a result of contribution and benefit payments.
    - Re-measurements comprising:
      - the return on plan assets – excluding amounts included in net interest on the net defined benefit liability (asset) – charged to the Pensions Reserve as Other Comprehensive Income and Expenditure;
      - actuarial gains and losses – changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions – charged to the Pensions Reserve as Other Comprehensive Income and Expenditure.

In relation to retirement benefits, statutory provisions require the General Fund balance to be charged with the amount payable by the Council to the pension fund or directly to pensioners in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, this means that there are appropriations to and from the Pensions Reserve to remove the notional debits and credits for retirement benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year end. The negative balance that arises on the Pensions Reserve thereby measures the beneficial impact to the General Fund of being required to account for retirement benefits on the basis of cash flows rather than as the benefits are earned by employees.

The Council also has restricted powers to make discretionary awards of retirement benefits in the event of early retirements. Any liabilities estimated to arise as a result of an award to any member of staff are accrued in the year of the decision to make the award and accounted for using the policies above.

### Provisions

Provisions are recognised when:

- the Council has a present legal or constructive obligation as a result of past events;
- it is probable that an outflow of resources will be required to settle the obligation; and
- a reliable estimate can be made of the amount of the obligation.

## Notes to the Accounts

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation. Where the effect is material, the estimated cash flows are discounted. The increase in the provision due to the passage of time is recognised as interest expense.

Provisions are charged as an expense to the appropriate service line in the Comprehensive Income and Expenditure Statement in the year that the Council becomes aware of the obligation, and are measured at the best estimate at the balance sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties.

When payments are eventually made, they are charged to the provision carried in the Balance Sheet. Estimated settlements are reviewed at the end of each financial year – where it becomes less than probable that a transfer of economic benefits will now be required (or a lower settlement than anticipated is made), the provision is reversed and credited back to the relevant service.

Provisions are not recognised for future operating losses.

### Contingent Liabilities

A contingent liability arises where an event has taken place that gives the Council a possible obligation whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Council. Contingent liabilities also arise where a provision would otherwise be made but either it is not probable that an outflow of resources will be required or the amount of the obligation cannot be measured reliably.

Contingent liabilities are not recognised in the Balance Sheet but disclosed in a note to the accounts.

### Reserves

The Council sets aside specific amounts as reserves for future policy purposes or to cover contingencies. Reserves are created by appropriating amounts out of the General Fund or Housing Revenue Account Balances in the Movement in Reserves Statement. When expenditure to be financed from a reserve is incurred, it is charged to the appropriate service in that year to score against the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement. The reserve is then appropriated back into the General Fund or Housing Revenue Account Balance in the Movement in Reserves Statement so that there is no net charge against council tax or housing rent for the expenditure.

Certain reserves are kept to manage the accounting processes which represent unusable resources for the Council. These are the Revaluation Reserve, Capital Adjustment Account, Short-term Accumulating Compensated Absences Account, Collection Fund Adjustment Account and Pension Reserve, all of which are explained in the relevant policies and notes to the Accounts.

### Financial Instruments

#### Recognition

Financial assets and financial liabilities which arise from contracts for the purchase and sale of non-financial items (such as goods or services), which are entered into in accordance with the Council's normal purchase, sale or usage requirement, are recognised when, and to the extent which, performance occurs. All other financial assets and liabilities are recognised when the Council becomes party to the contractual provisions to receive or make cash payments.

#### Financial Assets measured at amortised cost

The Council's business model is to hold investments to collect contractual cash flows. The Council's financial assets are therefore classified as amortised cost.

## Notes to the Accounts

Financial Assets measured at amortised cost (including loans and receivables) are initially measured at fair value and then subsequently at amortised cost using the effective interest rate method. Interest receivable is calculated by multiplying the carrying amount of the asset by the effective rate of interest for the financial asset and this is credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. For most financial assets held by the council, the amount included in the balance sheet is the outstanding principal receivable plus accrued interest.

### Expected Credit Loss Model

The council recognises expected credit losses on all its financial assets held at amortised cost on either a 12 month or lifetime basis.

Impairment losses are calculated to reflect the expectation that the future cash flows might not take place because the borrower could default on their obligations. Credit risk plays a crucial part in assessing losses. Where risk has increased significantly since an instrument was initially recognised, losses are assessed on a lifetime basis. Where risk has not increased significantly or remains low, losses are assessed on the basis of 12-month expected losses

### Financial Liabilities

All financial liabilities are recognised initially at fair value, net of any material transaction costs incurred, and then measured at amortised cost using the effective interest rate method. Outstanding principal repayable (plus accrued interest) is included in Short-term Liabilities in the Balance Sheet except for the amounts payable more than twelve months after the end of the reporting period, which are classified as Long-term Liabilities.

Interest on financial liabilities carried at amortised cost is calculated using the effective interest rate method and is charged to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement

### **Value Added Tax (VAT)**

VAT is included in the Comprehensive Income and Expenditure Statement, whether of a capital or revenue nature, only to the extent that it is not recoverable. VAT receivable is excluded from income.

### **Events after the Balance Sheet Date**

Events after the Balance Sheet date are those events, both favourable and unfavourable, that occur between the end of the reporting period and the date when the Statement of Accounts is authorised for issue. There are two types:

- those that provide evidence of conditions that existed at the end of the reporting period – the Statement of Accounts is adjusted to reflect such events; and
- those that are indicative of conditions that arose after the reporting period – the Statement of Accounts is not adjusted to reflect such events, but where a category of events would have a material effect, disclosure is made in the notes of the nature of the events and their estimated financial effect.

Events taking place after the date of authorisation for issue are not reflected in the Statement of Accounts.

## Notes to the Accounts

### 2. Prior Period Adjustment

The Council discovered an error in Capital Financing from 2015/16. This meant the Capital Receipts Reserve was understated by £6.872m and the Major Repairs Reserve overstated by £6.872m. Overall there is no impact on the total usable reserves of the Council for future financing of the Capital Programme.

#### Effect on the Balance Sheet and Movement in Reserves Statement

<u>Usable Reserves</u>	Originally Stated	Restated	Amount of Restatement
	1st April 2017 £'000	1st April 2017 £'000	£'000
Major Repairs Reserve	7,646	774	6,872
Capital Receipts Reserve	14,609	21,481	(6,872)
	<b>22,255</b>	<b>22,255</b>	<b>0</b>

### 3. Accounting standards issued but not yet adopted

The Code requires the impact of an accounting change required by a new accounting standard that has been issued but not yet adopted by the Code to be disclosed. The following have been issued but are yet to be adopted by the Code, and therefore the Council, at the Balance Sheet date:

- Amendments to IAS 40 Investment Property: Transfers of Investment Property
- IFRS 12 Disclosure of Interests in Other Entities: Clarification of the Scope of the Standard
- IFRS 28 Investments in Associates and Joint Ventures: Measuring an Associate or Joint Venture at Fair Value
- IFRIC 22 Foreign Currency Transactions and Advance Consideration
- IFRIC 23 Uncertainty over Income Tax Treatments
- Amendments to IFRS 9 Financial Instruments: Prepayment Features with Negative Compensation

These changes are not expected to have a material effect on the Council's 2019/20 accounts.

### 4. Critical judgements in applying Accounting Policies

In applying the accounting policies set out in Note 1, the Council has made certain judgements about complex transactions or those involving uncertainty about future events. The critical judgements made are:

#### Lease Accounting

Judgement is required in the initial classification of leases as either operating leases or finance leases. Where a lease is taken out for land and buildings combined, the buildings element of the lease may be capitalised as a finance lease if it meets the criteria for a finance lease, but the land element will be classed as an operating lease by the Council unless title transfers at the end of the lease. If the contracted lease payments are not split between land and buildings in the lease contract, the split is made based on the market values of the land and buildings at the inception of the lease.

## Notes to the Accounts

### 5. Assumptions made about the future and other major sources of estimation uncertainty

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities as at the Balance Sheet date and the amounts reported for the revenues and expenses during the year. However, the nature of estimation means that actual outcomes could differ from those estimates. The key judgements and estimation uncertainty that have a significant risk of causing material adjustment to the carrying amounts of assets and liabilities are as follows:

#### Valuation of Property, Plant and Equipment

Council dwellings are disclosed at current value, based on professional valuations carried out in accordance with the Royal Institution of Chartered Surveyors Red Book.

The value of Council dwellings fluctuates with changes in the current market value of residential properties. A 5% change in property prices would affect the carrying value of the council dwellings by £50.57m in the Balance Sheet and change the annual depreciation charge by £0.84m in the Comprehensive Income and Expenditure Statement.

#### Provision for Outstanding Business Rates Appeals

On 1 April 2013, Local Authorities assumed the liability for refunding ratepayers who have successfully appealed against the Business Rates rateable value of their properties. It is unknown how many of the outstanding appeals will be successful, though estimation techniques have been applied to the outstanding appeals using historic success rate data, including those that may be speculative claims. The carrying amount of the Provision is £11.3 m, of which the Council's share of £4.5m. An increase in the success rate by 5% would change the required provision by £0.567m, affecting the surplus/deficit on the Collection Fund distributed to the preceptors and Central Government.

#### Measurement of Pension Liability

The present value of the pension liability depends on a number of factors determined on an actuarial basis and the value of the underlying assets. The estimated effects of changes in key individual assumptions would increase the Council's pension liability at 31 March 2019 as follows:

The above table presents the changes in isolation; however the assumptions interact in complex ways. See note 39 for information on the pension liability.

	£m
0.5% decrease in the real discount rate	26.1
0.5% increase in salary increase rate	2.9
0.5% increase in the pension increase rate	22.9
	<b>51.8</b>

### 6. Events After the Balance Sheet Date

The final Statement of Accounts was authorised for issue by the Corporate Director (Finance and Operations) on 18<sup>th</sup> July 2019. Events taking place after this date are not reflected in the financial statements or notes. No events have taken place, which provided information about conditions existing at 31 March 2019.

## Notes to the Accounts

### 7. Note to the Expenditure and Funding Analysis- adjustments between funding and accounting basis

This note reconciles the main adjustments to Net Expenditure Chargeable to the General Fund and HRA Balances shown in the Expenditure and Funding Analysis, to arrive at the amounts in the Comprehensive Income and Expenditure Statement. The Movement in Reserves Statement explains the relevant transfers between reserves.

**Adjustments for Capital Purposes** – this column adds in depreciation, impairment and revaluation gains and losses in the services line and disposals, capital grants, revenue contributions and minimum revenue provision to the other income and expenditure line.

**Net Change for Pensions Adjustments**- For services this represents the removal of the employer pension contributions as allowed by statute and the replacement with current service costs and past service costs. For other income and expenditure this adjusts for the net interest.

**Other Adjustments**- includes accumulated absence and the difference between what is income recognised under statute for council tax and NNDR and the income recognised under generally accepted accounting practices.

	Adjustments for Capital Purposes	Net Change for Pensions Adjustments	Other Adjustments	Total Adjustments Between Funding & Accounting Basis
<b>2018/19</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Finance and Resources (GRF)	7,391	186	(11)	7,566
Housing and Community (GRF)	5,847	524	(0)	6,371
Strategic Planning & Environment (GRF)	1,810	1,325	(0)	3,134
Housing and Community (HRA)	23,530	489	(6)	24,013
<b>Net Cost of Services</b>	<b>38,578</b>	<b>2,524</b>	<b>(17)</b>	<b>41,085</b>
Other Income and Expenditure	(25,944)	1,827	1,685	(22,432)
<b>(Surplus)/Deficit on Provision of Services</b>	<b>12,635</b>	<b>4,351</b>	<b>1,668</b>	<b>18,653</b>

	Adjustments for Capital Purposes	Net Change for Pensions Adjustments	Other Adjustments	Total Adjustments Between Funding & Accounting Basis
<b>2017/18</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Finance and Resources (GRF)	411	(244)	10	177
Housing and Community (GRF)	6,517	467	4	6,988
Strategic Planning & Environment (GRF)	1,617	1,431	8	3,056
Housing and Community (HRA)	15,797	383	7	16,187
<b>Net Cost of Services</b>	<b>24,342</b>	<b>2,037</b>	<b>29</b>	<b>26,408</b>
Other Income and Expenditure	(2,448)	1,885	(29,208)	(29,771)
<b>(Surplus)/Deficit on Provision of Services</b>	<b>21,894</b>	<b>3,922</b>	<b>(29,179)</b>	<b>(3,363)</b>

## Notes to the Accounts

### 8. Expenditure and Income Analysed by Nature

The authority's expenditure and income is analysed as follows:

	2018/19 £'000	2017/18* £'000
<b>Expenditure</b>		
Employees (including pension adjustments)	34,548	32,210
Premises	14,294	14,431
Transport	1,705	1,569
Supplies & Services	12,923	11,801
Third Party & Transfer Payments	47,727	48,773
Capital Charges/Revaluations	46,874	34,496
Parish Precepts	778	739
Interest Payments	12,188	12,203
Non Current assets written off as part of disposal gain	5,742	5,968
Payments to the Housing Receipts Pool	1,559	1,559
<b>Total Expenditure</b>	<b>178,339</b>	<b>163,749</b>
<b>Income</b>		
Fees, Charges and Other Service Income	(76,851)	(77,127)
Interest & Investment Income	(768)	(401)
Income from Council Tax	(11,937)	(11,461)
Income from Business Rates	(2,448)	(2,184)
Government Grants & Other Contributions	(58,515)	(55,105)
Sale proceeds on asset disposal and lease amortisation	(13,014)	(20,711)
<b>Total Income</b>	<b>(163,534)</b>	<b>(166,990)</b>
<b>(Surplus) or Deficit on the Provision of Services</b>	<b>14,805</b>	<b>(3,241)</b>

\*2017/18 represented

### 9. Other Operating Expenditure

	2018/19 £'000	2017/18 £'000
Parish Council Precepts	778	739
Payments to the Government Housing Capital Receipts Pool	1,559	1,559
(Gains)/Losses on the Disposal of Non Current Assets	(7,336)	(11,460)
<b>Total</b>	<b>(4,999)</b>	<b>(9,162)</b>

## Notes to the Accounts

### 10. Financing and Investment Income & Expenditure

	2018/19 £'000	2017/18 £'000
Interest Payable and Other Similar Charges	12,188	12,203
Interest Receivable and Similar Income	(768)	(401)
Net Interest on the Net Defined Benefit Liability/Asset	1,829	1,885
Income & Expenditure & Fair Value changes on Investment Properties	(8,827)	(5,878)
Finance Lease Income amortised	0	(3,259)
<b>Total</b>	<b>4,422</b>	<b>4,550</b>

### 11. Taxation and Non-Specific Grant Income

	2018/19 £'000	2017/18 £'000
Council Tax Income	(11,937)	(11,461)
Non Domestic Rates Income & Expenditure	(2,448)	(2,184)
Non-ring-fenced Government Grants	(4,010)	(4,922)
Capital Grants and Contributions	(6,378)	(2,693)
<b>Total</b>	<b>(24,773)</b>	<b>(21,260)</b>

### 12. Usable Reserves

This note details adjustments made to the Comprehensive Income and Expenditure in accordance with proper accounting practice.

The **General Fund Balance** is the statutory fund into which all Council receipts are required to be paid and from which all liabilities of the authority are to be met, except where statutory rules provide otherwise. These rules can specify the financial year in which liabilities and payments impact the General Fund Balance, which is not necessarily in accordance with proper accounting practice. The Balance therefore summarises the resources the Council is statutorily empowered to spend on services or capital investment at the end of the financial year. The balance is not to fund HRA services.

The **Housing Revenue Account Balance** reflects the statutory obligation to maintain a revenue account for local authority housing provision in accordance with part VI of the Local Government and Housing Act 1989. It contains the balance of income and expenditure as defined by the 1989 Act that is available to fund future expenditure in connection with the Council's landlord function.

The **Major Repairs Reserve** is limited to being used on capital expenditure on HRA assets or the financing of historical HRA capital expenditure. The balance shows the capital resources yet to be applied at year-end.

The **Useable Capital Receipts Reserve** holds the proceeds from land or building disposals which are restricted by statute from being used other than to fund new capital expenditure or to be set aside to finance historic capital expenditure. The balance shows the resources yet to be applied.

The **Capital Grants Unapplied Reserve** holds the grants and contributions received towards capital projects for which the Council has met the appropriate conditions but which has yet to be spent. The current balance relates to unspent Community Infrastructure Levy.

## Notes to the Accounts

2018/19	General Fund Balance	Major Repairs Reserve	Housing Revenue Account	Capital Grants Unapplied	Capital Receipts Reserve	Movement in usable Reserves
	£'000	£'000	£'000	£'000	£'000	£'000
<b>Adjustments involving the Capital Adjustment Account</b>						
<u>Reversal of Items debited or credited to the Comprehensive Income &amp; Expenditure Statement (CIES):</u>						
Capital grants and contributions	(1,258)	0	(1,534)	0	0	(2,792)
Amortisation of Intangible Assets	125	0		0	0	125
Non Current Asset Depreciation & revaluation	6,692	0	8,312	0	0	15,004
HRA impairment reversal		0	15,215	0	0	15,215
Movements Investment Property fair value	(4,842)	0		0	0	(4,842)
Non-current assets written off as part of disposal gain	2,967	0	2,775	0	0	5,742
<u>Insertion of items not debited or credited to the Comprehensive Income &amp; Expenditure Statement (CIES):</u>						
Minimum Revenue Provision/HRA debt repayment	(237)	0	(2,636)	0	0	(2,872)
Revenue Expenditure Funded From Capital Under Statute	8,231	0	0	0	0	8,231
Capital expenditure charged to General Fund or HRA	(2,110)	0	(6,663)	0	0	(8,774)
<b>Adjustments involving the Capital Receipts Reserve:</b>						
Transfer of cash sale proceeds credited to CIES as part of the gain/loss on disposal	(6,522)	0	(6,492)	0	13,014	(0)
Use of Capital Receipts to finance capital expenditure	0	0	0	0	(16,377)	(16,377)
Payments to Government Capital Receipts Pool	1,559	0	0	0	(1,559)	0
<b>Adjustments involving the Major Repairs Reserve:</b>						
HRA Depreciation	0	13,140	0	0	0	13,140
Loan Repayment Funded by the MRR	0	(2,636)	2,636	0	0	0
Use of the MRR to Finance Capital Expenditure	0	(12,030)	0	0	0	(12,030)
<b>Adjustments involving the Capital Grant Unapplied Account</b>						
Capital Grants and Contributions unapplied credited to the CIES	(3,586)	0	0	3,586	0	0
<b>Adjustments involving the Pensions Reserve:</b>						
Reversal of items relating to retirement benefits debited or credited to the CIES	7,868	0	1,889	0	0	9,757
Employer's pension contributions to pension fund payable in the year	(4,359)	0	(1,047)	0	0	(5,406)
<b>Adjustments involving the Collection Fund Adjustment Account:</b>						
Amount council tax & business rates credited to the CIES differs from that calculated under statutory requirements	1,687	0	0	0	0	1,687
<b>Adjustments involving the Accumulated Absences Reserve:</b>						
Absences Accrual transferred to the Accumulated Absences Account	(11)	0	(6)	0	0	(17)
<b>Adjustments Between Accounting Basis &amp; Funding Basis Under Regulations</b>						
	6,205	(1,526)	12,450	3,586	(4,922)	15,792

## Notes to the Accounts

	General Fund Balance	Major Repairs Reserve	Housing Revenue Account	Capital Grants Unapplied	Capital Receipts Reserve	Movement in usable Reserves
2017/18	£'000	£'000	£'000	£'000	£'000	£'000
<b>Adjustments involving the Capital Adjustment Account</b>						
<u>Reversal of Items debited or credited to the Comprehensive Income &amp; Expenditure Statement (CIES):</u>						
Capital grants and contributions	(906)	0	(588)	0	0	(1,494)
Amortisation of Intangible Assets	283	0	0	0	0	283
Depreciation & revaluation of Non Current Assets	2,708	0	0	0	0	2,708
HRA impairment reversal		0	15,743	0	0	15,743
Movements Investment Property fair value	(1,264)	0	0	0	0	(1,264)
Non-current assets written off as part of disposal gain	537	0	5,431	0	0	5,968
Reversal of prepaid lease income	(3,284)	0	0	0	0	(3,284)
<u>Insertion of items not debited or credited to the Comprehensive Income &amp; Expenditure Statement (CIES):</u>						
Minimum Revenue Provision/HRA debt repayment	(371)	0	0	0	0	(371)
Revenue Expenditure Funded From Capital Under Statute	4,795	0	0	0	0	4,795
Capital expenditure charged to General Fund or HRA	(3,124)	0	(9,380)	0	0	(12,504)
<b>Adjustments involving the Capital Receipts Reserve:</b>						
Transfer of cash sale proceeds credited to CIES as part of the gain/loss on disposal	(4,246)	0	(13,184)	0	17,430	0
Use of Capital Receipts to finance capital expenditure	0	0	0	0	(8,095)	(8,095)
Government Capital Receipts Pool payments	1,560	0	0	0	(1,560)	0
<b>Adjustments involving the Major Repairs Reserve (MRR):</b>						
HRA Depreciation	0	12,231	0	0	0	12,231
Loan Repayment Funded by the MRR	0	0	0	0	0	0
Use of MRR to Finance Capital Expenditure	0	(10,852)	0	0	0	(10,852)
<b>Adjustments involving the Capital Grant Unapplied Account</b>						
Capital Grants and Contributions unapplied credited to the CIES	(1,199)	0	0	1,199	0	0
<b>Adjustments involving the Pensions Reserve:</b>						
Reversal of items relating to retirement benefits debited or credited to the CIES	7,496	0	1,733	0	0	9,229
Employer's pension contributions to pension fund payable in the year	(4,311)	0	(997)	0	0	(5,308)
<b>Adjustments involving the Collection Fund Adjustment Account:</b>						
Amount council tax & business rates credited to the CIES differs from that calculated under statutory requirements	(824)	0	0	0	0	(824)
<b>Adjustments involving the Accumulated Absences Reserve:</b>						
Employee Absences Accrual transferred to the Accumulated Absences Account	22	0	7	0	0	29
<b>Adjustments Between Accounting Basis &amp; Funding Basis</b>						
	(2,128)	1,379	(1,235)	1,199	7,775	6,990

## Notes to the Accounts

### 13. Earmarked Reserves

These are the resources the Council voluntarily earmarks for future spending plans.

	Balance 01/04/2018	Transfers Out 2017/18	Transfers in 2017/18	Balance 31/03/18	Transfers Out 2018/19	Transfers in 2018/19	Balance 31/03/19
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
<b>General Fund Reserves:</b>							
Management of Change	1,750	(324)	0	1,426	(1,154)	842	1,114
Local Development Framework	100	(34)	0	66	(22)	375	419
Vehicle Replacement	700	0	350	1,050	0	350	1,400
Funding Equalisation	2,214	0	266	2,480	0	2,817	5,297
Capital Development Reserve	500	(35)	0	465	(165)	0	300
Uninsured Loss	586	0	0	586	0	86	672
Earmarked Grants	203	(99)	0	104	0	3	107
Pensions Reserve	1,773	0	0	1,773	0	200	1,973
Dacorum Development	356	(192)	0	164	(128)	0	36
Invest to Save	248	0	0	248	(50)	0	198
Savings Efficiency	0	0	0	0	0	604	604
Technology Reserve	56	0	0	56	0	200	256
Other Under £250k	1,285	(159)	106	1,232	(234)	80	1,078
<b>Total General Fund Reserves</b>	<b>9,771</b>	<b>(843)</b>	<b>722</b>	<b>9,650</b>	<b>(1,753)</b>	<b>5,556</b>	<b>13,453</b>
<b>Housing Revenue Account Reserves:</b>							
Strategic Acquisition	17,701	0	0	17,701	0	0	17,701
Other HRA (Under £250k)	399	0	0	399	0	46	445
<b>Total HRA Reserves</b>	<b>18,100</b>	<b>0</b>	<b>0</b>	<b>18,100</b>	<b>0</b>	<b>46</b>	<b>18,146</b>
<b>Total Earmarked Reserves</b>	<b>27,871</b>	<b>(843)</b>	<b>722</b>	<b>27,750</b>	<b>(1,753)</b>	<b>5,602</b>	<b>31,599</b>

### 14. Members' Allowances

The following amounts were due to Members:

	2018/19 £'000	2017/18 £'000
<b>Salaries (Basic &amp; Special allowances)</b>	402	390
<b>Allowances (Broadband)</b>	2	2
<b>Expenses (Travel &amp; Subsistence)</b>	1	1
<b>Total</b>	<b>405</b>	<b>393</b>

## Notes to the Accounts

### 15. Remuneration of Employees

The following table shows the number of employees whose remuneration, excluding pension costs, exceeded £50,000 for the year, excluding those disclosed individually in the table of Senior Employees.

Total Remuneration	2018/19	2017/18
£50,000 - £54,999	9	6
£55,000 - £59,999	3	5
£60,000 - £64,999	4	6
£65,000 - £69,999	6	4
£70,000 - £74,999	1	0
<b>Total</b>	<b>23</b>	<b>21</b>

The remuneration paid to the Council's senior employees was:

2018/19	Salary including Fees & Allowances	Benefits in Kind (Lease Car)	Total Excluding Pension Contribution	Pension Contribution	Total
	£	£	£	£	£
Chief Executive	141,320	0	<b>141,320</b>	25,016	<b>166,336</b>
Corporate Director (Finance & Operations)	106,852	0	<b>106,852</b>	18,919	<b>125,771</b>
Corporate Director (Housing & Regeneration)	106,065	0	<b>106,065</b>	18,919	<b>124,984</b>
Assistant Director (Planning, Development & Regeneration)	78,699	5,484	<b>84,183</b>	14,562	<b>98,745</b>
Assistant Director (Neighbourhood Delivery)	82,449	0	<b>82,449</b>	14,561	<b>97,010</b>
Assistant Director (Finance & Resources)	82,449	0	<b>82,449</b>	14,560	<b>97,010</b>
Assistant Director (Corporate & Contracted Services)/ Solicitor to the Council (1)	73,280	0	<b>73,280</b>	12,863	<b>86,143</b>
Assistant Director (Housing) from 23rd April 18	70,386	0	<b>70,386</b>	12,370	<b>82,756</b>
Assistant Director (Performance & People & Innovation) from 2nd July 18	61,615	0	<b>61,615</b>	10,884	<b>72,499</b>
Assistant Director (Performance & Projects) until 25th May 2018	11,736	0	<b>11,736</b>	2,256	<b>13,992</b>
Assistant Director (Housing Landlord) until 22nd April 2018	8,016	0	<b>8,016</b>	872	<b>8,889</b>

1) The Assistant Director (Corporate and Contracted Services) was a new post from the 1st September 2018. The Officer was previously the Solicitor to the Council (Monitoring Officer).

## Notes to the Accounts

2017/18	Salary including Fees & Allowances	Benefits in Kind (Lease Car)	Total Excluding Pension Contribution	Pension Contribution	Total
	£	£	£	£	£
Chief Executive	135,225		135,225	24,205	159,430
Corporate Director (Housing & Regeneration)	102,951	1,580	104,531	18,546	123,077
Corporate Director (Finance & Operations)	103,208		103,208	18,250	121,458
Assistant Director (Neighbourhood Delivery)	80,783		80,783	14,521	95,304
Assistant Director (Housing Landlord)	77,533	7,539	85,072	14,295	99,367
Assistant Director (Planning, Development & Regeneration)	77,777	5,091	82,868	14,274	97,142
Assistant Director (Performance & Projects)	76,503		76,503	13,459	89,962
Solicitor to the Council	67,060		67,060	11,969	79,029
Assistant Director (Finance & Resources) – until December 2017	53,515		53,515	9,650	63,165
Assistant Director (Finance & Resources) – from March 2018	4,350		4,350	767	5,117

The number of exit packages are in the table below.

Exit Package Cost Band	Number of Redundancies		Number of Other Departures Agreed		Total number of Exit Packages by Cost Band		Total Cost of Exit Packages in Each Band £'000	
	18/19	17/18	18/19	17/18	18/19	17/18	18/19	17/18
£0 - £20,000	4	1	1	0	5	1	20	8
£20,001 - £40,000	2	0	0	0	2	0	50	0
£40,001 - £60,000	1	0	0	0	1	0	47	0
£60,001- £80,000	0	0	0	0	0	0	0	0
£80,001 - £100,000	1	0	0	0	1	0	82	0
<b>Total</b>	<b>8</b>	<b>1</b>	<b>1</b>	<b>0</b>	<b>9</b>	<b>1</b>	<b>199</b>	<b>8</b>

## Notes to the Accounts

### 16. Related Party Transactions

The Council is required to disclose material transactions with related parties – bodies or individuals that have the potential to control or influence the Council or to be controlled or influenced by the Council. Disclosure of these transactions allows readers to assess the extent to which the Council might have been constrained in its ability to operate independently or might have secured the ability to limit another party's ability to bargain freely with the Council.

#### Central Government

Central Government has significant influence over the general operations of the Council – it is responsible for providing the statutory framework, within which the Council operates, provides a large proportion of its funding in the form of grants and prescribes the terms of many of the transactions that the Council has with other parties (e.g. council tax bills, housing benefits). Grants received from Government departments are set out in Notes 18 and 19.

#### Dacorum Sports Trust

From the 1 April 2004 to March 2018, Dacorum Sports Trust, a registered charity and company limited by guarantee, managed some of Dacorum Borough Council's leisure facilities including its leisure centres. The Trust was a separate legal entity and was not restricted from managing other facilities within Dacorum or elsewhere. The Trust used Council support services (Legal Services, Insurance, and Landscape and Recreation services) paying for these under Service Level Agreements totalling £16k in 2017/18.

In 2017/18, the following councillors were nominated to serve on the board of the Sports Trust:

- Councillor Michael Hicks
- Councillor Peter Matthews
- Councillor Israel Imarni

Under the Funding Agreement, the Council paid a grant of £0.225m to the Trust in 2017/18 towards managing those facilities. Under the transfer agreement the ownership of the Council assets, were leased to the Trust at a peppercorn rent, remained with the Council and were included in the Council's balance sheet. Thus, the capital charges for the Council-owned assets continued to be included in the Council's accounts. Hertfordshire County Council owns Longdean and Tring Sports Centre; under a joint use agreement with the Borough Council, the Trust managed the leisure services at those venues during 2017/18.

As there was no group relationship between the Council and the Trust, the Trust's accounts were not consolidated with the Council's own Accounts.

On the 27<sup>th</sup> November 2018, Councillor Israel Imarni was appointed a director of the Trust. Apart from the long lease of the Little Hay Golf Complex, there were no other transactions between the Council and the Trust from the 27<sup>th</sup> November 2018 to 31<sup>st</sup> March 2019.

#### Members and Senior Officers of the Council

Members and Senior Officers of the Council have direct control over the Council's financial and operating policies. The total of Member allowances paid in 2018/19 is shown in note 14. Disclosures of interest have been made in respect of the following organisations to which payments were made or from which payments were received (payments to major and local precepting authorities are excluded). The payments are not exclusively in respect of grants but where grants were given, they were made with proper consideration of declarations of interest and the relevant Members did not take part in any discussion or decision relating to the grants. The Register of Members' Interests shows both potential financial and other interests, including involvement with voluntary organisations, public authorities and representation on various bodies. It is open to public inspection by appointment – email [member.support@dacorum.gov.uk](mailto:member.support@dacorum.gov.uk) or available on the Council's website.

## Notes to the Accounts

Transactions in 2018/19 are disclosed below. There were no balances owed to the Council on invoices past their due date at the 31<sup>st</sup> March 2019. Transactions with community and voluntary groups of less than £3k have been excluded. Further details of these transactions can be provided on request.

Organisation	Name	Expenditure 2018/19	Income 2018/19	Amount owed by the Council 31/03/2019	Nature of Transaction
		£'000	£'000	£'000	
Jarvis Group Limited	Fiona Jump (Group Manager Financial Services)	6,204	(2)	204	Construction of Housing
Community Action Dacorum	Cllr Tina Howard & Cllr John Birnie	208	0	0	Grants
DP Taylor	Chris Taylor (Group Manager Strategic Planning & Regeneration)	12	0	1	Maintenance
South Hill Centre	Cllr Neil Harden	10	0	0	Grants
Sutton envelopes	Cllr Graham Sutton & Rosie Sutton	0	(9)	0	Rental Income
Chiltern Conservation Board	Cllr David Collins	7	0	0	Grants
Stage Two	Cllr Terry Douris	0.4	(0.9)	0	Audio Visual Sound Equipment, Garage Rent
Tring Market Auctions	Cllr Penny Hearn & Cllr Stephen Hearn	0	(0.6)	0	Licence

### 17. External Audit Costs

The Council has incurred the following costs for the audit of the Statement of Accounts and certification of grant claims by the external auditors Grant Thornton.

	2018/19 £'000	2017/18 £'000
External audit services carried out by the appointed auditor for the year	56	73
External audit services carried out by the appointed auditor for an earlier year	0	2
Certification of grant claims and returns for previous years	5	0
Certification of grant claims and returns for the year	11	22
<b>Total</b>	<b>72</b>	<b>97</b>

## Notes to the Accounts

### 18. Revenue Grant Income

The Council credited the following revenue grants and contributions to the Comprehensive Income and Expenditure Statement.

<b>Non Specific Grant Income</b>	<b>2018/19</b>	<b>2017/18</b>
	£'000	£'000
Revenue Support Grant	0	(105)
New Homes Bonus and Other	(2,110)	(3,099)
Business Rates Retention	(1,588)	(1,382)
Other	(312)	(336)
<b>Total</b>	<b>(4,010)</b>	<b>(4,922)</b>
 <b>Grants Credited to Services</b>	 <b>2018/19</b>	 <b>2017/18</b>
	£'000	£'000
Benefits Subsidy and Administration (included in Finance & Resources)	(46,594)	(47,053)
Other	(1,473)	(389)
<b>Total</b>	<b>(48,067)</b>	<b>(47,442)</b>

### 19. Grants and Other Contributions in the Balance Sheet

The Council has received grants and contributions that are yet to be recognised as income as conditions attached to them have not been satisfied at the Balance Sheet date. In year movements are:

<b>Revenue Grants and Other Contributions</b>	<b>2018/19</b>	<b>2017/18</b>
	£'000	£'000
As of the Beginning of the Period	(444)	(108)
Receipts	(1,817)	(725)
Conditions Satisfied	1,473	389
<b>Closing Balance</b>	<b>(788)</b>	<b>(444)</b>

The balances of the revenue grants are as follows:

<b>Revenue Grants Yet to be Recognised as Income</b>	<b>2018/19</b>	<b>2017/18</b>
	£'000	£'000
Homelessness Support Grant	(378)	(253)
Planning Delivery Grant	(250)	0
Public Health	(24)	(29)
Refugee Grant	(113)	(125)
Other	(23)	(37)
<b>Total</b>	<b>(788)</b>	<b>(444)</b>

## Notes to the Accounts

<b>Capital grants &amp; Contributions yet to be recognised as income</b>	<b>2018/19</b>	<b>2017/18</b>
	£'000	£'000
As of the Beginning of the Period	368	251
Receipts	981	912
Conditions Satisfied	(847)	(795)
Amounts repaid	0	0
<b>Closing Balance</b>	<b>503</b>	<b>368</b>

<b>Breakdown of Capital grants &amp; Contributions yet to be recognised as income</b>	<b>2018/19</b>	<b>2017/18</b>
	£'000	£'000
Growth Area Fund	250	251
Disabled Facilities Grant	253	92
Other	0	25
<b>Total</b>	<b>503</b>	<b>368</b>

### 20. Cash and Cash Equivalents

	2018/19	2017/18
	£'000	£'000
Investments with Original Maturities of 3 Months or Less	12,608	22,758
Cash held by the Council	1	1
Bank Account Balance/(Overdraft)	1,013	961
<b>Total Cash and Cash Equivalents</b>	<b>13,622</b>	<b>23,720</b>

### 21. Short Term Creditors

	2018/19	2017/18
	£'000	£'000
Central Government Bodies	5,762	7,339
Other Local Authorities	1,229	1,602
NHS Bodies	157	0
Other Entities and Individuals	18,392	16,045
<b>Total Short-term Creditors</b>	<b>25,540</b>	<b>24,986</b>

### 22. Long-term Creditors

The council has a number of leases where premiums paid are treated as deferred income and amortised over the life of the lease.

	2018/19	2017/18
	£'000	£'000
Other Local Authorities	0	2,116
Other Entities and Individuals	3,813	3,817
<b>Total Long-term Creditors</b>	<b>3,813</b>	<b>5,934</b>

## Notes to the Accounts

### 23. Long-term Debtors

The Council makes loans to a number of organisations. This is analysed below:

	2018/19 £'000	2017/18 £'000
Other Local Authorities	0	2,116
Other Entities and Individuals	160	67
<b>Total Long-term Debtors</b>	<b>160</b>	<b>2,183</b>

### 24. Short-term Debtors

The following table shows the analysis of short-term debtors, offset by the bad debt provisions held.

	2018/19 £'000	2017/18 £'000
Central Government Bodies	2,831	2,349
Other Local Authorities	2,410	2,899
NHS Bodies	7	0
Other Entities and Individuals	10,939	9,319
<b>Total Short-term Debtors</b>	<b>16,187</b>	<b>14,567</b>

The following Bad Debt Impairment Allowances have been included in the above table.

	2018/19 £'000	2017/18 £'000
<b>Bad Debt Impairment Allowances</b>		
Sundry Debtors	320	368
Housing Rents and Garages	1,983	2,118
Council Tax/Summons Fees	235	236
Business Rates/Summons Fees	708	275
Benefits Overpayments	2,038	2,198
<b>Total Bad Debt Provisions</b>	<b>5,284</b>	<b>5,195</b>

Within the £708k of Business rates/summons fees bad debt impairment allowance, the Council allowed £327k relating to specific companies which are known to be insolvent or where recovery of debt is assessed as unlikely.

### 25. Provisions

The Council maintains the following provisions:

	Balance as at 31 March 2018 £'000	Contribution to Provision £'000	Use of Provision £'000	Amounts Reversed Unused £'000	Balance as at 31 March 2019 £'000
<b>General Fund Provisions</b>					
Insurance- General Fund	362	275	(73)	(161)	404
Pension Strain	7	0	(7)	0	0
Business Rates Appeals	4,182	1,123	(349)	(419)	4,537
<b>Total General Fund</b>	<b>4,551</b>	<b>1,398</b>	<b>(429)</b>	<b>(580)</b>	<b>4,941</b>

## Notes to the Accounts

<b>Insurance-HRA</b>	226	443	(182)	(197)	290
<b>Total Short-term Provisions</b>	<b>4,777</b>	<b>1,841</b>	<b>(610)</b>	<b>(777)</b>	<b>5,231</b>

	<b>Balance as at 31 March 2017</b>	<b>Contribution to Provision</b>	<b>Use of Provision</b>	<b>Amounts Reversed Unused</b>	<b>Balance as at 31 March 2018</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
<b>General Fund Provisions</b>					
Insurance- General Fund	446	(238)	288	(134)	362
Pension Strain	7	0	0	0	7
Business Rates Appeals	3,642	1,353	0	(813)	4,182
<b>Total General Fund</b>	<b>4,095</b>	<b>1,115</b>	<b>288</b>	<b>(947)</b>	<b>4,551</b>
<b>Insurance-HRA</b>	<b>354</b>	<b>300</b>	<b>(274)</b>	<b>(154)</b>	<b>226</b>
<b>Total Short-term Provisions</b>	<b>4,449</b>	<b>1,415</b>	<b>14</b>	<b>(1,101)</b>	<b>4,777</b>

The Insurance Provision represents the Council's view of the liabilities incurred, but not settled, for insurance excess payments relating to claims made against the Council.

The Business Rates provision represents the Council's share of the estimated liability for refunding ratepayers who successfully appeal against the Business Rates rateable value of their properties.

The Pension Strain provision relates to the additional payments required to be made into the pension fund for early retirements granted or committed by the Balance Sheet date.

### 26. Contingent Liabilities

The council is involved in a number of court cases, the outcome of which may require the payment of uncertain compensation and/or costs. This includes an ongoing case relating to historic Hand Arm Vibration processes, which is likely to conclude in 2019.

### 27. Building Control

Trading operations for building control are incorporated into the Comprehensive Income and Expenditure Statement within the Strategic Planning and Environment heading.

	<b>2018/19 Chargeable</b>	<b>2017/18 Chargeable</b>
	<b>£'000</b>	<b>£'000</b>
<b>Building Control</b>		
Employees	507	475
Non Employee Costs	164	193
<b>Total Expenditure</b>	<b>672</b>	<b>668</b>
<b>Total Income</b>	<b>(541)</b>	<b>(506)</b>
<b>Building Control (Surplus)/Deficit</b>	<b>131</b>	<b>162</b>

28. Property, Plant & Equipment

2018/19	Council Dwellings	Other Land & Buildings	Vehicles, Plant & Equipment	Infrastructure Assets	Surplus Assets	Assets Under Construction	Total Property, Plant and Equipment £'000
	£'000	£'000	£'000	£'000	£'000	£'000	
<b>Cost / Valuation</b>							
<b>At the beginning of the period</b>	<b>891,950</b>	<b>122,703</b>	<b>17,724</b>	<b>1,412</b>	<b>4,921</b>	<b>19,620</b>	<b>1,058,330</b>
Depreciation written out to Gross Carrying Amount on Revaluation	(15,464)	(5,019)	0	0	0	0	(20,482)
Revaluation increases recognised in the Revaluation Reserve	153,845	33,169	0	0	2,658	0	189,672
Revaluation decreases recognised in the Revaluation Reserve	(21,582)	(6,908)	0	0	(64)	0	(28,553)
Revaluation increases/(decreases) recognised in the(Surplus)/Deficit on the Provision of Services	(8,312)	(2,395)	0	0	0	0	(10,707)
Additions	20,057	1,812	2,176	277	0	7,204	31,526
Impairment recognised in the(Surplus)/Deficit on Provision of Services	(15,215)	0	0	0	0	0	(15,215)
Reclassifications	8,818	(376)	950	(1)	514	(9,802)	102
Assets reclassified (to)/from Assets Held for Sale	0	566	0	0	0	0	566
Disposals	(2,790)	(697)	(2,015)	0	0	0	(5,501)
<b>As at the end of the period</b>	<b>1,011,307</b>	<b>142,856</b>	<b>18,835</b>	<b>1,688</b>	<b>8,029</b>	<b>17,022</b>	<b>1,199,737</b>
<b>Accumulated Depreciation</b>							
<b>At the beginning of the period</b>	<b>(2,376)</b>	<b>(3,870)</b>	<b>(10,772)</b>	<b>(93)</b>	<b>0</b>	<b>0</b>	<b>(17,110)</b>
Depreciation Charge	(13,103)	(2,352)	(1,932)	(49)	0	0	(17,436)
Reclassifications	0	0	0	0	0	0	0
Depreciation written out to Gross Carrying Amount on Revaluation	15,464	5,019	0	0	0	0	20,482
Assets reclassified to Assets Held for Sale	0	0	0	0	0	0	0
Disposals	15	58	1,886	0	0	0	1,958
<b>As at the end of the period</b>	<b>(0)</b>	<b>(1,146)</b>	<b>(10,817)</b>	<b>(143)</b>	<b>0</b>	<b>0</b>	<b>(12,106)</b>
<b>Net Book Value At 31 March 2019 (all owned, no finance leases)</b>	<b>1,011,307</b>	<b>141,710</b>	<b>8,018</b>	<b>1,545</b>	<b>8,029</b>	<b>17,022</b>	<b>1,187,631</b>

## Notes to the Accounts

2017/18	Council Dwellings	Other Land & Buildings	Vehicles, Plant & Equipment	Infrastructure Assets	Surplus Assets	Assets Under Construction	Total Property, Plant & Equipment
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
<b><u>Cost / Valuation</u></b>							
<b>At the beginning of the period</b>	860,817	108,966	17,311	1,205	0	17,358	1,005,657
Depreciation written out to Gross Carrying Amount on Revaluation	(9,823)	(1,280)	0	0	0	0	(11,103)
Revaluation increases recognised in the Revaluation Reserve	42,456	9,379	0	0	0	0	51,835
Revaluation decreases recognised in the Revaluation Reserve	0	(2,435)	0	0	0	0	(2,435)
Revaluation increases/(decreases) recognised in the(Surplus)/Deficit on the Provision of Services	655	2,079	0	0	0	0	2,734
Additions	19,704	2,235	666	207	0	6,301	29,113
Impairment recognised in the(Surplus)/Deficit on Provision of Services	(16,397)	0	0	0	0	0	(16,397)
Reclassifications	0	7,153	20	0	4,921	(4,038)	8,056
Assets reclassified (to)/from Assets Held for Sale	0	(3,394)	(273)	0	0	0	(3,667)
Disposals	(5,462)	0	0	0	0	0	(5,462)
<b>As at the end of the period</b>	<b>891,950</b>	<b>122,703</b>	<b>17,724</b>	<b>1,412</b>	<b>4,921</b>	<b>19,620</b>	<b>1,058,330</b>
<b>Accumulated Depreciation</b>							
<b>At the beginning of the period</b>	<b>0</b>	<b>(2,726)</b>	<b>(8,927)</b>	<b>(64)</b>	<b>0</b>	<b>0</b>	<b>(11,717)</b>
Depreciation Charge	(12,231)	(2,425)	(2,016)	(29)	0	0	(16,701)
Reclassifications	0	0	0	0	0	0	0
Depreciation written out to Gross Carrying Amount on Revaluation	9,823	1,280	0	0	0	0	11,103
Assets reclassified to Assets Held for Sale	0	2	0	0	0	0	2
Disposals	32	0	171	0	0	0	203
<b>As at the end of the period</b>	<b>(2,376)</b>	<b>(3,869)</b>	<b>(10,772)</b>	<b>(93)</b>	<b>0</b>	<b>0</b>	<b>(17,110)</b>
<b>Net Book Value At 31 March 2018 (all owned, no finance leases)</b>	<b>889,574</b>	<b>118,834</b>	<b>6,952</b>	<b>1,319</b>	<b>4,921</b>	<b>19,620</b>	<b>1,041,220</b>

## Notes to the Accounts

### Property Valuations of Council Dwellings, Other Land and Buildings and Surplus Assets.

Council Dwellings and high value assets are valued annually. The valuation date is 31<sup>st</sup> December 2018, with the exception of dwellings which are the 31<sup>st</sup> March 2019. The remaining assets are valued on a five year cycle. The valuations were carried out in accordance with the methodologies and bases for estimation set out in the professional standards of the Royal Institution of Chartered Surveyors. Surplus assets are valued using level 2 observable inputs and in estimating the fair value of the council's surplus assets the highest and best use has been applied. In determining the highest and best use valuation, the valuer has considered the current use (rental value) compared with the potential redevelopment of the land value for the site. Further details on highest and best fair value valuations can be found in note 30.

### 29. Capital Commitments

The contractual commitments for capital expenditure for schemes over £500k that had started, or where legal contracts entered into at the 31 March 2019 are:

<b>Contract</b>	<b>Contractor</b>	<b>Estimated Value £'000</b>
Total Asset Management	Osborne Property Services Ltd	27,000
Replacement, repair and maintenance services of boilers	Sun Realm Ltd	12,000
Construction of social housing at Martindale	Bugler Developments Ltd	9,782
Construction of social housing at Stationers Place, Hemel Hempstead	Jarvis Group Ltd	4,344
Construction of multi-storey car park, Berkhamsted	Hüber car park systems international GmbH	3,618
Construction of affordable housing units in Hemel Hempstead	FSG Property Services Ltd	1,350
Supported Housing Scheme improvements	Fortem Solutions Ltd	877

The capital commitment at the 31 March 2018 was £32,725k.

### 30. Investment Property

<b>Investment Properties as per Balance Sheet</b>	<b>2018/19 £'000</b>	<b>2017/18 £'000</b>
<b>As at the beginning of the period</b>	<b>75,782</b>	<b>81,266</b>
Additions ( Purchases/construction)	118	88
Additions (Subsequent expenditure)	0	0
Reclassifications	(103)	(6,884)
Disposals	(64)	0
Net gains/(losses) from fair value movements	4,842	1,312
<b>As at the end of the period</b>	<b>80,575</b>	<b>75,782</b>

The investment properties were valued at the 31<sup>st</sup> December 2018 by an independent external valuer using level 2 observable inputs to estimate their fair value. In determining the highest and best use

## Notes to the Accounts

valuation, the valuer has considered the current use (rental value) compared with the potential redevelopment of the land value for the site. Significant observable level 2 inputs were recent sales prices, market rental, size, location, current market conditions and other relevant information for similar assets in the locality. The following items relating to Investment Properties have been included in the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

	2018/19 £'000	2017/18 £'000
<b>Investment Property - Comprehensive Income and Expenditure Account</b>		
Rental Income from Investment Property	(4,843)	(8,780)
Direct Operating Expenses Arising from Investment Property	794	955
Investment Property Disposals	64	0
Changes In Fair Value of Investment Property	(4,842)	(1,312)
<b>Net Gain</b>	<b>(8,827)</b>	<b>(9,137)</b>

### 31. Intangible Assets

Intangible assets consist of purchased software licenses, which are carried at historical amortised cost.

	2018/19 £'000	2017/18 £'000
<b>Intangible Assets</b>		
<b>As of the beginning of the Period</b>		
Gross Carrying Amounts	2,686	2,578
Accumulated Amortisation	(2,128)	(1,844)
<b>Net Carrying Amount as of the Beginning of the Period</b>	<b>558</b>	<b>735</b>
Purchases	68	107
Disposals (net book value)	(192)	0
Amortisation for the Period	(126)	(283)
<b>Net Carrying Amount as of the End of the Period</b>	<b>309</b>	<b>558</b>
<b>Comprising:</b>		
Gross Carry Amounts	1,982	2,686
Accumulated Amortisation	(1,673)	(2,127)
<b>Net Carrying Amount as of the End of the Period</b>	<b>309</b>	<b>558</b>

### 32. Assets Held For Sale

	2018/19 £'000	2017/18 £'000
<b>Opening Balance</b>	<b>2,853</b>	<b>1,438</b>
Assets Transferred	0	8,920
Additions	29	0
Reclassification	(565)	1,915
Revaluation Increased in Revaluation Reserve	0	(367)
Revaluation decreases in Surplus/Deficit	0	50
Sold to other entities and individuals	(1,945)	(9,103)
<b>Closing Balance</b>	<b>372</b>	<b>2,853</b>

## Notes to the Accounts

### 33. Revaluation Reserve

The Revaluation Reserve contains the gains made arising from increases in the value of Property, Plant and Equipment. The Reserve contains only revaluation gains accumulated since 1 April 2007. Accumulated gains arising before then are in the Capital Adjustment Account.

	2018/19 £'000	2017/18 £'000
<b>Opening Balance</b>	<b>314,295</b>	<b>270,847</b>
Upward revaluation of assets	189,672	51,835
Downward revaluation of assets and impairment losses not charged to the Surplus/Deficit on the Provision of Services	(28,553)	(2,435)
Difference between fair value depreciation and historical cost depreciation	(5,395)	(4,497)
Amount written off to the Comprehensive Income and Expenditure Statement	(1,467)	(1,455)
<b>Closing Balance</b>	<b>468,552</b>	<b>314,295</b>

### 34. Capital Adjustment Account

The Capital Adjustment Account absorbs timing differences from the different arrangements for accounting for the consumption of non-current assets and for financing the acquisition, construction or enhancement of those assets under statutory provisions. The Account is debited with the cost of acquisition, construction or enhancement as depreciation, impairment losses and amortisations are charged to the Comprehensive Income and Expenditure Statement (with reconciling postings from the Revaluation Reserve to convert fair value figures to a historical cost basis). The Account is credited with the amounts set aside by the Council as finance for the costs of acquisition, construction and enhancement. The Account contains accumulated gains and losses on Investment Properties and revaluation gains accumulated on Property, Plant and Equipment before 1 April 2007.

	2018/19 £'000	2017/18 £'000
<b>Balance as of beginning of the period</b>	<b>457,126</b>	<b>455,034</b>
Capital grants and contributions applied	2,792	1,493
Amortisation of intangible assets	(125)	(283)
Charges for depreciation and Revaluation losses on property, plant and equipment	(15,004)	(2,708)
HRA impairment reversal	(15,215)	(15,743)
Difference between fair value depreciation and historical cost depreciation	5,395	4,497
HRA depreciation	(13,140)	(12,231)
Non-current assets written off to CIES on sale as part of the gain on disposal	(5,742)	(4,513)
Transfer from the Revaluation Reserve on disposal of assets	1,467	0
Revenue expenditure funded from capital under statute	(8,231)	(4,794)
Movements in market value of Investment Properties	4,842	1,264
Capital receipts applied to capital expenditure	16,377	3,740
Revenue contribution to capital	8,774	12,504
use of MRR to finance capital expenditure	12,030	15,210
Minimum Revenue Provision (MRP)	237	371
HRA Debt Repayment	2,636	0
Lease prepayment amortisation	0	3,285
<b>Closing Balance</b>	<b>454,216</b>	<b>457,126</b>

## Notes to the Accounts

### 35. Capital Expenditure and Financing

The total amount of capital expenditure incurred in the year is shown below together with the resources used to finance it. Where capital expenditure is financed in future years by charges to revenue as assets are used by the Council, the expenditure results in an increase in the Capital Financing Requirement (CFR), a measure of capital expenditure incurred historically by the Council that is yet to be financed.

	2018/19 £'000	2017/18 £'000
<b>Capital Financing Requirement</b>		
Opening Capital Financing Requirement	355,541	354,804
<b>Capital Investment:</b>		
Property, Plant and Equipment	31,526	29,113
Assets held for Sale	30	0
Loans treated as capital expenditure	100	0
Investment Property	118	88
Intangible Assets	68	107
Revenue Expenditure Funded from Capital under Statute	8,231	4,794
<b>Total Expenditure</b>	<b>40,073</b>	<b>34,102</b>
<b>Sources of Finance:</b>		
Capital Receipts	(16,377)	(8,098)
Government Grants and Other Contributions	(2,792)	(1,494)
Use of Reserves (including Major Repairs Reserve)	(12,030)	(20,278)
Revenue Contributions (including statutory provision for repayment of debt)	(11,646)	(3,495)
<b>Total Financing</b>	<b>(42,845)</b>	<b>(33,365)</b>
<b>Closing Capital Financing Requirement</b>	<b>352,769</b>	<b>355,541</b>
	2018/19 £'000	2017/18 £'000
<b>Capital Financing Requirement</b>		
Increase/(Decrease) in underlying need to borrow (unsupported by government financial assistance).	(2,772)	737
Assets Acquired Under Finance Lease	0	0
<b>Increase/(Decrease) in Capital Financing Requirement</b>	<b>(2,772)</b>	<b>737</b>

### 36. Heritage Assets

This table provides details of the carrying value of the different groups of heritage assets:

	2018/19 £'000	2017/18 £'000
Land	7,069	7,069
Sculptures/Artwork	1,820	1,820
Assets managed by Dacorum Heritage Trust	3	3
Civic Regalia and Treasures	212	212
<b>Total</b>	<b>9,104</b>	<b>9,104</b>

## Notes to the Accounts

### Land Heritage Assets

The Council holds three areas of land (Gadebridge Park, Tring Park and The Water Gardens) which form part of the Borough's history. These sites include various sculptures and other cultural and historical assets and are constantly accessible to the public. The sites were valued on the 31<sup>st</sup> March 2017 by a qualified external valuer using the Existing Use Valuation method. Gadebridge Park and the Water Gardens are managed and preserved by the Council.

Tring Park is managed by the Woodland Trust and is believed to date back to 1066. The Rothschild's opened a zoological museum on the site and were responsible for introducing numerous exotic animals to the park.

Gadebridge Park is sited on the northern edges of Hemel Hempstead and forms a green wedge of urban countryside running into the heart of the town. The area dates back to the late Iron Age. Excavations on the field north of Galley Hill revealed a farmhouse which was extended after the Roman invasion of AD43 to include stone built wings around a courtyard, a bathhouse, heated rooms and, unusually, a large swimming pool. The Walled Garden is the location of the original Bury House.

The Water Gardens were designed by Geoffrey Jellicoe as an integral part of his master plan for Hemel Hempstead New Town and were placed on English Heritage's Register of Parks and Gardens of Special Historic Interest in 2010 as one of the very important post war urban landscapes.

### Sculptures and Artwork Held at Cost

The Borough has various sculptures and pieces of artwork holding historical and cultural value. There are 5 where historical cost is available and these assets are held on the Balance Sheet at cost. They are preserved and managed by the Council, and constantly accessible to the public.

	Location	
<b>The Residents' Rainbow</b> by Colin Lambert	Royal British Legion's Memorial Garden, Hemel Hempstead Town Centre	Symbolises the optimism and aspirations of the first people to settle in the New Town after the Second World War
<b>The Water Feature</b> by Michael Rizzello OBE.	Junction of Marlowes and Bank Court, Hemel Hempstead	Celebrates youth and sport with a bronze sculpture of three children playing in the water.
<b>The Steel Tree</b> designed by Peter Parkinson and created by Richard Quinnell OBE.	Near the Roundhouse in Hemel Hempstead Town Centre	Each panel of the tree represents a different aspect of Hemel Hempstead's past and present.
<b>The bronze relief map</b> designed by Graham Thompson and sculpted by John Ravera.	Hemel Hempstead Town Centre	Depicts Hemel Hempstead as it was in 1947.
<b>The Phoenix Sculpture</b> , designed by Jose Zavala.	Roundabout near junction 8 of the M1, Hemel Hempstead	Reflects the recovery of Hemel Hempstead and in particular Maylands Business Park from the Buncefield oil depot explosion in 2005.

### Assets managed by The Dacorum Heritage Trust

The Dacorum Heritage Trust is the accredited museum organisation for the borough, based at the Museum Store in Clarence Road, Berkhamsted. Of the 100,000 objects at Museum Store around 2,900 belong to the Council and were valued using insured value in March 2012. Items are accessible by appointment.

## Notes to the Accounts

### Civic Regalia and Treasuries

The Council holds, manages and preserves various items of Civic Regalia with historical relevance to Dacorum. Most are displayed outside the Council Chamber at the Forum, Hemel Hempstead and include a silver mace, silver cups, the Mayors Badges' and Chains. These were valued in May 2016 by External Valuers specialising in antiques and fine arts.

### Heritage Assets not Held on Balance Sheet

The Council manages and preserves the following Heritage Assets where no historic cost information is available and cannot be valued as at a cost commensurate to users of the accounts so are not included on the Balance Sheet:

- 17 sculptures and artwork in Highfield, Adeyfield and the Town Centre,
- 7 posters depicting types of music hall acts at the Old Town Hall, Hemel Hempstead.
- 29 war memorials
- 2 stone carved memorials in Little Gaddesden
- 7 miscellaneous assets including Cranstone's Water Fountain (Boxmoor), Cranstone's Pump in the High Street and a Milestone in Little Gaddesden

### 37. Financial Instruments

The following categories of financial instruments are carried in the Balance Sheet.

Financial Assets – All carried at Amortised Cost	2018/19	2017/18
	£'000	£'000
Short-term Debtors	10,787	10,660
Long-term Debtors	160	2,183
Cash and Cash Equivalents	13,622	23,720
Short-term Investments	79,680	70,097
Long-term Investments	0	0
<b>Total</b>	<b>104,250</b>	<b>106,660</b>

For short term financial assets, the carrying amount is assumed to approximate fair value. Short-term debtors are reviewed for impairment and presented in the balance sheet net of impairments.

Financial Liabilities – Amortised Cost	2018/19	2017/18
	£'000	£'000
Short-term Creditors	17,300	24,293
Long-term Creditors	188	2,305
Short-term Borrowings	4,719	3,220
Long-term Borrowings	358,441	362,383
<b>Total</b>	<b>380,649</b>	<b>392,201</b>

### Fair Value

The valuation basis adopted for calculating the fair value of the council's financial instruments is level 2 inputs- i.e. inputs other than quoted prices that are observable for this financial liability and assets. The fair value can be assessed by calculating the present value of the cash flows that will take place over the remaining term of the instruments, using the following assumptions:

## Notes to the Accounts

- For Public Works Loan Board (PWLB) loans, the redemption and new borrowing (certainty rate) discount rates.
- Where an instrument will mature in the next 12 months, the carrying amount is assumed to approximate fair value.

The Code does not require fair value disclosures for short-term trade payables or receivables since the carrying amount is a reasonable approximation of fair value.

The fair values are as follows:

<b>Financial Liabilities – Fair Value</b>	<b>2018/19</b>	<b>2017/18</b>
	<b>£'000</b>	<b>£'000</b>
Short-term Creditors	17,300	24,293
Long-term Creditors	188	2,305
Short-term Borrowings	4,738	3,227
Long-term Borrowings	416,640	409,490
<b>Total</b>	<b>438,867</b>	<b>439,315</b>

The exit price fair value of £438.867m has been calculated using redemption and new loan borrowing discount rates. The Authority has no contractual obligation to pay these penalty costs and does not incur any additional cost if the loans run to their planned maturity date.

### Liquidity Risk

The Council has access to the money markets for short-term debt to cover revenue expenditure and to the money markets and PWLB for longer-term borrowing. The Council's short and medium term cash forecasting procedures are aimed at ensuring that sufficient funds mature at the right time to cover expenditure. There is no significant risk the Council would be unable to raise finance to meet its commitments under financial instruments.

### Refinancing and Maturity Risk

The Council maintains a significant investment portfolio. The prudential indicator limiting the amount of funds placed in investments for terms exceeding one year is a key factor limiting this risk, as is the medium term financial policy on reducing the Council's reliance on interest earnings to fund its core activities. Most of the current borrowing by the Council is fixed-term from the PWLB in relation to Self-Financing at a preferential fixed rate. The repayment of these loans is factored into the Housing Revenue Account 30-year plan and so there is minimal risk the Council will need to refinance these loans at a time of unfavourable interest rates. £18.9m of the borrowing relates to financing of the General Fund Capital Programme, with repayments and interest costs factored into the Council's Medium Term Financial Strategy. The following table sets out the maturity analysis of financial liabilities held by the Council:

	<b>2018/19</b>	<b>2017/18</b>
	<b>£'000</b>	<b>£'000</b>
Less than 1 Year	4,719	3,220
Between 1 and 2 Years	4,939	3,942
Between 2 and 5 Years	8,166	10,467
Between 5 and 10 years	26,586	22,521
More than 10 Years	318,750	325,453
<b>Total</b>	<b>363,161</b>	<b>365,603</b>

### Interest Rate/Credit Risk

The Council is exposed to interest rate movements on its investments, and has a number of strategies for managing interest rate risk. The annual Treasury Management Strategy draws together the Council's prudential indicators and its expected treasury operations, including an expectation of interest rate

## Notes to the Accounts

movements. As part of this strategy, the Council sets the prudential indicators which provide maximum and minimum limits for fixed and variable interest rate exposure. The in-house Treasury Team monitors market and forecast interest rate movements, and selects the most advantageous investments allowed within the limits of the Council's treasury policies.

The Council's maximum exposure to credit risk for its short investments has been assessed using the lowest credit rating for each investment from Fitch, Moody's and Standard & Poor's Historic Default Rates from 2009-2018. Given the expected credit loss is not material and the Council has not recently experienced a default, no impairment allowance has been made. The maximum Credit Risk exposure at the 31<sup>st</sup> March 2019 is:

Credit Risk Rating	Gross carrying amount 2018/19	Default Rate	12 month
			expected credit loss
	£'000		£'000
A+	10,041	between 0.017% and 0.035%	2
A	43,565	between 0.004% and 0.026%	8
A-	15,561	between 0.006% and 0.02% statutory provisions prevent default	2
Other Local Authorities	10,512		0
<b>Total</b>	<b>79,680</b>		<b>12</b>

For Short-term debtors, the bad debt impairment allowance is shown in note 24. Sundry debtors and Housing Rents are considered financial assets. The bad debt provision is calculated based on aged of debt and/or value, with a higher impairment allowance for older and higher value debts as based on experience these are less likely to be recovered. The long-term debtors principally comprise amounts owed by parish councils. These are considered to be low risk as local parish councils are traditionally accorded low risk of default on payments so not impaired.

### Income, Expense, Gains and Losses to the Surplus or deficit on the provision of services

See note 10 for the interest revenue gains and losses on financial assets measured at amortised cost.

## 38. Leases

### Operating Leases - Council as Lessee

The Council leases various land and/or buildings under non-cancellable operating lease agreements. The lease terms range between 3 and 999 years. The operating leases do not have purchase options, although some have rent escalation clauses. The Council paid no contingent rent during 2017/18 or 2018/19.

The total future minimum lease payments under non-cancellable operating leases for each of the following periods are as follows:

Operating Lease Commitments (DBC as Lessee)	2018/19 £'000	2017/18 £'000
Not later than one year	50	51
Later than one year but not later than five years	201	205
Later than five years	77	179
<b>Total Commitments under Operating Leases</b>	<b>329</b>	<b>435</b>

## Notes to the Accounts

### **Operating Leases - Council as Lessor**

The Council leases various land and/or buildings under non-cancellable operating lease agreements. The lease terms range between 1 and 399 years. The operating leases do not have purchase options, although most have rent escalation clauses. The total future minimum lease payments receivable under non-cancellable operating leases for each of the following periods are as follows:

<b>Operating Lease Income (DBC as Lessor)</b>	<b>2018/19</b>	<b>2017/18</b>
	<b>£'000</b>	<b>£'000</b>
Not later than one year	3,941	2,922
Later than one year but not later than five years	13,209	9,707
Later than five years	51,472	42,535
<b>Total Minimum Lease Income under Operating Leases</b>	<b>68,622</b>	<b>55,164</b>

The minimum lease payments receivable do not include rents that are contingent on events taking place after the lease was entered into, such as adjustments following future rent reviews. In 2018/19 contingent rents of £1.1m were receivable by the Council (£0.7m in 2017/18).

### **Finance Leases - Council as Lessee**

The Council leases three properties under non-cancellable finance lease agreements. The property lease terms range between 125 and 899 years. The leases do not have purchase options, although the lease payments under one of the leases are tied to the sub-lease rental income. The assets acquired under these leases are carried as Investment Property in the Balance Sheet at the following amounts:

<b>Finance Lease Assets (Council as Lessee)</b>	<b>2018/19</b>	<b>2017/18</b>
	<b>£'000</b>	<b>£'000</b>
<b>Finance Lease Assets (Council as Lessee)</b>	<b>579</b>	<b>188</b>

The Council is committed to making minimum payments under these leases. These payments comprise settlement of the long-term liability for the interest in the property acquired by the Council, and finance costs that will be payable by the Council in future years while the liability remains outstanding. The minimum lease payments are made up of:

<b>Finance Lease Minimum Payments</b>	<b>2018/19</b>	<b>2017/18</b>
	<b>£'000</b>	<b>£'000</b>
Current	0	0
Non-current	188	188
Finance Costs Payable in Future Years	1,612	1,632
<b>Minimum Lease Payments</b>	<b>1,800</b>	<b>1,820</b>

The total future minimum lease payments to be paid under non-cancellable finance leases for each of the following periods are as follows:

<b>Commitments Under Finance Leases</b>	<b>2018/19</b>	<b>2017/18</b>
	<b>£'000</b>	<b>£'000</b>
Not later than one year	20	20
Later than one year but not later than five years	80	80
Later than five years	1,720	1,740
<b>Total Commitments Under Finance Leases</b>	<b>1,820</b>	<b>1,840</b>

The minimum lease payments do not include rents contingent on events taking place after the lease was entered into. The Council paid contingent rent during the year of £20k (2017/18 £20k). The Council has sub-let these properties. At 31 March 2018 the minimum payments expected to be received under non-cancellable agreements was £208k (£204k at 31 March 2017).

## Notes to the Accounts

### 39. Pensions

#### **Local Government Pension Scheme**

As part of the terms and conditions of employment for employees, the Council makes contributions towards the cost of post-employment benefits. Although these benefits will not actually be payable until employees retire, the Council has a commitment to make the payments for those benefits, and to disclose them at the time that employees earn their future entitlement.

The Council participates in the Local Government Pension Scheme, administered by Hertfordshire County Council (HCC). The scheme is a funded benefit career average salary, meaning the Council and its employees pay contributions into a fund, calculated at a level intended to balance the pension's liabilities with investment assets. The scheme operates under the regulatory framework for the Local Government Pension Scheme. Governance is the responsibility of the Pensions Committee of HCC. Policy is determined in accordance with the Local Government Pension Scheme Regulations. The Investment sub-committee appoints the 15 Investment Fund Managers.

Principal risks of the scheme for the Council are longevity assumptions, statutory changes to the scheme, scheme structural changes, changes to inflation, bond yields and performance of the scheme's equity investments. The Council has taken into account the impact of the McCloud Judgement and the Guaranteed Minimum Pensions equalisation on future liabilities arising from the defined benefit pension scheme.

#### **Transactions Relating to Post-employment Benefits**

The following transactions were made in the Comprehensive Income and Expenditure Statement, General Fund Balance and Housing Revenue Account via the Movement in Reserves Statement during the year:

	2018/19 £'000	2017/18 £'000
<b>Comprehensive Income &amp; Expenditure Statement</b>		
<b>Cost of Services:</b>		
Current Service Cost	7,267	7,345
Past Service Cost/(Gain) – Including Curtailments	663	0
<b>Financing and Investment Income and Expenditure:</b>		
Net Interest Expense	1,827	1,885
<b>Total Post Employment Benefit Charged to the Surplus or Deficit on the Provision of Services</b>	<b>9,757</b>	<b>9,230</b>
<b>Other Comprehensive Income &amp; Expenditure:</b>		
Return on Plan Assets (excluding amounts included in net interest expense)	(7,518)	(4,899)
Actuarial (Gains) & Losses Arising on Changes in Demographic Assumptions	0	0
Actuarial Gains & Losses Arising on Changes in Financial Assumptions	14,366	(4,416)
Other	0	0
<b>Total Post Employment Benefit Charged to Other Comprehensive Income and Expenditure</b>	<b>6,848</b>	<b>(9,315)</b>
 <b>Movement in Reserves Statement</b>		
Reversal of net charges made to the Surplus or Deficit for the Provision of Services for Post Employment Benefits in accordance with the Code	(9,757)	(9,230)
Employer's Contributions Payable to the Pension Scheme	5,406	5,308
<b>Total</b>	<b>(4,351)</b>	<b>(3,922)</b>

## Notes to the Accounts

<b>Pension Assets &amp; Liabilities Recognised in the Balance Sheet</b>	<b>2018/19</b> <b>£'000</b>	<b>2017/18</b> <b>£'000</b>
Present value of the defined benefit obligation	(261,524)	(238,594)
Fair value of plan assets	181,266	169,535
<b>Sub-total</b>	<b>(80,258)</b>	<b>(69,059)</b>
Other movements in the liability	0	0
<b>Net liability arising from defined benefit obligation</b>	<b>(80,258)</b>	<b>(69,059)</b>

<b>Reconciliation of Present Value of Scheme Liabilities</b>	<b>2018/19</b> <b>£'000</b>	<b>2017/18</b> <b>£'000</b>
Liabilities as of the Beginning of the Period	(238,594)	(235,506)
Current Service Cost	(7,267)	(7,345)
Interest Cost	(6,229)	(5,903)
Contributions by Scheme Participants	(1,235)	(1,205)
Actuarial (Losses)/Gains	(14,366)	4,416
Losses on Curtailments	0	0
Benefits Paid	6,830	6,949
Past Service Costs	(663)	0
<b>Liabilities as at 31 March</b>	<b>(261,524)</b>	<b>(238,594)</b>
<b>Reconciliation of Fair Value of Scheme Assets</b>	<b>2018/19</b> <b>£'000</b>	<b>2017/18</b> <b>£'000</b>
Assets as of the Beginning of the Period	169,535	161,054
Expected Rate of Return	4,402	4,018
Actuarial Gains/(Losses)	7,518	4,899
Employer Contributions	5,406	5,308
Contributions by Scheme Participants	1,235	1,205
Benefits Paid	(6,830)	(6,949)
<b>Closing Fair Value of Scheme Assets</b>	<b>181,266</b>	<b>169,535</b>

The expected return on scheme assets is determined by considering the expected returns available on the assets underlying the current investment policy. Expected yields on fixed interest investments are based on gross redemption yields as at the Balance Sheet date. Expected returns on equity investments reflect long-term real rates of return experienced in the respective markets.

<b>Fair Value of Employer's Assets</b>	<b>2018/19</b> <b>£'000</b>	<b>2017/18</b> <b>£'000</b>
<b>Quoted Prices in Active Markets</b>		
<u>Equity Securities</u>		
Consumer	8,063	7,746
Manufacturing	7,029	6,663
Energy and Utilities	1,871	1,778
Financial Institutions	7,474	7,562
Health and Care	1,474	1,073
Information Technology	5,671	5,285
Other	484	403
<u>Investment Funds and Unit Trusts</u>		
Equities	45,738	44,560
Bonds	63,064	60,972
Other	1,532	1,263

## Notes to the Accounts

<b>Cash and Cash Equivalents</b>		
All	5,866	5,658
<b>Total of Assets with Prices Quoted in Active Markets</b>	<b>148,266</b>	<b>142,963</b>
<b>Quoted Prices not in Active Markets</b>		
<b>Debt Securities</b>		
Other	83	69
<b>Private Equity</b>		
All	8,499	6,433
<b>Real Estate</b>		
UK Property	6,422	5,616
Overseas Property	6,875	5,535
<b>Investment Funds and Unit Trusts</b>		
Infrastructure	1,757	404
Other	9,580	8,650
<b>Derivatives</b>		
Foreign Exchange	(216)	(136)
<b>Total of Assets with Prices Quoted not in Active Markets</b>	<b>33,000</b>	<b>26,571</b>
<b>Total Fair Value of Employers Assets</b>	<b>181,266</b>	<b>169,535</b>

### Basis for Estimating Asset and Liabilities

Liabilities have been assessed on an actuarial basis by Hymans Robertson LLP using the Projected Unit Credit Method, an estimate of the pensions that will be payable in future years dependent on assumptions about mortality rates, salary levels, etc. Estimates for the fund were based on the latest full revaluation of the scheme as at 31 March 2016. The principal assumptions used are:

Principal Assumptions	2018/19	2017/18
	%	%
Rate of inflation	3.5	3.4
Rate of increase in salaries	2.6	2.5
Rate of increase In pensions	2.5	2.4
Rate of discounting scheme liabilities	2.4	2.6
Allowance for future retirees to elect to take additional tax-free cash up to HMRC limits pre April 2008 Service	50	50
Allowance for future retirees to elect to take additional tax-free cash up to HMRC limits post April 2008 Service	75	75
Mortality Assumptions	2018/19	2017/18
	Age	Age
Longevity at 65 for current pensioners		
Men	22.5	22.5
Women	24.9	24.9
Longevity at 65 for future pensioners		
Men	24.1	24.1
Women	26.7	26.7

### Impact on the Council's Cash Flow

The liabilities show the underlying commitments the Council has to pay retirement benefits. The total liability of £80.258m has an impact on the net worth of the Council as recorded in the Balance Sheet. However, statutory arrangements for funding the deficit mean that the financial position of the Council remains healthy. The deficit on the LGPS will be funded by improved investment returns or increased contributions over the remaining working lives of employees, as assessed by the scheme's actuary.

## Notes to the Accounts

Funding levels are monitored annually, and the next triennial review is due to be based on 31 March 2019 data. Based on this review, the fund liability may go up or down. Sensitivity analysis is shown in note 5. The total value of contributions expected to by the Council in 2019/20 is £5.389m.

The weighted duration for all members is 16.8 years. The weighted average duration and liability split of the defined benefit obligation for scheme members as at 31 March 2019 is:

	<b>Liability Split</b>	<b>Weighted Average Duration</b>
Active Members	40.1%	22.9
Deferred Members	25.1%	22.2
Pensioner Members	34.8%	11.0
<b>Total</b>	<b>100%</b>	<b>16.8</b>

### **Pensions Reserve**

The Pensions Reserve absorbs timing differences arising from the difference in accounting for and for funding benefits in accordance with statutory provisions. Post-employment benefits are accounted for in the Comprehensive Income and Expenditure Statement as the benefits are earned by employees accruing years of service, updating the liabilities recognised to reflect inflation, changing assumptions and investment returns. Statutory arrangements require benefits earned, to be financed as the Council makes employer's contributions to pension funds, or eventually pays any pensions it is directly responsible for. The balance on the Pensions Reserve shows a substantial shortfall in the benefits earned by past and current employees and the resources the Council has set aside to meet them. Statutory arrangements ensure funding will have been set aside by the time the benefits come to be paid. The movements in the Pensions Reserve are:

	<b>2018/19</b>	<b>2017/18</b>
	<b>£'000</b>	<b>£'000</b>
<b>Reconciliation of Fair Value of Scheme Assets</b>		
Surplus /(Deficit) as of Beginning of the Period	(69,059)	(74,452)
Actuarial Gains/(Losses) on Pension Assets and Liabilities	(6,848)	9,315
Reversal of Items Relating to Retirement Benefits Debited or Credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement	(9,757)	(9,230)
Employer's Pension Contributions	5,406	5,308
<b>Surplus/(Deficit) as of End of the Period</b>	<b>(80,258)</b>	<b>(69,059)</b>

### **Management of Pension Risks**

Hertfordshire County Council, having taken appropriate professional advice, has taken steps to mitigate investment risk and to set an investment strategy appropriate for the Fund's liabilities. Key steps are:

1. Diversification – the Fund has adopted a strategy that is diversified by asset class, region, sector and investment manager.
2. De-risking plan – the Fund has now moved to a lower risk strategy that comprises 65% in "growth" assets and 35% in "defensive" assets. The composition of the "defensive" assets will change over the coming year as the chosen closed ended funds drawdown capital. The allocation between growth and defensive assets as at the accounting year end date was approximately 66% growth / 34% defensive.
3. Defensive asset portfolio – the Fund has appointed a number of specialist mandates to manage the defensive assets (UK corporate bonds, Index Linked Gilts, Infrastructure Debt, PRS Property and HLV Property). The Index Linked Gilt mandate will seek to offer some protection from changes in inflation and interest rates.
4. Monitoring – the Fund's investment arrangements are regularly monitored. The Council receives independent reporting from the custodian and the Fund's investment Consultant and the Pensions Committee meets the investment managers on an ongoing basis.

## Housing Revenue Account

### Housing Revenue Account – Income & Expenditure Account

The HRA Income and Expenditure Statement shows the economic cost in the year of providing housing services in accordance with generally accepted accounting practices, rather than amount funded from rents and government grants. Authorities charge rents to cover expenditure in accordance with legislative framework; this may differ from accounting cost. The increase or decrease in the year, on the basis upon which rents are raised, is shown in the Movement on the Housing Revenue Account Statement.

	2018/19 £'000	2017/18* £'000
<b>Income</b>		
Dwelling Rents (Gross)	(53,213)	(53,654)
Non Dwelling Rents (Gross)	(148)	(234)
Charges for Services & Facilities	(1,660)	(1,987)
Contributions towards Expenditure	(987)	(1,038)
<b>Total Income</b>	<b>(56,009)</b>	<b>(56,913)</b>
<b>Expenditure</b>		
Repairs and Maintenance	12,184	11,632
Supervision and Management	8,646	8,265
Rents, Rates, Taxes and Other Charges	60	45
Increase in Allowance for Bad and Doubtful Debts	375	299
Depreciation and Impairment of Non Current Assets	36,664	28,025
<b>Total Expenditure</b>	<b>57,929</b>	<b>48,266</b>
<b>Net Expenditure/(Income) of HRA Services as Included in the Comprehensive Income &amp; Expenditure Statement (CIES)</b>	<b>1,920</b>	<b>(8,647)</b>
HRA Share of Corporate and Democratic Core	244	327
Other recharges to the HRA	3,870	3,592
<b>Total recharge to HRA</b>	<b>4,114</b>	<b>3,919</b>
<b>HRA Share of Operating Income &amp; Expenditure Included in the Comprehensive Income &amp; Expenditure Account</b>		
(Gain)/Loss on Disposal of Non-Current Assets	(3,717)	(7,754)
Interest and Investment Income	(328)	(122)
Interest Payments	11,594	11,603
Net Interest on the Net Defined Benefit Liability	354	354
Capital Grants and Contributions Received	(1,534)	(588)
<b>(Surplus)/Deficit for the Year on HRA Services</b>	<b>12,403</b>	<b>3,493</b>

\*17/18 represented. £3,592k of recharges are now shown on the recharges line rather than the Supervision and Management line as per the 17/18 accounts.

## Housing Revenue Account

### Statement of Movement on the Housing Revenue Account

	2018/19 £'000	2017/18 £'000
<b>Balance as at 1 April</b>	<b>2,892</b>	<b>2,892</b>
Movement in Reserves:		
Surplus/(Deficit) on Provision of Services	(12,403)	1,235
<b>Adjustments Between Accounting Basis &amp; Funding Basis Under Regulations:</b>		
Capital Grants and Contributions Applied	(1,534)	(587)
Reversal of Employee Leave Accrual	(6)	7
Reversal Revaluation & Impairment (Gains)/Losses on Property	23,527	15,743
Amounts of non-current assets written off on sale as part of the gain on disposal to the CIES	2,775	5,429
Transfer of cash sale proceeds credited as part of the gain/loss on disposal to the CIES	(6,492)	(13,183)
Revenue Contribution to Capital	(6,663)	(9,380)
Debt Repayment Provision	(2,636)	0
Loan Repayment from Major Repairs Reserve	2,636	0
Reversal of retirement benefits items debited or credited to the CIES	(1,047)	(997)
Employer's Pension Contributions to Pension Fund Payable in the year	1,889	1,733
<b>Total Adjustments Between Accounting Basis and Funding Basis Under Regulations</b>	<b>12,450</b>	<b>(1,235)</b>
<b>Net Increase/(Decrease) Before Transfers to Earmarked Reserves</b>	<b>46</b>	<b>2,892</b>
Transfer (to)/from Earmarked Reserves	(46)	0
<b>Balance as at 31 March</b>	<b>2,892</b>	<b>2,892</b>

### Notes to the Housing Revenue Account

#### 1. Value of HRA Property, Plant and Equipment

	2018/19 £'000	2017/18 £'000
Council Dwellings	1,011,438	886,227
Other Land & Building	1,141	1,174
Vehicles, Plant, Furniture and Equipment	32	38
Assets Under Construction	13,046	17,190
<b>Net Book Value as at 31 March</b>	<b>1,025,657</b>	<b>904,629</b>

Council dwellings had an existing use assuming vacant possession valuation of £2,663 million as at 31<sup>st</sup> March 2019. To comply with regulations, a regional adjustment factor of 38% has to be applied to the valuation to reflect that housing is let at sub-market rents.

## Housing Revenue Account

### 2. Number and type of dwellings

	31/03/19	31/03/18
Flats	3,773	3,707
Houses	6,337	6,355
Chiltern Hostel - equivalent	18	17
<b>Total Dwellings</b>	<b>10,128</b>	<b>10,079</b>

### 3. Rent Arrears

	2018/19	2017/18
	£'000	£'000
Rent - Current Arrears	1,701	1,954
Rent - Former Arrears	885	953
Supporting People and Other	255	221
<b>Total Arrears:</b>	<b>2,841</b>	<b>3,128</b>
Provision for Bad and doubtful Debts	(1,931)	(2,118)
<b>Total Rent Arrears:</b>	<b>910</b>	<b>1,010</b>

### 4. Capital Financing

	2018/19	2017/18
	£'000	£'000
<b>Total Capital Expenditure</b>	<b>24,725</b>	<b>24,591</b>
Financed by:		
Capital Receipts	(4,498)	(4,466)
Major Repairs Reserve	(12,030)	(19,537)
Capital Grants & Contributions	(1,534)	(588)
Revenue Contributions	(6,663)	0
<b>Total Financing</b>	<b>(24,725)</b>	<b>(24,591)</b>

### 5. Capital Receipts from the sale of HRA assets:

	2018/19	2017/18
	£'000	£'000
Sale Of Lane And Freehold	23	27
Easement Granted- Deed of Release, Variation, Covenants	77	140
Sale of HRA Dwellings	6,225	13,373
Discount Repaid	167	171
<b>Total Capital receipts</b>	<b>6,492</b>	<b>13,711</b>

## Housing Revenue Account

### 6. Depreciation and Impairment

Depreciation on council dwellings has been charged on a straight-line basis over the life of the dwellings, which is estimated by the valuer to be 60 years.

	2018/19 £'000	2017/18 £'000
Depreciation on Council Dwellings	13,102	12,231
Revaluation on Council Dwellings	8,312	(655)
Impairment	15,215	16,397
Depreciation on Vehicle, Plant and Equipment	17	26
Amortisation of Intangible Assets	1	14
Depreciation on Other Land and Building	17	17
<b>Total Depreciation and Impairment</b>	<b>36,664</b>	<b>28,030</b>

## Collection Fund

### Collection Fund Income and Expenditure Account 2018/19

	Council Tax £'000	Business Rates £'000	Total £'000
<b>Income:</b>			
Council Tax Receivable	96,934	0	96,934
Business Rates Receivable	0	65,838	65,838
<b>Total Income</b>	<b>96,934</b>	<b>65,838</b>	<b>162,772</b>
<b>Expenditure</b>			
<u>Precepts, Demands and Shares</u>			
Hertfordshire County Council	74,928	6,371	81,299
Hertfordshire Police & Crime Commissioner	9,306	0	9,306
Dacorum Borough Council	11,872	25,483	37,356
Central Government (Business Rates Only)	0	31,855	31,855
<u>Charges to Collection Fund</u>			
Transitional Payment Protection	0	(40)	(40)
Costs of collection	0	208	208
Write offs of uncollectable amounts	0	0	0
Increase/(decrease) allowances for impairment	301	1,243	1,544
Increase/(decrease) provision for appeals	0	888	888
Enterprise Zone & Renewable Energy Growth	0	257	257
<u>Contribution towards previous year surplus/deficit</u>			
Hertfordshire County Council	(118)	453	335
Hertfordshire Police & Crime Commissioner	(14)	0	(14)
Dacorum Borough Council	(19)	1,811	1,792
Central Government (Business Rates Only)	0	2,264	2,264
<b>Total Expenditure</b>	<b>96,256</b>	<b>70,791</b>	<b>167,048</b>
Movement on fund balance	(678)	4,954	4,276
Balance at beginning of year	(223)	(580)	(803)
<b>Balance at end of year</b>	<b>(901)</b>	<b>4,374</b>	<b>3,473</b>
<b>Shares of balance</b>			
Hertfordshire County Council	(700)	438	(262)
Hertfordshire Police & Crime Commissioner	(90)	0	(90)
Dacorum Borough Council	(111)	1,749	1,638
Central Government (Business Rates Only)	0	2,187	2,187
	<b>(901)</b>	<b>4,374</b>	<b>3,473</b>

In addition, the Council has £211k in the Collection Fund Adjustment Account on the Balance Sheet relating to designated area growth and renewable energy.

## Collection Fund

### Collection Fund Income and Expenditure Account 2017/18

	Council Tax £'000	Business Rates £'000	Total £'000
<b>Income:</b>			
Council Tax Receivable	90,721	0	90,721
Business Rates Receivable	0	61,830	61,830
<b>Total Income</b>	<b>90,721</b>	<b>61,830</b>	<b>152,551</b>
<b>Expenditure</b>			
<u>Precepts, Demands and Shares</u>			
Hertfordshire County Council	70,284	5,795	76,079
Hertfordshire Police & Crime Commissioner	8,575	0	8,575
Dacorum Borough Council	11,448	23,208	34,656
Central Government (Business Rates Only)	0	28,975	28,975
<u>Charges to Collection Fund</u>			
Transitional Payment Protection	0	292	292
Costs of collection	0	207	207
Write offs of uncollectable amounts	765	356	1,122
Increase/(decrease) allowances for impairment	(465)	(69)	(534)
Increase/(decrease) provision for appeals	0	1,353	1,353
<u>Contribution towards previous year surplus/deficit</u>			
Hertfordshire County Council	492	(52)	440
Hertfordshire Police & Crime Commissioner	61	0	61
Dacorum Borough Council	82	(208)	(126)
Central Government (Business Rates Only)	0	(261)	(261)
<b>Total Expenditure</b>	<b>91,244</b>	<b>59,597</b>	<b>150,841</b>
Movement on fund balance			
Movement on fund balance	522	(2,232)	(1,710)
Balance at beginning of year	(745)	1,652	907
<b>Balance at end of year</b>	<b>(223)</b>	<b>(580)</b>	<b>(803)</b>
<b>Shares of balance</b>			
Hertfordshire County Council	(174)	(58)	(232)
Hertfordshire Police & Crime Commissioner	(22)	0	(22)
Dacorum Borough Council	(27)	(232)	(259)
Central Government (Business Rates Only)	0	(290)	(290)
	<b>(223)</b>	<b>(580)</b>	<b>(803)</b>

# Collection Fund

## 1. General

This account represents the statutory requirement for billing authorities to maintain a separate Collection Fund, which shows the transactions of the billing authority in relation to Non-Domestic Rates, council tax and the distribution to the major preceptors and the General Fund.

## 2. Business Rates

Business Rates is a local tax paid by the occupiers of all non-domestic/business property.

Since the 1<sup>st</sup> April 2013, Business Rates Retention applies, whereby Dacorum Borough Council (40%) and Hertfordshire County Council (10%) retain 50% of the business rates collected for the area and pay the remaining 50% to central government. In addition, every Council receives a top-up from government if business rates collected are below the government's deemed level of funding required or pays a tariff if business rates collected are above this. If a local authority increases its business rates base, and thereby increases its business rate income, it is allowed to retain a proportion of this increased income, whilst paying up to a maximum of 50% across to central government. This is known as a levy payment. The Government ensures no local authority suffers a reduction in business rate income of more than 7.5% of its Business Rates funding baseline. If business rates income falls below this 7.5% level then the Government will make a safety net payment.

The Council collects and calculates Business rates. The Government specifies an amount (49.3p in 2018/19; 48.0p for small businesses) and, subject to the effects of transitional arrangements, local businesses pay NNDR calculated by multiplying their rateable value by that amount. NNDR income was £65.8m in 2018/19 (£61.8m in 2017/18). The rateable value for the Council's area was £162.8m at 31 March 2019 (2017/18: £159.9m).

## 3. Council Tax

The Council tax base (i.e. the number of chargeable dwellings in each valuation band, adjusted for dwellings where discounts apply, converted to an equivalent number of Band D dwellings) for 2018/19 was calculated as 56,743.64 dwellings as follows:

Band	Estimated equivalent no. of taxable properties after effect of discounts	Ratio to Band D	Band D Equivalent Dwellings
A*	1.0	5/9	0.6
A	1,010.8	6/9	673.8
B	6,565.8	7/9	5,106.7
C	17,368.1	8/9	15,438.3
D	14,158.3	9/9	14,158.3
E	8,238.0	11/9	10,068.7
F	5,234.5	13/9	7,560.9
G	4,639.0	15/9	7,731.7
H	715.0	18/9	1,430.0
<b>Totals</b>	<b>57,930.4</b>		<b>62,168.9</b>
Council Tax Support			(5,083)
Adjustment for collection rate and contributions in lieu (0.6%)			(343)
<b>Council Tax Base 2018/19</b>			<b>56,743.6</b>
<b>Council Tax Base 2017/18</b>			<b>56,415.4</b>

A\* = Disabled Band A

## Glossary

For the purposes of this Statement of Accounts, the following definitions have been adopted:

**Asset:** An item having value measurable in monetary terms. A non-current asset has use and value for more than one year whereas a current asset (e.g. inventory or short-term debtors) can readily be converted into cash.

**Budget:** is a financial statement that expresses an organisation's service delivery plans and capital programme plans.

**Capital Expenditure:** Expenditure to acquire or enhance non-current assets that will be used in providing services for more than one year.

**Capital Financing:** the raising of money to pay for capital expenditure. There are various methods including borrowing, revenue financing, capital receipts, capital grants, capital contributions and revenue reserves.

**Capital Programme:** the capital schemes the Council intends to carry out over a specified time period.

**Capital Receipt:** The proceeds from the disposal of land and other assets, as long as the amount is £10,000 or more. There are rules set down by government on what capital receipts can be used for usually capital expenditure and specific revenue purposes.

**CIPFA (Chartered Institute of Public Finance and Accountancy):** is the professional body for accountants in the public sector.

**Creditor:** Amounts owed by the Council for works done, goods received or services rendered before the end of the financial year but for which payments have not been made by the end of that financial year.

**Debtor:** Amounts due to the Council for works done, goods received or services rendered before the end of the financial year but for which payments have not been received by the end of that financial year.

**Depreciation:** the measure of the cost of the benefit of a non-current asset consumed during the period.

**Financial Year :** Period of time to which the Statement of Accounts relates. For Local Authorities this is the 1 April to 31 March.

**Government Grants:** Grants from central government to help with the cost of providing services and capital projects. Some have restrictions on how they may be used whilst others are general purpose.

**Gross Expenditure:** The total cost of providing the Council's services before taking into account income from fees and charges and government grants.

**Infrastructure Assets:** Non-current assets where there is no prospect of sale or alternative use, includes footpaths, bridges and drainages systems.

**Intangible Assets:** Non-current assets that do not have physical substance but are identifiable and are controlled by the authority though custom or legal rights e.g. computer software.

**International Accounting Standards (IAS) and International Financial Reporting Standards (IFRS):** set out the correct accounting treatment. The accounts have been prepared in accordance with IAS and IFRS, adapted for the public sector where appropriate.

**Inventory:** This includes goods or other assets purchased for resale; consumable stores; raw materials and components purchased for incorporation into products for sale; products and services in intermediate stages of completion; long-term contract balances and finished goods.

**Liability:** arises when the Council owes money to others.

**Materiality:** This is one of the main accounting concepts. It ensures that the statement of accounts includes all the transactions that, if omitted, would lead to a significant distortion of the financial position.

## Glossary

**National Non-Domestic Rate (NNDR):** A standard rate in the pound set by the Government payable on the assessed rateable value of properties used for business purposes. Also known as Non-Domestic or Business rates.

**Precept:** The levy made by precepting authorities on billing authorities, e.g. Dacorum Borough Council. The precepting authorities are Hertfordshire County Council, Hertfordshire Police & Crime Commissioner and Parish Councils within Dacorum.

**Rateable Value:** The annual assumed rental value of a property that is used for business purposes.

### Related Party

Two or more parties are related parties when at any time during the financial period:

- One party has direct or indirect control of the other party;
- The parties are subject to common control from the same source;
- One party has influence over the financial and operational policies of the other party to an extent that the other party might be inhibited from pursuing its own interests; and
- The parties, in entering a transaction, are subject to influence from the same source to such an extent that one of the parties to the transaction has subordinated its own interests.

**Related Party Transactions:** The transfer of assets, liabilities or services between the Council and its related parties irrespective of whether a charge is made.

**Residual Value:** this is the net realisable value of an asset at the end of its useful life.

**Revaluation Reserve:** An account containing any unrecognised gains or losses arising from the revaluation of non-current assets held by the Council.

**Revenue Expenditure:** day to day expenses associated with the provision of services.

**Revenue Expenditure funded from Capital under Statute (REFCUS):** represents expenditure that may be classified under legislation as capital, but does not result in the creation of a non-current asset on the balance sheet.

**SeRCOP (Service Reporting Code of Practice):** The system of local authority accounting and reporting which reflects, in particular, the duty to secure and demonstrate 'best value' in the provision of services.

**Usable Reserves:** Amounts held to cover future expenditure.

**Useful Life:** The period over which an organisation will derive benefits from using an asset.

Date: 18 July 2019  
Your Ref: Letter of Rep  
Our Ref: DBC 201819  
Contact: James Deane  
Email: [James.deane@dacorum.gov.uk](mailto:James.deane@dacorum.gov.uk)  
Direct line: 01442 228279

Sarah Ironmonger  
Grant Thornton UK LLP  
110 Bishopsgate  
London  
EC2N 4AG

Dear Sarah

**Dacorum Borough Council  
Financial Statements for the year ended 31 March 2019**

This representation letter is provided in connection with the audit of the financial statements of Dacorum Borough Council for the year ended 31 March 2019 for the purpose of expressing an opinion as to whether the Council financial statements are presented fairly, in all material respects in accordance with International Financial Reporting Standards and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19 and applicable law.

We confirm that to the best of our knowledge and belief having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

**Financial Statements**

1. We have fulfilled our responsibilities for the preparation of 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 2018/19 ("the Code") which give a true and fair view in accordance therewith.
2. We have complied with the requirements of all statutory directions affecting the Council and these matters have been appropriately reflected and disclosed in the financial statements.

3. The Council has complied with all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance. There has been no non-compliance with requirements of regulatory authorities that could have a material effect on the financial statements in the event of non-compliance.
4. We acknowledge our responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud.
5. Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable. We are satisfied that the material judgements used in the preparation of the financial statements are soundly based, in accordance with the Code and adequately disclosed in the financial statements. There are no other material judgements that need to be disclosed.
6. Except as disclosed in the financial statements:
  - a there are no unrecorded liabilities, actual or contingent
  - b none of the assets of the Council has been assigned, pledged or mortgaged
  - c there are no material prior year charges or credits, nor exceptional or non-recurring items requiring separate disclosure.
7. We confirm that we are satisfied that the actuarial assumptions underlying the valuation of pension scheme assets and liabilities for IAS19 Employee Benefits disclosures are consistent with our knowledge. We confirm that all settlements and curtailments have been identified and properly accounted for. We also confirm that all significant post-employment benefits have been identified and properly accounted for.
8. Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards and the Code.
9. All events subsequent to the date of the financial statements and for which International Financial Reporting Standards and the Code require adjustment or disclosure have been adjusted or disclosed.
10. We have considered the adjusted misstatements and misclassification and disclosure changes schedules included in our Audit Findings Report. The Council financial statements have been amended for these misstatements, misclassifications and disclosure changes and are free of material misstatements, including omissions. The financial statements are free of material misstatements, including omissions. The financial statements are free of material misstatements, including omissions.
11. Actual or possible litigation and claims have been accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards.
12. We have no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the financial statements.
13. We believe that the Council's financial statements should be prepared on a going concern basis on the grounds that current and future sources of funding or support will be more than adequate for the Council's needs. We believe that no further disclosures relating to the Council's ability to continue as a going concern need to be made in the financial statements.

## **Information Provided**

14. We have provided you with:
  - a access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;
  - b additional information that you have requested from us for the purpose of your audit; and
  - c unrestricted access to persons within the Council from whom you determined it necessary to obtain audit evidence.
15. We have communicated to you all deficiencies in internal control of which management is aware.
16. All transactions have been recorded in the accounting records and are reflected in the financial statements.
17. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
18. We have disclosed to you all our knowledge of fraud or suspected fraud affecting the Council involving:
  - a management;
  - b employees who have significant roles in internal control; or
  - c others where the fraud could have a material effect on the financial statements.
19. We have disclosed to you all our knowledge of any allegations of fraud, or suspected fraud, affecting the Council's financial statements communicated by employees, former employees, analysts, regulators or others.
20. We have disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing financial statements.
21. We have disclosed to you the identity of all the Council's related parties and all the related party relationships and transactions of which we are aware.
22. We have disclosed to you all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements.

## **Annual Governance Statement**

23. We are satisfied that the Annual Governance Statement (AGS) fairly reflects the Council's risk assurance and governance framework and we confirm that we are not aware of any significant risks that are not disclosed within the AGS.

## **Narrative Report**

24. The disclosures within the Narrative Report fairly reflect our understanding of the Council's financial and operating performance over the period covered by the financial statements.

**Approval**

25. The approval of this letter of representation was minuted by the Council's Audit Committee at its meeting on 18 July 2019.

Yours sincerely

James Deane  
Corporate Director (Finance & Operations)  
Date 18/07/2019

Councillor Herbert Chapman  
Chairman of Audit Committee  
Date 18/07/2019

Signed on behalf of the Council

# The Audit Findings for Dacorum Borough Council

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Page 1  
Year ended 31 March 2019  
18 July 2019



Agenda Item 7

# Contents



Your key Grant Thornton team members are:

Page 112

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Section	Page
1. Headlines	3
2. Financial statements	5
3. Value for money	14
4. Independence and ethics	17

## Appendices

- A. Follow up of prior year recommendation
- 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 findings and other matters 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 2019 for those charged with governance.

Financial Statements  Page 113	<p>Under International Standards of Audit (UK) (ISAs) and the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion, the Council's financial statements:</p> <ul style="list-style-type: none"><li>give a true and fair view of the financial position of the Council and Council's income and expenditure for the year; and</li><li>have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting and prepared in accordance with the Local Audit and Accountability Act 2014.</li></ul> <p>We are also required to report whether other information published together with the audited financial statements (including the 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.</p>	<p>Our on-site audit work was completed during June 2019. Our findings are summarised on the following pages. We have agreed one adjustment (see page 8) to the financial statements that has resulted in an amendment to your 'Total Comprehensive Income and Expenditure'. This is not material but above our triviality level and is in relation to the pensions liability as a result of recent court cases. The total effect on 'Total Comprehensive Income and Expenditure' is a £668k increase in expenditure.</p> <p>In terms of your closedown process and key findings from the audit:</p> <ul style="list-style-type: none"><li>you provided us with a complete set of financial statements together with supporting documents and good working papers ahead of our on site visits</li><li>you prepared high quality draft financial statements and the volume and quality of the supporting working papers was good</li><li>your finance team was responsive, helpful and fully engaged with the audit process, and provided responses in line with agreed turnaround times which enabled us to carry out the audit in a two week visit.</li></ul> <p>A summary of your 2018/19 financial performance is as follows:</p> <ul style="list-style-type: none"><li>your draft financial statements for the year ended 31 March 2019 recorded 'Total Comprehensive Income and Expenditure' of £140,130k. During the course of the audit you took the decision to liaise with the actuary to update your disclosures in light of the obligations in relation to the McCloud and Guaranteed Minimum Pension (GMP). This has resulted in a total change to 'Total Comprehensive Income and Expenditure' of £668k therefore recording a final position of £139,462k</li><li>Outturn performance demonstrated that you achieved your budget for the general fund and achieved an underspend against budget of £235k on your Housing Revenue Account (HRA) before accounting for the amendment in relation to the pension fund disclosures</li><li>we identified some other minor disclosure amendments during the course of the audit which do not have a material impact on your reported Total Comprehensive Income and Expenditure balance.</li></ul> <p>Subject to the satisfactory resolution and completion of outstanding matters, we anticipate issuing an unqualified audit opinion following the Audit Committee's anticipated approval of the financial statements on 18 July 2019. Our proposed opinion is contained in Appendix D.</p> <p>The outstanding matters include the following items where we are still awaiting information as at the date of this report:</p> <ul style="list-style-type: none"><li>review of the final set of approved financial statements and confirmation that disclosure amendments have been appropriately made</li><li>receipt from auditors of Hertfordshire County Council Pension Fund auditors assurances over controls surrounding the validity and accuracy of membership data; contributions data and benefits data</li></ul>
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# Headlines continued

## Financial Statements

- ....continued from previous page

Additionally, following the decision that the Government cannot appeal the decision made in respect of the McCloud ruling on age discrimination in respect of pensions, officers have liaised with Hertfordshire County Council as the pension fund administrator and Hymans Robertson as the actuary to obtain an updated valuation of the pension fund liability. The impact of the ruling, alongside the estimated effect of GMP, on the pension fund liability is not material, increasing the net liability in the balance sheet by £668k.

Our work is subject to the following closing procedures which necessarily take place at the end of the audit:

- final senior management and quality reviews and clearance of any queries that may arise from this final process
- agreement of your management representation letter
- review of post balance-sheet events.

Should any further matters arise during the completion of our work that we need to report to you, we will do so before we issue our opinion.

## Value for Money arrangements

Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report if, in our opinion, the Council has 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 resource.

We therefore anticipate issuing an unqualified value for money conclusion, as detailed in Appendix D. Our findings are summarised on pages 14 to 16.

## Statutory duties

The Local Audit and Accountability Act 2014 ('the Act') also requires us to:

- report to you if we have applied any of the additional powers and duties ascribed to us under the Act; and
- To certify the closure of the audit.

We have not exercised any of our additional statutory powers or duties.

## 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 Report 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 and the Audit and Governance Committee.

As auditor we are responsible for performing the audit, in accordance with International Standards on Auditing (UK) and the Code, 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, and in particular included:

- An evaluation of your internal controls environment, including your IT systems and controls; and

51

## 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 remain the same as reported in our Audit Plan.

- Substantive testing on significant transactions and material account balances, including the procedures outlined in this report in relation to the key audit risks.

We have not had to alter or change our Audit Plan, as communicated to you on 6 February 2019.

## Conclusion

We have substantially completed our audit of your financial statements and subject to outstanding queries being resolved, we anticipate issuing an unqualified audit opinion following the Audit Committee meeting on 18 July 2019, as detailed in Appendix D.

Council Amount (£)
Materiality for the financial statements
2,856,000
Performance materiality
2,142,000
Trivial matters
142,000

# Significant findings – audit risks

Risks identified in our Audit Plan	Commentary
<b>1</b> <b>Improper revenue recognition</b> <i>risk as reported in Audit Plan</i>	<p><b>Auditor commentary</b></p> <p>Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue.</p> <p>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> <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, you, mean that all forms of fraud are seen as unacceptable</li> </ul> <p>Therefore we do not consider this to be a significant risk.</p>
<b>2</b> <b>Management override of controls</b> <i>risk as reported in Audit Plan</i>	<p><b>Auditor commentary</b></p> <p>We have:</p> <ul style="list-style-type: none"> <li>• documented the design effectiveness of management controls over journals</li> <li>• analysed the journals listing and determine the criteria for selecting high risk unusual journals</li> <li>• tested unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration</li> <li>• gained an understanding of the accounting estimates and critical judgements applied made by management and consider their reasonableness with regard to corroborative evidence</li> <li>• evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions.</li> </ul> <p>Our audit work has not identified any issues in respect of management override of controls.</p>

# Significant findings – audit risks

Risks identified in our Audit Plan	Commentary
<p><b>③ Valuation of land and buildings</b></p> <p><i>The risk the valuation of land and buildings in the accounts is materially misstated - risk as reported in Audit Plan</i></p> <p><i>You revalue your land and buildings on a rolling five-yearly basis. This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved (£1.2bn covering Council Dwellings, Land and Buildings as at 31 March 2018) and the sensitivity of this estimate to changes in key assumptions.</i></p> <p><i>Additionally, you need to ensure that the carrying value in your financial statements is not materially different from the current value or the fair value (for surplus assets) at the financial statements date, for assets which have not been valued in any given year.</i></p> <p><i>We therefore identified valuation of council dwellings, land and buildings, particularly revaluations and impairments, as a significant risk of material misstatement.</i></p>	<p><b>Auditor commentary</b></p> <p>We:</p> <ul style="list-style-type: none"> <li>evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work</li> <li>evaluated the competence, capabilities and objectivity of the valuation expert</li> <li>wrote to the valuer to confirm the basis on which the valuation was carried out</li> <li>challenged the information and assumptions used by the valuer to assess completeness and consistency with our understanding</li> <li>tested a sample of revaluations made during the year to ensure that they have been input correctly into your asset register</li> <li>evaluated the assumptions made by management for those assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value at year end.</li> </ul> <p>Our audit work is complete and has not identified any material issues in relation to this risk.</p>

# Significant findings – audit risks

Risks identified in our Audit Plan	Commentary
<p><b>4 Valuation of pension fund net liability</b></p> <p><i>The risk the valuation of the pension fund net liability in the accounts is materially misstated - risk as reported in Audit Plan</i></p> <p><i>Your pension fund net liability, as reflected in the balance sheet as the net defined benefit liability, represents a significant estimate in the financial statements.</i></p> <p><i>The pension fund net liability is considered a significant estimate due to the size of the numbers involved (£80 million in the balance sheet as at 31 March 2019) and the sensitivity of the estimate to changes in key assumptions.</i></p> <p><i>We therefore identified valuation of your pension fund net liability as a significant risk of material misstatement.</i></p>	<p><b>Auditor commentary</b></p> <p>We:</p> <ul style="list-style-type: none"> <li>• gained an understanding of the processes and controls put in place by management to ensure that the pension fund net liability is not materially misstated and evaluate the design of the associated controls;</li> <li>• evaluated the instructions issued by management to your management expert (an actuary) for this estimate and the scope of the actuary's work;</li> <li>• assessed the competence, capabilities and objectivity of the actuary who carried out the pension fund valuation;</li> <li>• assessed the accuracy and completeness of the information provided to the actuary to estimate the liability;</li> <li>• tested the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial report from the actuary;</li> <li>• undertook procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performing any additional procedures suggested within the report;</li> <li>• obtained assurances from auditors of Hertfordshire County Council Pension Fund as to the controls surrounding the validity and accuracy of membership data; contributions data and benefits data sent to the actuary by the pension fund and the fund assets valuation in the pension fund financial statements.</li> <li>• Liaised with the client in relation to key legal cases affecting the pension fund (McCloud) and undertaken the above procedures on updated information provided by the actuary</li> </ul> <p><b>McCloud and GMP</b></p> <p>We have highlighted on page 3 amendments relating to recent court judgement on pensions. In summary, the Court of Appeal has ruled that there was age discrimination in the judges and firefighters pension schemes where transitional protections were given to scheme members. On 27 June 2019 the Government was refused permission to appeal. The legal ruling around age discrimination (McCloud - Court of Appeal) has implications for all pension schemes where they have implemented transitional arrangements on changing benefits. As this is a sector wide issue, we have discussed this with the National Audit Office and other audit firms to understand the potential impact on this year's financial statements. You sought an additional actuarial assessment of the impact on your pension liability of this judgement and the potential effect of GMP.</p> <p>Our audit work is substantially complete. Our work to date has not identified any material issues in relation to this risk following your decision to amend the pensions disclosures for the updated actuarial information requested from Hymans Robertson. The total effect on the net pension liability of this is an increase of £668k.</p>

# Significant findings – key judgements and estimates

Accounting area	Summary of management's policy	Audit Comments	Assessment
<b>Provisions for NNDR appeals £4.54m – Note 25</b>	You are responsible for repaying a proportion of successful rateable value appeals. Management uses the number of appeals outstanding at 31 March 2019 and the average reduction achieved from settled appeals, to calculate the level of provision required. The provision has increased by £355k from the prior year.	<p>We reviewed:</p> <ul style="list-style-type: none"> <li>appropriateness of the underlying information used to determine the estimate</li> <li>impact of any changes to valuation method</li> <li>consistency of estimate against peers/industry practice</li> <li>reasonableness of decrease in estimate</li> <li>adequacy of disclosure of estimate in the financial statements.</li> </ul> <p>Our audit work is complete. Our work has not identified any issue in the key judgements and estimates applied.</p>	 <b>Green</b>
<b>Level 1/2 financial instruments</b> <b>Page 119</b>	<p>You have investments held with various financial institutions and other local authorities including short fixed term deposits and money market funds. Short term investments are valued on the balance sheet as at 31 March 2019 at £79,680k cash equivalents, which includes money market funds, are held at £12,608k respectively. In order to gain assurance over existence and accuracy of these balances, we obtain direct confirmations from the institutions.</p> <p>You also have short and long term borrowing all of which relates to loans with the Public Works Loans Board (PWLB). The fair value of these is determined via inputs which are observable but not quoted in an active market. The fair value is arrived at by calculating the present value of the cash flows that will take place over the remaining term of the instruments, using the redemption and new borrowing discount rates. In order to gain assurance over existence and accuracy of these balances, we obtain confirmation of the fair value from Link Asset Services as your Treasury Advisor.</p>	<p>We have received all confirmations except for the short-term deposits held with Lloyd's Bank and Santander. We have undertaken alternative audit procedures to gain assurance over existence and accuracy of the balance.</p> <p>Our work has not identified any issue in respect of investments held.</p> <p>We have obtained the report produced by Link Asset Services as at 31 March 2019 which confirms the fair value in the accounts as being disclosed correctly. We are satisfied that the fair value estimation method is in line with our expectations and has not changed from the prior year.</p> <p>Our work has not identified any issue in respect of borrowing.</p>	 <b>Green</b>

**Assessment**

-  We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
-  We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
-  We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
-  We consider management's process is appropriate and key assumptions are neither optimistic or cautious

# Significant findings – key judgements and estimates

	<b>Summary of management's policy</b>	<b>Audit Comments</b>	<b>Assessment</b>
<b>Council Dwellings, Land and Buildings –£1.153bn</b>	<p>Council Dwellings, Land and buildings (£1.153bn) are not specialised in nature and are required to be valued at existing use value (EUV) at year end. You engaged Wilks, Head and Eve to complete the valuation of properties as at 31 March 2019. Properties are revalued when management considers there to be a material change in the value but as a minimum every five years.</p> <p>The valuation of properties valued by the valuer has resulted in a net increase of £150m.</p> <p>Management has considered the year end value of non-valued properties and the potential valuation change in the assets revalued at 01 April 2019, applying industry average indices and rental income to determine whether there has been a material change in the total value of these properties. Management's assessment of assets not revalued has identified no material change to the property's value.</p> <p>The total year end impairment loss related to Council Dwelling only and was £15.215m, a net decrease of £1.182m from 2017/18 (£16.397m).</p>	<p>We considered and completed the following in the course of our testing:</p> <ul style="list-style-type: none"> <li>• assessment of management's expert,</li> <li>• completeness and accuracy of the underlying information used to determine the estimate</li> <li>• impact of any changes to valuation method</li> <li>• consistency of estimate against Gerard Eve report</li> <li>• reasonableness of decrease in estimate</li> <li>• adequacy of disclosure of estimate in the financial statements.</li> </ul> <p>Our work in this area is complete and we have identified no issues.</p>	 <b>Green</b>

**Assessment**

- We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- We consider management's process is appropriate and key assumptions are neither optimistic or cautious

# Significant findings – key judgements and estimates

Summary of management's policy	Audit Comments	Assessment																								
<b>Net pension liability – £54.5m</b> <p>Your [total] net pension liability at 31 March 2019 is £79.6m (PY £69m). You use Hymans Robertson to provide actuarial valuations of your assets and liabilities derived from this scheme. A full actuarial valuation is required every three years. The latest full actuarial valuation was completed in 2016. A roll forward approach is used in intervening periods, which utilises key assumptions such as life expectancy, discount rates, salary growth and investment returns. Given the significant value of the net pension fund liability, small changes in assumptions can result in significant valuation movements. There has been a £6.8m net actuarial loss during 2018/19 (Note 39).</p>	<p>We considered and completed the following in the course of our testing:</p> <ul style="list-style-type: none"> <li>assessment of management's expert</li> <li>assessment of actuary's roll forward approach taken, detail work undertaken to confirm reasonableness of approach</li> </ul> <table border="1" data-bbox="661 457 1805 851"> <thead> <tr> <th data-bbox="671 465 1233 522">Assumption</th><th data-bbox="1243 465 1368 522">Actuary Value</th><th data-bbox="1379 465 1503 522">PwC range</th><th data-bbox="1587 465 1795 522">Assessment</th></tr> </thead> <tbody> <tr> <td data-bbox="671 537 1233 594">Discount rate</td><td data-bbox="1275 537 1358 594">2.4%</td><td data-bbox="1379 537 1503 594">2.4% - 2.5%</td><td data-bbox="1795 537 1805 594"></td></tr> <tr> <td data-bbox="671 601 1233 659">Pension increase rate</td><td data-bbox="1275 601 1358 659">2.5%</td><td data-bbox="1379 601 1503 659">2.4% - 2.5%</td><td data-bbox="1795 601 1805 659"></td></tr> <tr> <td data-bbox="671 666 1233 724">Salary growth</td><td data-bbox="1275 666 1358 724">2.6%</td><td data-bbox="1379 666 1503 724">Adjusted RPI</td><td data-bbox="1795 666 1805 724"></td></tr> <tr> <td data-bbox="671 731 1233 789">Longevity at 65 for current pensioners: men</td><td data-bbox="1275 731 1358 789">22.5 yrs</td><td data-bbox="1379 731 1503 789">21.5 – 22.8 yrs</td><td data-bbox="1795 731 1805 789"></td></tr> <tr> <td data-bbox="671 796 1233 853">Longevity at 65 for current pensioners: women</td><td data-bbox="1275 796 1358 853">24.9 yrs</td><td data-bbox="1379 796 1503 853">24.1 – 25.1 yrs</td><td data-bbox="1795 796 1805 853"></td></tr> </tbody> </table> <ul style="list-style-type: none"> <li>completeness and accuracy of the underlying information used to determine the estimate</li> <li>reasonableness of your share of LGPS pension assets</li> <li>reasonableness of decrease in estimate</li> <li>assessment of the likely impact of the Guaranteed Minimum Pension benefits between males and females</li> <li>adequacy of disclosure of estimate in the financial statements.</li> </ul> <p>As a result of the ongoing court cases you took the decision to consult with your actuary, Hymans Robertson, to assess the impact on the pension liability of these cases. This has resulted in a non-material amendment to the pensions disclosures and we completed the above testing following receipt of the updated actuarial report. Following the initial amendment of £668k increase on the pensions liability our audit work has not identified any further significant issues in relation to the pensions disclosure. The actuarial assumptions made by Hymans Robertson and accepted by you were reviewed by the audit team. Our review concluded that the assumptions made by Hymans Robertson were reasonable.</p> <p>In respect of the assumptions, we continue to recommend that management keeps these under review for future periods in order to ensure that they remain appropriate to your circumstances.</p>	Assumption	Actuary Value	PwC range	Assessment	Discount rate	2.4%	2.4% - 2.5%		Pension increase rate	2.5%	2.4% - 2.5%		Salary growth	2.6%	Adjusted RPI		Longevity at 65 for current pensioners: men	22.5 yrs	21.5 – 22.8 yrs		Longevity at 65 for current pensioners: women	24.9 yrs	24.1 – 25.1 yrs		
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<p><b>Page 121</b></p>																										

# Significant findings - 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

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### Management's assessment process

The consideration and assessment of the relevance of the going concern basis of accounting is incorporated the ongoing budget planning and monitoring. This assessment was:

- Consistent with the 2019/20 budget, and
- Judgements and assumptions taken.

### Auditor commentary

- Management's formal assessment of the use of the going concern basis of accounting covered the period 01 April 2019 to 31 March 2020. We consider Management's process in reaching its judgements to be reasonable. There are transparent disclosures of the key risks that are likely to impact the 2019/20 financial plans.

### Work performed

We:

- held regular discussions with officers about the financial standing of the Council;
- reviewed management's assessment of going concern assumptions and supporting information, including the Budget 2019/20, Medium Term Financial Strategy 2018/19 – 2022/23 and Reserves 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 the Council will continue for the foreseeable future. Our work has confirmed that you have set a balanced budget for the next financial year, hold a level of reserves that would enable you to continue to provide services beyond 2020 and hold a good level of liquid assets compared to short term liabilities. For this reason, you continue to adopt the going concern basis in preparing the financial statements .

## Concluding comments

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- We have reviewed management's assessment and are satisfied that the going concern basis is appropriate for the 2018/19 financial statements.

# 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.

	<b>Issue</b>	<b>Commentary</b>
1	<b>Matters in relation to fraud</b>	<ul style="list-style-type: none"> <li>• 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.</li> </ul>
2	<b>Matters in relation to related parties</b>	<ul style="list-style-type: none"> <li>• From the work we carried out, we have not identified any related party transactions which have not been disclosed.</li> </ul>
3	<b>Matters in relation to laws and regulations</b>	<ul style="list-style-type: none"> <li>• 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.</li> </ul>
4	<b>Written representations</b>	<ul style="list-style-type: none"> <li>• A standard letter of representation has been requested from you.</li> </ul>
5	<b>Confirmation requests from third parties</b>	<ul style="list-style-type: none"> <li>• We obtained direct confirmations from the PWLB loans and requested from management permission to send confirmation requests to the various counterparties for bank and investment balances. This permission was granted and the requests sent.</li> <li>• We are awaiting confirmations from Lloyds and Santander. We have performed alternative audit procedures over this balance so there is no impact on the audit opinion if we do not receive the direct confirmation.</li> </ul>
6	<b>Disclosures</b>	<ul style="list-style-type: none"> <li>• Our review found no material omissions in the financial statements.</li> </ul>
7	<b>Audit evidence and explanations/significant difficulties</b>	<ul style="list-style-type: none"> <li>• All information and explanations requested from management was provided.</li> </ul>

# Other responsibilities under the Code

	Issue	Commentary
1	<b>Other information</b>	<p>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 course of the audit or otherwise appears to be materially misstated.</p> <p>No inconsistencies have been identified. We plan to issue an unqualified opinion in this respect – refer to appendix D.</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> <p>Management made a small amendment to the AGS following review by audit.</p>
3	<b>Specified procedures for Whole of Government Accounts</b>	<p>We are required to carry out specified procedures (on behalf of the NAO) on the Whole of Government Accounts (WGA) consolidation pack under WGA group audit instructions.</p> <ul style="list-style-type: none"> <li>• Note that work is not required as the Council does not exceed the threshold.</li> </ul>
4	<b>Certification of the closure of the audit</b>	<p>We intend to certify the closure of the 2018/19 audit of Dacorum Borough Council in the audit opinion, as detailed in Appendix D,</p>

Page 124

# Value for Money

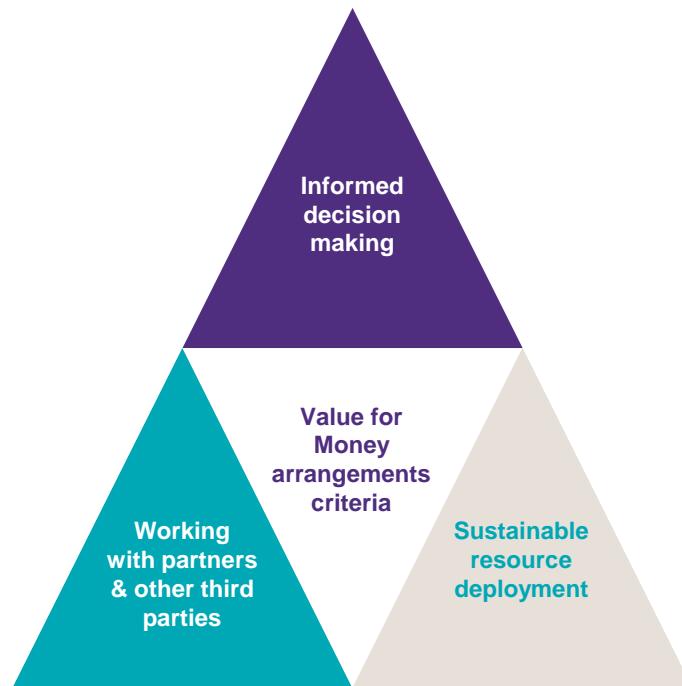
## Background to our VFM approach

We are required to satisfy ourselves that you have made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the Value for Money (VFM) conclusion.

We are required to carry out sufficient work to satisfy ourselves that proper arrangements are in place at the Council. In carrying out this work, we are required to follow the NAO's Auditor Guidance Note 3 (AGN 03) issued in November 2017. AGN 03 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 January 2019 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 Plan dated 6 February 2019.

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 risks we identified from our initial and ongoing risk assessment. Where our consideration of the significant risks determined that arrangements were not operating effectively, we have used the examples of proper arrangements from AGN 03 to explain the gaps in proper arrangements that we have reported in our VFM conclusion.

# Value for Money

## 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 risks that we identified in your arrangements. In arriving at our conclusion, our main consideration was:

- Evaluating your Medium Term Financial Strategy (MTFS) and its assumptions for reasonableness and relevance;
- Evaluating your 2019/20 budget setting process and determining the reasonableness of your plans to resolve budget gaps;
- Assessing the 2018/29 outturn position against the 2018/19 budget to determine the potential effect on medium term financial sustainability;
- Understanding your reserves policy and evaluating the actual use of reserves against planned usage.

We have set out more detail on the risk we identified, the results of the work we performed, and the conclusions we drew from this work on page 16.

## Overall conclusion

Based on the work we performed to address the significant risks, we are satisfied that you have proper arrangements for securing economy, efficiency and effectiveness 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 risk we identified through our initial risk assessment.

1

Significant risk	Findings
<b>Sustainable Resource Deployment – Financial Sustainability in the Medium Term</b>  <span style="float: right;">Page 127</span> <p>The overall Local Government sector has been facing a challenging financial outlook in recent years, which is to continue for 18/19 and for the medium term. Further pressure is expected across the sector as a result of continued increasing demand for services and falling central government funding, factors which are also affecting Dacorum Borough Council</p> <p>We will update our understanding of your financial arrangements. Evaluating the robustness of their medium term financial plan and budgeting to ensure that resources are deployed to achieve planned and sustainable outcomes for local tax payers</p>	<ul style="list-style-type: none"> <li>You have demonstrated that you have a well supported budget setting process. This process incorporates an appropriate level of challenge and scrutiny from member committees to ensure budgets are achievable operationally, input from a range of stakeholders to ensure the budget remains relevant, a good level of support from finance to ensure budgets are achievable from a resourcing perspective and that there is ongoing budget monitoring and updates for new information throughout the year to ensure budgets remain appropriate;</li> <li>You are able to successfully plan for the medium term by producing a Medium Term Financial Strategy (MTFS) for the next four years spanning 2019/20 to 2022/23. Your financial plans are based on realistic assumptions you have also had regard for appropriate risks and opportunities such as the uncertainties surrounding the Fair Funding Review, the impact of Brexit and potential 'Negative' RSG in future years;</li> <li>You have a robust process for identifying and monitoring savings which has resulted in you fully identifying your savings requirement of £1.45 million for 2019/20 and are currently on track to achieve the majority of these;</li> <li>You are able to identify and take advantage of key income generation opportunities in order to work towards medium term self sufficiency. These currently include the creation of a development company, undertaking the development of a crematorium and a multi storey car park.</li> <li>In terms of outturn position you have demonstrated control over spending in 2018/19 and recorded performance of £3.5 million on your revenue account for 2018/19 ahead of budget. This has been added to earmarked reserves at year-end in addition to the planned contribution of £300k. The earmarked reserve enables you to manage any additional budget pressures in subsequent years and therefore maintains sound financial sustainability. You have performed well to achieve performance ahead of budget, particularly in the current challenging financial environment with continued funding cuts from central government</li> <li>You have maintained a strong level of reserves increasing the level of usable reserves by £11.2 million in the year to £67.6 million overall. This demonstrates robust financial planning by earmarking 47% of these reserves for specific strategic purposes which will allow you to meet your strategic objectives over the medium term. Furthermore an additional £4.5 million of contributions to reserves is planned for 2019/20 to enable you to continue to invest in specific projects.</li> <li>You have set yourself a minimum general fund balance of £2.5 million which you wish to hold to ensure a minimum level of funds is available for non-specific expenditure should it be required. You have demonstrated that you have maintained this minimum threshold for 2018/19 by holding a general fund reserve of £2.502 million and have plans to maintain the minimum level in the medium term</li> <li>You have a good liquidity position including cash, cash equivalents and short term investments of £93m which you can draw upon in the future whilst still maintaining the minimum levels you require to continue providing services.</li> </ul>

### Conclusion

- Accordingly, in our view, appropriate arrangements are in place to support your medium term financial position.

# 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 the Council.

Page 20	<b>Fees £</b>	<b>Threats identified</b>	<b>Safeguards</b>
<b>Audit related</b>			
Certification of Housing Benefits grant	10,500	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 £10,500 in comparison to the total fee for the audit of £56,480 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.
Certification of Pooling Housing Capital Receipts Return	2,500	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 £2,500 in comparison to the total fee for the audit of £56,480 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.
<b>Non-audit related</b>			
Nil			

These services are consistent with the Council's policy on the allotment of non-audit work to your auditors. None of the services provided are subject to contingent fees.

# Follow up of prior year recommendation

We identified the following issue in the audit of your 2017/18 financial statements, which resulted in one recommendation being reported in our 2017/18 Audit Findings report. We are pleased to report that management have implemented our recommendation

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
1 ✓	<p>Journals generated in Agresso 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</p>	<p>Management have implemented an excel-based deleted journal log during 2018/19 which has been maintained throughout the year.</p> <p>The ability to delete journals is restricted three key members of the finance team.</p> <p>You are moving to an upgraded version of Agresso during 2019/20. All deleted journals within the upgraded system will be logged within the system in a database that records journal number, date and time of deletion and who made the deletion.</p> <p>This is deemed a low risk issue as the journal transaction does not impact the ledger until it is approved. Once it has been approved it cannot be deleted.</p>

**Assessment**

- ✓ Action completed
- X Not yet addressed

# 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 adjusted misstatements

All adjusted misstatements are set out in detail below along with the impact on the key statements and the reported net expenditure for the year ending 31 March 2019.

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000
1 McCloud and GMP adjustment  Dr CIES Cr Net Pension Liability	668	(668)	668
<b>Overall impact</b>	<b>£668</b>	<b>£668</b>	<b>£668</b>

## 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	Detail	Auditor recommendations	Adjusted?
Financial Instruments Note 37	Cash and cash equivalents of £13,622k for 2018/19 and £23,720k incorrectly omitted from Note 37	<ul style="list-style-type: none"> <li>As this value is above trivial we recommend that this be included.</li> </ul> <p><b>Management response</b></p> <ul style="list-style-type: none"> <li>You have agreed to amend Note 37</li> </ul>	✓
Financial Instruments Note 37	Incorrect figure for Short Term Debtors which are classified as financial instruments included in Note 37. Disclosure to be amended from £11,444k to £10,769k	<ul style="list-style-type: none"> <li>As this difference is above trivial we recommend that this be amended.</li> </ul> <p><b>Management response</b></p> <ul style="list-style-type: none"> <li>You have agreed to amend Note 37</li> </ul>	✓
Fair Value Disclosures	The level of disclosure in relation to fair value for Level 2 instruments did not fully meet the requirements of the Code.	<ul style="list-style-type: none"> <li>We recommend that additional information be included to describe the valuation techniques used for Investment Properties or Surplus.</li> </ul> <p><b>Management response</b></p> <ul style="list-style-type: none"> <li>You have agreed to include additional information in Notes 28 and 30</li> </ul>	✓

# 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	56,480	56,480
<b>Total audit fees (excluding VAT)</b>	<b>£56,480</b>	<b>£56,480</b>

Page 13

## Non Audit Fees

Fees for other services	Fees £'000
<b>Audit related services:</b>	
• Certification of Housing Benefit Subsidy claim	10,500
<b>Non-audit services</b>	<b>nil</b>
	<b>£10,500</b>

The fees reconcile to the financial statements. Note 17

# 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 2019 which comprise the Comprehensive Income and Expenditure Statement, the Movement in Reserves Statement, the Balance Sheet, the Cash Flow 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 2018/19.

In our opinion, the financial statements:

- give a true and fair view of the financial position of the Authority as at 31 March 2019 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 2018/19; and
- have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

##### Basis for opinion

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

##### 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 of Finance & Operations' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Corporate Director of Finance & 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 of Finance & Operations is responsible for the other information. The other information comprises the information included in the Annual Financial Report, being the Narrative Report and the Annual Governance Statement, 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 audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements 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 Annual Financial Report, Narrative Report and the Annual Governance Statement for the financial year for which the financial statements are prepared is consistent with the financial statements.

# Audit opinion

## 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 issue a report 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 make 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 make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or;
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014, in the course of, or at the conclusion of the audit.

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

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

As explained more fully in the Statement of Responsibilities set out on page 12, 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 of Finance & Operations. The Corporate Director of Finance & Operations is responsible for the preparation of the Annual Financial Report, which includes the financial statements, in accordance with practices as set out in the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2018/19, for being satisfied that they give a true and fair view, and for such internal control as the Director of Finance, Policy and Development 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 of Finance & 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 there is an intention by government that the services provided by the Authority will no longer be provided.

The Audit Committee is Those Charged with Governance. Those charged with governance are responsible for overseeing the Authority's financial reporting process.

## 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 2019.

### 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 2019.

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 Dacorum Borough Council in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice.

# Audit opinion

## Use of our report

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.

[Signature]

**Sarah Ironmonger**

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

London

[Date]

Page 134

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Internal Audit Annual Report  
**For the year ended 31 March 2019**  
Presented to the Audit Committee 18 July 2019

## Contents

- 01 Introduction
- 02 Internal audit work undertaken in 2018/19
- 03 Annual Opinion
- 04 Benchmarking Performance
- 05 Performance of Internal Audit

## Appendices

- A1 Summary of Internal Audit Work undertaken in 2018/19
- A2 Summary of Priority 1 Recommendations
- A3 Statement of Responsibility

In the event of any questions arising from this report please contact Sarah Knowles , Senior Manager, [sarah.knowles@mazars.co.uk](mailto:sarah.knowles@mazars.co.uk) or Mark Towler, Director, [mark.towler@mazars.co.uk](mailto:mark.towler@mazars.co.uk).

### Status of our reports

This report (“Report”) was prepared by Mazars LLP at the request of Dacorum Borough Council and terms for the preparation and scope of the Report have been agreed with them. The matters raised in this Report are only those which came to our attention during our internal audit work. Whilst every care has been taken to ensure that the information provided in this Report is as accurate as possible, Internal Audit have only been able to base findings on the information and documentation provided and consequently no complete guarantee can be given that this Report is necessarily a comprehensive statement of all the weaknesses that exist, or of all the improvements that may be required.

The Report was prepared solely for the use and benefit of Dacorum Borough Council and to the fullest extent permitted by law Mazars LLP accepts no responsibility and disclaims all liability to any third party who purports to use or rely for any reason whatsoever on the Report, its contents, conclusions, any extract, reinterpretation, amendment and/or modification. Accordingly, any reliance placed on the Report, its contents, conclusions, any extract, reinterpretation, amendment and/or modification by any third party is entirely at their own risk. Please refer to the Statement of Responsibility in Appendix A3 of this report for further information about responsibilities, limitations and confidentiality.

## 01 Introduction

### Background

Following a competitive tender Mazars LLP were appointed to provide an internal audit service to the Council from April 2015. This Annual Report covers the work we have undertaken for the year ended 31 March 2019, and incorporates our audit opinion.

### Scope and purpose of internal audit

The Accounts and Audit Regulations 2015 came into effect on 1 April 2015 and require councils to undertake an effective Internal Audit to evaluate the effectiveness of their risk management, control and governance processes, taking into account Public Sector Internal Auditing Standards or guidance.

This opinion forms part of the framework of assurances that is received by the Council and should be used to help inform the Annual Governance Statement. Internal Audit also has an independent and objective consultancy role to help line managers improve risk management, governance and control.

Our professional responsibilities as internal auditors for the year ended 31 March 2019 are set out within Public Sector Internal Audit Standards (PSIAS) produced by the Internal Audit Standards Advisory Board.

This report covers the internal audit activity for the 1<sup>st</sup> April 2018 to 31<sup>st</sup> March 2019 period, and summarises matters which came to our attention during the year. Such matters have been included within our detailed reports to the Audit Committee during the course of the year.

### Acknowledgments

We are grateful to the Corporate Directors, Assistant Director (Finance & Resources), and other staff throughout the Council for the assistance provided to us during the year.

## 02 Internal Audit Work undertaken in 2018/19

Our Internal Audit Plan for 2018/19 was considered and approved by the Audit Committee at its meeting on 28 March 2018. The Plan was for a total of 250 days including 10 days Follow Up, 20 days Management and planning and 20 days contingency.

During the course of the year a number of changes were made to the planned programme of work to reflect changes in circumstances within the Council.

The audit findings in respect of each review, together with our recommendations for action and the management response were set out in our detailed reports. A summary of the reports we have issued is included at *Appendix A1*. The appendix also describes the levels of assurance we have used in assessing the control environment and effectiveness of controls and the classification of our recommendations.

A summary of the Priority 1 recommendations made during the course of the year is included at *Appendix A2*.

## 03 Annual Opinion

### Scope of the Internal Audit Opinion

In giving our annual audit opinion, it should be noted that assurance can never be absolute. The most that the internal audit service can provide to the Council is a reasonable assurance that there are no major weaknesses in risk management, governance and control processes.

The matters raised in this report are only those which came to our attention during our internal audit work and are not necessarily a comprehensive statement of all the weaknesses that exist, or of all the improvements that may be required.

In arriving at our opinion, we have taken the following matters into account:

- The results of all audits undertaken during the year ended 31 March 2019;
- Whether or not any Priority 1 or Priority 2 recommendations have not been accepted by management and the consequent risks;
- The effects of any material changes in the organisation's objectives or activities;
- Matters arising from previous reports to the Audit Committee;
- Whether or not any limitations have been placed on the scope of internal audit;
- Whether there have been any resource constraints imposed upon us which may have impinged on our ability to meet the full internal audit needs of the organisation; and
- What proportion of the organisation's internal audit needs have been covered to date.

### Internal Audit Opinion

On the basis of our audit work, our opinion on the Council's framework of governance, risk management and internal control is Substantial in its overall adequacy and effectiveness. Certain weaknesses and exceptions were highlighted by our audit work, 2 of which were fundamental in nature. These matters have been discussed with management, to whom we have made a number of recommendations. All of these have been, or are in the process of being addressed, as detailed in our individual reports.

In reaching this opinion the following factors were taken into particular consideration:

#### Corporate Governance and Risk Management

Following the development of the Assurance Framework in 2015/16, we selected a sample of "key questions" to confirm the evidence to support the statements is in place. Our opinion in this area from an operational perspective has been impacted by the results of a number of audits within the Plan, most of which were aligned to the risks and mitigating controls recorded on the Council's Strategic and Operational Risk Registers. For example, the review of Commercial Asset Management was completed as it was a mitigating control for one of the Council's key risks (FR\_I02) relating to the Council's approach to investment in infrastructure. During the year, we also carried out a desktop review of the Council's Risk Management Strategy and related guidance. We supported the Corporate Director (Finance & Operations) in facilitating a Member session to review the Strategic Risk Register. Further work is planned throughout 2019/20.

#### Internal Control

Of the 16 audits undertaken in the year where we provided a formal assurance level, eight were given a 'Full' level of assurance, and seven were given a 'Substantial' level of assurance.

During the year, we have made 2 'Priority 1', 15 'Priority 2' recommendations. 13 recommendations categorised as 'Priority 3' were also made.

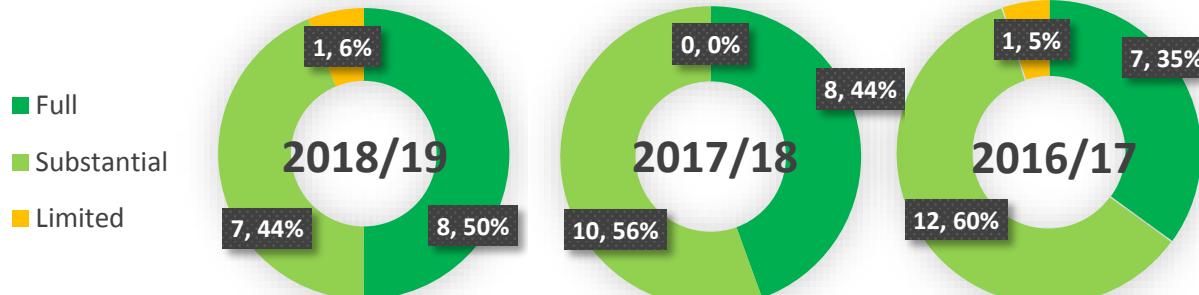
In respect of follow up of recommendations, internal audit has an established process for tracking the implementation of recommendations made in their audit reports and report on their status to each Audit Committee. During the year, we reviewed the implementation of recommendations as they fell due.

All recommendations made during the year were accepted by Management.

## 04 Benchmarking

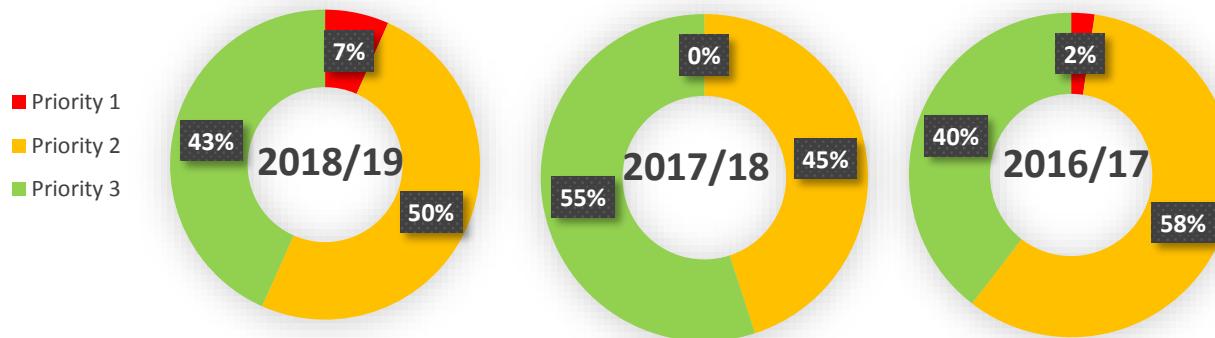
This section compares the Assurance Levels (where given) and categorisation of recommendations made at the Council.

**Comparison of Assurance Levels (where given)**



Of the 16 audits where an assurance level has been provided in 2018/19, 'Full' assurance has been provided in eight cases, 'Substantial' assurance has been provided in seven cases, one audit provided 'Limited' assurance.

**Comparison of Recommendations by categorisation**



In 2018/19, a total of 30 recommendations have been made. 2 of these were categorised as Priority 1. 15 recommendations were categorised as Priority 2 and 13 categorised as 'Priority 3.'

## 05 Performance of Internal Audit

### Performance of Internal Audit

#### Compliance with professional standards

We employed a risk-based approach to determining the audit needs of the Commission at the start of the year and use a risk-based methodology in planning and conducting our audit assignments. Our work has been performed in accordance with PSIAS.

#### Internal Audit Quality Assurance

In order to ensure the quality of the work we perform, we have a programme of quality measures which includes:

- Supervision of staff conducting audit work;
- Review of files of working papers and reports by managers and partners;
- The use of satisfaction surveys for each completed assignment.
- Annual appraisal of audit staff and the development of personal development and training plans;
- Sector specific training for staff involved in the sector;
- Regular meetings of our Sector Strategy Groups, which issues technical guidance to inform staff and provide instruction with regard to technical issues; and
- The maintenance of the firm's Internal Audit Manual.

#### Conflicts of Interest

There have been no instances during the year which have impacted on our independence and/or lead us to declare any interest.

#### Performance Measures

We have completed our audit work in accordance with the agreed Plan and each of our final reports has been reported to the Audit Committee.

Satisfaction surveys have been issued to the Council for each audit together with the final report. 10 surveys have been returned to date, for which the Council provided 'very good' ratings in 9 cases and a 'good' rating in 1 case.

Regular meetings with the Assistant Director (Finance & Operations) have taken place in order to monitor progress against plan.

## A1 Summary of internal audit work undertaken in 2018/19

The following reviews were undertaken during the 2018/19 audit year:

Auditable Area	Level of Assurance (If appropriate)	Days		Recommendations				
		Budget	Actual	Priority 1 (Fundamental)	Priority 2 (Significant)	Priority 3 (Housekeeping)	Total	Total agreed by Management
Main Accounting	Full / Full	20	20	-	-	-	-	-
Accounts Payable				-	-	1	1	1
Accounts Receivable				-	-	-	-	-
Treasury Management, Cash & Bank				-	-	-	-	-
Budgetary Control	Full / Full	8	8	-	-	-	-	-
Council Tax	Full / Full	8	8	-	-	1	1	1
NNDR	Full / Full	8	8	-	-	1	1	1
Housing Benefit and Council Tax Support	Full / Full	8	8	-	-	-	-	-
Housing Rents	Full / Substantial	10	10	-	2	1	3	3
ICT Change Management	Full / Substantial	15	15	-	2	-	2	2
ICT Asset Management	Full / Substantial	10	10	-	2	-	2	2
General Data Protection Regulations	Substantial / Substantial	15	15	-	2	1	3	3

Auditable Area	Level of Assurance (If appropriate)	Days		Recommendations				
		Budget	Actual	Priority 1 (Fundamental)	Priority 2 (Significant)	Priority 3 (Housekeeping)	Total	Total agreed by Management
Planning	Substantial / Substantial	10	10	1	-	5	6	6
Commercial Asset Management	Substantial / Substantial	15	15	-	2	1	3	3
Procurement	Substantial / Substantial	15	15	-	3	-	3	3
Business Continuity	Substantial / Limited	10	10	1	2	2	5	5
<b>Totals</b>				<b>2</b>	<b>15</b>	<b>13</b>	<b>30</b>	<b>30</b>
%				7%	50%	43%	100%	

We use the following levels of assurance and recommendation classifications within our audit reports:

Level	Symbol	Evaluation Assessment	Testing Assessment
<b>Full</b>		There is a sound system of internal control designed to achieve the system objectives.	The controls are being consistently applied.
<b>Substantial</b>		Whilst there is a basically sound system of internal control design, there are weaknesses in design which may place some of the system objectives at risk.	There is evidence that the level of non-compliance with some of the controls may put some of the system objectives at risk.
<b>Limited</b>		Weaknesses in the system of internal control design are such as to put the system objectives at risk.	The level of non-compliance puts the system objectives at risk.
<b>Nil</b>		Control is generally weak leaving the system open to significant error or abuse.	Significant non-compliance with basic controls leaves the system open to error or abuse.

The assessment gradings provided here are not comparable with the International Standard on Assurance Engagements (ISAE 3000) issued by the International Audit and Assurance Standards Board and as such the grading of 'Full' does not imply that there are no risks to the stated control objectives.

### Grading of recommendations

In order to assist management in using our reports, we categorise our recommendations according to their level of priority as follows:

Level	Definition
<b>Priority 1</b>	Recommendations which are fundamental to the system and upon which the organisation should take immediate action.
<b>Priority 2</b>	Recommendations which, although not fundamental to the system, provide scope for improvements to be made.
<b>Priority 3</b>	Recommendations concerning issues which are considered to be of a minor nature, but which nevertheless need to be addressed.
<b>System Improvement Opportunity</b>	Issues concerning potential opportunities for management to improve the operational efficiency and/or effectiveness of the system.

## A2 Summary of Priority 1 Internal Audit Recommendations

Report	Observation and Risk	Recommendation	Priority	Management Response / Deadline	Responsibility
Business Continuity	<p>The Council currently has a Corporate Business Continuity Plan supported by eight service level plans. Business Continuity Plans should be regularly reviewed and updated to ensure that they remain fit for purpose and within each of the council's plans it states:</p> <p><i>Plans are reviewed and updated at least once a year. There may be several events which would occasion a re-assessment of the plan before the annual review. Examples of such events are: Acquisition of new equipment, or upgrading of operational systems Staff or organisational changes, Changes of contractors or suppliers, Changes of addresses or telephone numbers, Changes to business processes, Changes in operating practices, Changes in</i></p>	<p>The Council should ensure that the Corporate Business Continuity Plan and the Service Level Business Continuity Plans are reviewed and updated. These should be aligned to ensure that critical function for the council are appropriately covered within the Service Level plans.</p> <p>The Council should consider adopting an annual review timetable to ensure that all plans are appropriately reviewed and updated across the year.</p>	1	<p>All Service level BC plans were reviewed and updated by Group Managers early in 2019. There had been some service realignment prior to the updates however the plans still covered all the critical areas just not necessarily held in the correct Group area. These have now been moved to the correct manager's plans.</p> <p>HCC are reviewing and updating the Corporate BC plan, final draft should be submitted to CHSR at the end of May 2019, once reviewed by CHSR Team this will be submitted to the Health, Safety and Resilience Committee for approval, before being submitted to Corporate Management Team. This will then replace the</p>	<p>Group Managers – Service level BC plans</p> <p>Corporate BC plan: Group Manager (Environmental &amp; Community Protection), Corporate Health, Safety and Resilience Team Leader</p>

Report	Observation and Risk	Recommendation	Priority	Management Response / Deadline	Responsibility
	<p><i>legislation, Relocation of unit / team.</i></p> <p>A review of all the continuity plans found they had not been updated for some time, with the last updates noted below:</p> <ul style="list-style-type: none"> <li>• Corporate BCP (April 2016)</li> <li>• Housing (May 2017)</li> <li>• Environmental Services (January 2017)</li> <li>• People and Performance (December 2016)</li> <li>• Procurement (December 2016)</li> <li>• Regulatory Services (now ECP) (September 2016)</li> <li>• Revenues, Benefits and Fraud (December 2016)</li> <li>• Finance (April 2017)</li> <li>• ICT (August 2016)</li> </ul>			existing Corporate Business Continuity Plan.	

Report	Observation and Risk	Recommendation	Priority	Management Response / Deadline	Responsibility
	<p>A key part of activating business continuity plans is contacting the key individuals within the Council and the lack of regular update of plans increases the risk that incorrect individuals are listed and or contact numbers are incorrect. This would delay or hamper any activation of the plan.</p> <p>Moreover, informing staff is also an important part of activation and each of the plans currently refer to the use of an SMS Text Service that should be utilised. However, upon review it was found that this system had been replaced by a different system so the plans are currently not in line with the correct processes that would be followed.</p> <p>It was noted from review of the BCP's that a number of them still made reference to the old civic centre building with the Corporate BCP still having the old building plans included within its appendices. Moreover the Corporate BCP details ten critical</p>				

Report	Observation and Risk	Recommendation	Priority	Management Response / Deadline	Responsibility
	<p>services that the Council needs to maintain in the event of an emergency however it was identified there is a lack of alignment between the critical services listed in Corporate BCP and the existing scope of the Service level BCP's. Audit were informed that this is due to the lack of updated plans following the restructure of service areas. Therefore the current plans are clearly out of date.</p> <p>At present, the Council currently has out of date business continuity plans that could impact upon its ability to maintain critical services in a timely manner in the event of an incident or emergency.</p>				
Planning	The Council's Constitution states that only Team Leader, Group Manager, Assistant Director or Director can make the delegated decisions on Planning Applications. The decisions are recorded within the Acolaid system, this is a case	The Acolaid case management system requires updating to ensure that no breaches of the scheme of delegation can occur.	1	I have escalated this to Idox our provider of Acolaid, who are looking into a solution on permissions and this will be part of our next monthly Idox maintenance days. This should be fixed within	Group Manager, Development Management & Planning

Report	Observation and Risk	Recommendation	Priority	Management Response / Deadline	Responsibility
	<p>management system which has a decision section. In line with the constitution, only the above individuals in the scheme of delegation should make the final decision, however it was found during testing that the section is unrestricted to other system users. Therefore there is no control that would prevent unauthorised officers from making decisions. Moreover the system has a drop down box to select the individual making the decision, therefore a user could select one of the delegated authorisers to make it appear that they had made that decision.</p> <p>Therefore, there is a risk that Planning Application decisions are not made in line with the Council's constitution and there is no system functionality to confirm where this has taken place.</p>			<p>a month at an upcoming maintenance day. 30 April 2019</p> <p>We are upgrading our back office system from Acolaid to Uniform and have a project team of 6 officers working on this, all who will be able to set up new users and restrict permissions from users. Uniform will go live in mid-September.</p> <p>30 September 2019</p>	

## A3 Statement of Responsibility

We take responsibility to Dacorum Borough Council for this report which is prepared on the basis of the limitations set out below.

The responsibility for designing and maintaining a sound system of internal control and the prevention and detection of fraud and other irregularities rests with management, with internal audit providing a service to management to enable them to achieve this objective. Specifically, we assess the adequacy and effectiveness of the system of internal control arrangements implemented by management and perform sample testing on those controls in the period under review with a view to providing an opinion on the extent to which risks in this area are managed.

We plan our work in order to ensure that we have a reasonable expectation of detecting significant control weaknesses. However, our procedures alone should not be relied upon to identify all strengths and weaknesses in internal controls, nor relied upon to identify any circumstances of fraud or irregularity. Even sound systems of internal control can only provide reasonable and not absolute assurance and may not be proof against collusive fraud.

The matters raised in this report are only those which came to our attention during the course of our work and are not necessarily a comprehensive statement of all the weaknesses that exist or all improvements that might be made. Recommendations for improvements should be assessed by you for their full impact before they are implemented. The performance of our work is not and should not be taken as a substitute for management's responsibilities for the application of sound management practices.

This report is confidential and must not be disclosed to any third party or reproduced in whole or in part without our prior written consent. To the fullest extent permitted by law Mazars LLP accepts no responsibility and disclaims all liability to any third party who purports to use or reply for any reason whatsoever on the Report, its contents, conclusions, any extract, reinterpretation amendment and/or modification by any third party is entirely at their own risk.

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## Dacorum Borough Council Internal Audit Charter

June 2019



## **Introduction**

The Internal Audit Charter is a formal document that defines Internal Audit's purpose, authority and responsibility in accordance with UK Public Sector Internal Audit Standards (PSIAS). The charter establishes Internal Audit's position within the organisation, including the nature of the Head of Internal Audit's functional reporting relationship with the Audit Committee; authorises access, to records, personnel and physical properties relevant to the performance of engagements; and defines the scope of Internal Audit's activities. It provides a framework for the conduct of the service and has been approved by the Council's Corporate Management Team (CMT) and the Audit Committee.

The PSIAS also include a Mission for Internal Audit which is 'to enhance and protect organisational value by providing risk-based and objective assurance, advice and insight'.

The Charter will be reviewed annually and presented to the Audit Committee and CMT for final approval.

## **Nature and Purpose**

Dacorum Borough Council has developed a risk management framework, overseen by the Head of Internal Audit, which includes:

- Identification of the significant risks in the Authority's operations and allocation of a risk owner to each;
- An assessment of how well the significant risks are being managed; and
- Regular reviews by the Corporate Management Team of the significant risks, including reviews of key risk indicators, governance reports and action plans, and any changes to the Authority's risk profile.

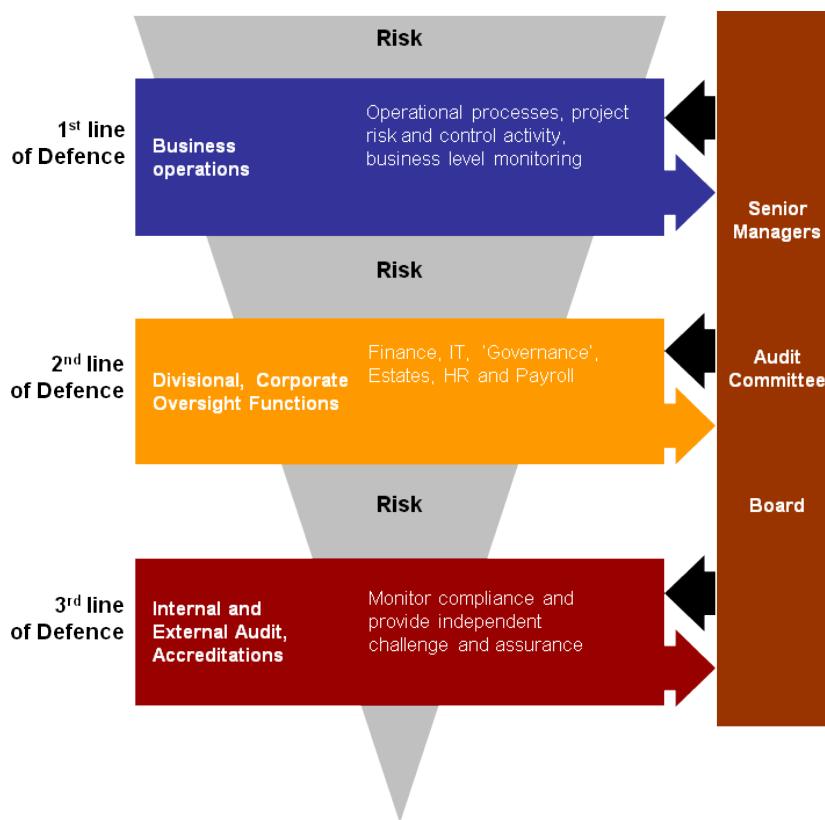
A system of internal control is one of the primary means of managing risk and consequently the evaluation of its effectiveness is central to Internal Audit's responsibilities.

Dacorum Borough Council's system of internal control comprises the policies, procedures and practices, as well as organisational culture that collectively support the Authority's effective operation in the pursuit of its objectives. The risk management, control and governance processes enable the Authority to respond to significant business risks, be these of an operational, financial, compliance or other nature, and are the direct responsibility of the Corporate Management Team.

The Authority needs assurance over the significant business risks set out in the risk management framework. In addition, there are many other stakeholders, both internal and external, requiring assurance on the management of risk and other aspects of the Authority's business - these

including Members, regulators etc. There are also many assurance providers. The internal audit function is the third line of defence in the Council's 'three lines of defence approach' to risk and assurance. The first line of defence comprises the Council's core operational services, and the second line comprises the oversight functions such as risk management.

The following diagram summarises the three lines of defence model and explains where Internal Audit fits into the Council's assurance process.



Internal Audit is defined by the Institute of Internal Auditors' International Professional Practices Framework as 'an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.'

In a local authority, Internal Audit provides independent and objective assurance to the organisation, its Members, the Chief Executive, the Corporate Management Team, and in particular to the Corporate Director (Finance and Operations) to help him discharge his responsibilities relating to the proper administration of the Authority's financial affairs under S151 of the Local Government Act 1972.

In addition, the Accounts and Audit Regulations (2015) specifically require the provision of an internal audit service. In line with regulations, Internal Audit provides independent assurance on the adequacy and effectiveness of the Authority's governance, risk management and internal control systems.

In particular, Internal Audit carries out assurance and consulting activities across all aspects of Dacorum Borough Council's business, based on a programme agreed with the Audit Committee. In doing so, Internal Audit works closely with the Authority's risk owners, service line risk teams, and the Corporate Management Team.

In addition to providing independent assurance to various stakeholders, Internal Audit helps identify areas where the Authority's existing processes and procedures can be developed to improve the extent with which risks in these areas are managed; and public money is safeguarded and used economically, efficiently and effectively. In carrying out its work, Internal Audit liaises closely with the Corporate Management Team and management in the service lines (including risk teams).

The independent assurance provided by Internal Audit also assists the Authority to report annually on the effectiveness of the system of internal control included in the Authority's Annual Governance Statement.

### **Authority and Access to Records, Assets and Personnel**

Internal Audit has unrestricted right of access to all Authority records and information, both manual and computerised, cash, stores and other property or assets it considers necessary to fulfil its responsibilities. Internal Audit may enter Authority property and has unrestricted access to all locations and officers where necessary on demand and without prior notice. Right of access to other bodies funded by the Authority should be set out in the conditions of funding.

Any restriction (management or other) on the scope of Internal Audit's activities will be reported to the Audit Committee.

Internal Audit is accountable for the safekeeping and confidentiality of any information and assets acquired in the course of its duties and execution of its responsibilities.

Internal Audit will consider all requests from the external auditors for access to any information, files or working papers obtained or prepared during audit work that has been finalised, and which external audit would need to discharge their responsibilities.

## **Responsibility**

The Authority's Head of Internal Audit is required to provide an annual opinion to the Authority and to the Corporate Director (Finance and Operations) and the Chief Executive, through the Audit Committee, on the adequacy and the effectiveness of the Authority's risk management, control and governance processes. In order to achieve this, Internal Audit will:

- Coordinate assurance activities with other assurance providers (such as the external auditors, the auditors of the Authority's Quality Management, Environmental Management and Information Security accreditations etc.) such that the assurance needs of the Authority, regulators and other stakeholders are met in the most effective way.
- Evaluate and assess the implications of new or changing systems, products, services, operations and control processes.
- Carry out assurance and consulting activities across all aspects of the Authority's business based on a risk-based plan agreed with the Audit Committee.
- Provide the Corporate Director (Finance and Operations), Chief Executive and other officers with reasonable, but not absolute, assurance as to the adequacy and effectiveness of the key controls associated with the management of risk in the area being audited.
- Issue periodic reports to the Audit Committee, and the Corporate Management Team summarising results of assurance activities.
- Promote an anti-fraud, anti-bribery and anti-corruption culture within the Authority to aid the prevention and detection of fraud.
- Assist in the investigation of allegations of fraud, bribery and corruption within the Authority and notifying management and the Audit Committee of the results.
- Assess the adequacy of remedial action to address significant risk and control issues reported to the Audit Committee. Responsibility for remedial action in response to audit findings rests with line management.

Definition	Details	Responsibility in relation to Internal Audit
The Audit Committee	<p>To oversee the financial reporting, risk management, audit and internal control arrangements of the Council to assure the Council and the Dacorum Council Tax payers that resources are properly managed and high standards of financial probity are maintained.</p>	<p>To consider the Head of Internal Audit's annual report and opinion and a summary of Internal Audit activity (actual and proposed) and the level of assurance it can give over the Council's governance arrangements.</p> <p>To consider summaries of specific Internal Audit reports as requested.</p> <p>To consider a report from Internal Audit on agreed recommendations not implemented within a reasonable timescale.</p> <p>Report to Council when necessary to give assurances about the Council's financial statements, risk management and internal control mechanisms or to raise concerns of any significant weakness.</p>
Chief Officers	<p>The Chief Executive has overall corporate management and operational responsibility (including overall management responsibility for all officers) together with specific operational responsibility for those services identified in Part 3 of the Constitution</p> <p>'Responsibility for</p>	<p>Corporate Management Team liaise with Internal Audit to agree the Annual Internal Audit Plan.</p>

	Functions'. The Corporate Directors have overall strategic and operational management of those services falling within their directorates.	
S151 Officer	To exercise the functions of the S151 Officer, including proper administration of the Council's financial affairs under S115 and S151 of the Local Government Act 1972 and S114 of the Local Government Finance Act 1988. Ensuring lawfulness and financial prudence of decision making, contributing to corporate management, providing advice and giving financial information.	Deal with Internal Audit issues under the Accounts and Audit Regulations 2015.

There are inherent limitations in any system of internal control and thus errors or irregularities may occur and not be detected by Internal Audit's work. Unless specifically requested and agreed, Internal Audit will not perform substantive testing of underlying transactions.

When carrying out its work, Internal Audit will provide line management with comments and report breakdowns, failures or weaknesses of internal control systems together with recommendations for remedial action. However, Internal Audit cannot absolve line management of responsibility for internal controls.

Internal Audit will support line managers in determining measures to remedy deficiencies in risk management, control and governance processes and compliance to the Authority's policies and standards and will monitor whether such measures are implemented on a timely basis.

Where appropriate, Internal Audit will undertake assurance or consulting activities for the benefit of the Authority in organisations wholly owned or controlled by the Authority (e.g. Local Authority Trading Companies, ALMOs etc). Internal Audit may also provide assurance to the Authority on third party operations (such as contractors and partners) where this has been provided for as part of the contract.

The Audit Committee is responsible for ensuring that Internal Audit is adequately resourced and afforded a sufficiently high standing within the organisation, necessary for its effectiveness.

## **Scope of Activities**

As highlighted in the previous section, there are inherent limitations in any system of internal control. Internal Audit therefore provides the Members, the Chief Executive and other officers with reasonable, but not absolute, assurance as to the adequacy and effectiveness of the Authority's governance, risk management and control processes using a systematic and disciplined approach by:

- Assessing and making appropriate recommendations for improving the governance processes, promoting appropriate ethics and values, and ensuring effective performance management and accountability;
- Evaluating the effectiveness and contributing to the improvement of risk management processes; and
- Assisting the Authority in maintaining effective controls by evaluating their adequacy, effectiveness and efficiency and by promoting continuous improvement.

The scope of Internal Audit's value adding activities includes evaluating risk exposures relating to the Authority's governance, operations and information systems regarding the:

- Achievement of the organisation's strategic objectives;
- Reliability and integrity of financial and operational information;
- Effectiveness and efficiency of operations and programmes;
- Safeguarding of assets; and
- Compliance with laws, regulations, policies, procedures and contracts.

## **Reporting**

For each engagement, Internal Audit will issue a report to the appropriate Audit Contact and Corporate Director (Finance and Operations) or his nominee, and depending on the nature of the engagement and as agreed in the engagement's Terms of Reference, with a summary to the Corporate Management Team and the Audit Committee.

The UK Public Sector Internal Audit Standards require the Head of Internal Audit to report at the top of the organisation and this is done in the following ways:

- The Internal Audit Charter is reported to the Corporate Management Team. It is then presented to the Audit Committee annually for formal approval.
- The annual risk-based plan is compiled by the Head of Internal Audit taking account of the Authority's risk management framework and after input from members of the Corporate Management Team. It is then presented to the Corporate Management Team and Audit Committee annually for noting and comment.
- The internal audit budget is reported to Cabinet and Full Council for approval annually as part of the overall Authority budget.
- The adequacy, or otherwise, of the level of internal audit resources (as determined by the Head of Internal Audit) and the independence of internal audit will be reported annually to the Audit Committee.
- Performance against the annual risk-based plan and any significant risk exposures and breakdowns, failures or weaknesses of internal control systems arising from internal audit work are reported to the Corporate Management Team and Audit Committee on a quarterly basis.
- Any significant consulting activity not already included in the risk-based plan and which might affect the level of assurance work undertaken will be reported to the Audit Committee.

## Independence

The Head of Internal Audit has free and unfettered access to the following:

- Chief Executive;
- Corporate Director (Finance and Operations);
- Monitoring Officer;
- Chair of the Audit Committee; and
- Any other member of the Corporate Management Team.

The independence of the contracted Head of Internal Audit is further safeguarded as his/her annual appraisal is not inappropriately influenced by those subject to internal audit.

To ensure that auditor objectivity is not impaired and that any potential conflicts of interest are appropriately managed, all internal audit staff are required to make an annual personal independence responsibilities declarations which includes personal deadlines for:

- Annual Returns (a regulatory obligation regarding independence, fit and proper status and other matters which everyone in Mazars must complete); and
- Continuing Professional Development (CPD).

Internal Audit may also provide consultancy services, such as providing advice on implementing new systems and controls. However, any significant consulting activity not already included in the audit plan and which might affect the level of assurance work undertaken will be reported to the Audit Committee. To maintain independence, any audit staff involved in significant consulting activity will not be involved in the audit of that area for a period of at least 12 months.

### **External Auditors**

The External Auditors fulfil a statutory duty. Effective collaboration between Internal Audit and the External Auditors will help ensure effective and efficient audit coverage and resolution of issues of mutual concern. Internal Audit will follow up the implementation of internal control issues raised by External Audit.

Internal Audit and External Audit meet periodically to:

- Discuss potential issues arising from the external audit; and
- Share the results of significant issues arising from audit work.

### **Due Professional Care**

The Internal Audit function is bound by the following standards:

- Institute of Internal Auditor's International Code of Ethics;
- Seven Principles of Public Life (Nolan Principles);
- UK Public Sector Internal Audit Standards;
- All Authority Policies and Procedures; and
- All relevant legislation.

Internal Audit is subject to a Quality Assurance and Improvement Programme that covers all aspects of internal audit activity. This consists of an annual self-assessment of the service and its compliance with the UK Public Sector Internal Audit Standards, on-going performance monitoring and an external assessment at least once every five years by a suitably qualified, independent assessor. An external assessment was carried out in November 2016 which concluded that Mazars GRIC – Public Services conforms to the requirements of the Public Internal Audit Standards and the Local Government Application Note.

A programme of Continuous Professional Development CPD is maintained for all staff working on internal audit engagements to ensure that auditors maintain and enhance their knowledge, skills and audit competencies to deliver the risk-based plan. Both the Head of Internal Audit and the Engagement Manager are required to hold a professional qualification (CMIIA, CCAB or equivalent) and be suitably experienced.

Approved by the Audit Committee on XX XXX 2019

## **Important Notice**

We take responsibility to Dacorum Borough Council for this report which is prepared on the basis of the limitations set out below.

The responsibility for designing and maintaining a sound system of internal control and the prevention and detection of fraud and other irregularities rests with management, with internal audit providing a service to management to enable them to achieve this objective. Specifically, we assess the adequacy and effectiveness of the system of internal control arrangements implemented by management and perform sample testing on those controls in the period under review with a view to providing an opinion on the extent to which risks in this area are managed.

We plan our work in order to ensure that we have a reasonable expectation of detecting significant control weaknesses. However, our procedures alone should not be relied upon to identify all strengths and weaknesses in internal controls, nor relied upon to identify any circumstances of fraud or irregularity. Even sound systems of internal control can only provide reasonable and not absolute assurance and may not be proof against collusive fraud.

The matters raised in this report are only those which came to our attention during the course of our work and are not necessarily a comprehensive statement of all the weaknesses that exist or all improvements that might be made. Recommendations for improvements should be assessed by you for their full impact before they are implemented. The performance of our work is not and should not be taken as a substitute for management's responsibilities for the application of sound management practices.

This report is confidential and must not be disclosed to any third party or reproduced in whole or in part without our prior written consent. To the fullest extent permitted by law Mazars LLP accepts no responsibility and disclaims all liability to any third party who purports to use or reply for any reason whatsoever on the Report, its contents, conclusions, any extract, reinterpretation amendment and/or modification by any third party is entirely at their own risk.

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# Agenda Item 10

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## DACORUM BOROUGH COUNCIL

### INTERNAL AUDIT PROGRESS REPORT

**Audit Committee – July 18 2019**

**Status of our reports**

This report ("Report") was prepared by Mazars LLP at the request of Dacorum Borough Council and terms for the preparation and scope of the Report have been agreed with them. The matters raised in this Report are only those which came to our attention during our internal audit work. Whilst every care has been taken to ensure that the information provided in this Report is as accurate as possible, Internal Audit have only been able to base findings on the information and documentation provided and consequently no complete guarantee can be given that this Report is necessarily a comprehensive statement of all the weaknesses that exist, or of all the improvements that may be required.

The Report was prepared solely for the use and benefit of Dacorum Borough Council and to the fullest extent permitted by law Mazars LLP accepts no responsibility and disclaims all liability to any third party who purports to use or rely for any reason whatsoever on the Report, its contents, conclusions, any extract, reinterpretation, amendment and/or modification. Accordingly, any reliance placed on the Report, its contents, conclusions, any extract, reinterpretation, amendment and/or modification by any third party is entirely at their own risk. Please refer to the Statement of Responsibility in Appendix C of this report for further information about responsibilities, limitations and confidentiality.

# **CONTENTS**

Introduction .....	1
Background.....	1
Progress to Date .....	1
Follow-up of Recommendations.....	2
Priority 1 Recommendations .....	4
Appendix 1 – Status of Audit Work 2019/20.....	5
Appendix 2 – Follow-up of Recommendations.....	9
Appendix 3 - Statement of Responsibility.....	10

# Introduction

This progress report to the Audit Committee covers the work carried out during the period April 1<sup>st</sup> 2019 to June 30th 2019 by Mazars.

Appendix 1 outlines progress to date against the 2019/20 Internal Audit Plan.

## Background

The purpose of the internal audit plan is to identify the work required to achieve a reasonable level of assurance to be provided by Mazars in compliance with the Code of Practice for Internal Audit.

The fundamental role of Internal Audit is to provide senior management and Members with independent assurance on the adequacy, effectiveness and efficiency of the system of internal control, and to report major weaknesses together with recommendations for improvement. This role is fulfilled by carrying out appropriate audit work, normally in accordance with a strategic plan and an annual operational plan, as approved by the Corporate Director (Finance & Operations) and the Audit Committee.

As internal audit is a major source of assurance that the Council is effectively managing the principal risks to the achievement of its corporate objectives, a key rationale for the development of the internal audit plan was the Council's own Corporate and Service Risk Registers and how the internal audit plan can provide this assurance.

## Progress to Date

Progress against the 2019/20 Internal Audit plan is shown in Appendix 1 and shows the status of work to date and the number of days delivered. At the time of this report, progress against the plan is as follows:

<b>Number of audits in plan</b>	<b>15</b>	
Number of audits finalised	-	
Number of audits issued at draft	1	7%
Number of audits currently in progress	-	
Number of audits with planned start dates	3	20%
Number of audits with start dates to be agreed	11	73%
<b>Total</b>	<b>15</b>	<b>100%</b>

We have issued the following Final reports for 2018/19 since the last Audit Committee meeting:

- Budgetary Control (Evaluation assurance: **Full**. Testing assurance: **Full**)
- Core Financial Systems (Evaluation assurance: **Full**. Testing assurance: **Full**)
- Business Continuity (Evaluation assurance: **Substantial**. Testing assurance: **Limited**)
- IT Change Management (Evaluation assurance: **Full**. Testing assurance: **Substantial**)

We have also issued the following draft report for 2019/20 for which we are awaiting the final management responses before issuing the Final Report:

- Housing Rents

## Follow-up of Recommendations

### 2018/19

The table at Appendix 2 details the recommendations raised in the audit reports for 2018/19. The summary of the outcome of our follow up work to the 30<sup>th</sup> June 2019 is shown in the table below:

Year	Total Recommendations	Implemented / no longer relevant	%
2018/19	30	15	50%
<b>Total</b>	<b>30</b>	<b>15</b>	<b>50%</b>

# Definition of Assurance & Priorities

## Audit assessment

In order to provide management with an assessment of the adequacy and effectiveness of their systems of internal control, the following definitions are used:

Level	Symbol	Evaluation Assessment	Testing Assessment
Full		There is a sound system of internal control designed to achieve the system objectives.	The controls are being consistently applied.
Substantial		Whilst there is a basically sound system of internal control design, there are weaknesses in design which may place some of the system objectives at risk.	There is evidence that the level of non-compliance with some of the controls may put some of the system objectives at risk.
Limited		Weaknesses in the system of internal control design are such as to put the system objectives at risk.	The level of non-compliance puts the system objectives at risk.
Nil		Control is generally weak leaving the system open to significant error or abuse.	Significant non-compliance with basic controls leaves the system open to error or abuse.

The assessment gradings provided here are not comparable with the International Standard on Assurance Engagements (ISAE 3000) issued by the International Audit and Assurance Standards Board and as such the grading of 'Full' does not imply that there are no risks to the stated control objectives.

## Grading of recommendations

In order to assist management in using our reports, we categorise our recommendations according to their level of priority as follows:

Level	Definition
<b>Priority 1</b>	Recommendations which are fundamental to the system and upon which the organisation should take immediate action.
<b>Priority 2</b>	Recommendations which, although not fundamental to the system, provide scope for improvements to be made.
<b>Priority 3</b>	Recommendations concerning issues which are considered to be of a minor nature, but which nevertheless need to be addressed.
<b>System Improvement Opportunity</b>	Issues concerning potential opportunities for management to improve the operational efficiency and/or effectiveness of the system.

## Priority 1 Recommendations

One Priority 1 recommendation has been raised in the final reports issued since the last Audit Committee meeting.

This recommendation was raised in the Business Continuity report, and was as follows:

**Recommendation:** The Council should ensure that the Corporate Business Continuity Plan and the Service Level Business Continuity Plans are reviewed and updated. These should be aligned to ensure that critical function for the council are appropriately covered within the Service Level plans.

The Council should consider adopting an annual review timetable to ensure that all plans are appropriately reviewed and updated across the year.

**Management Response:** All Service level BC plans were reviewed and updated by Group Managers early in 2019. There had been some service realignment prior to the updates however the plans still covered all the critical areas just not necessarily held in the correct Group area. These have now been moved to the correct manager's plans.

HCC are reviewing and updating the Corporate BC plan, final draft should be submitted to CHSR at the end of May 2019, once reviewed by CHSR Team this will be submitted to the Health, Safety and Resilience Committee for approval, before being submitted to Corporate Management Team. This will then replace the existing Corporate Business Continuity Plan.

## Appendix 1 – Status of Audit Work 2019/20

	Area	Scope	Plan Days	Days Delivered	Start of Fieldwork	Status	Opinion		Recommendations			Comments	
							Evaluation	Testing	1	2	3		
Core Financial Systems	Main Accounting	Audits previously given a high level of assurance: continuous auditing methods will be used in these areas to cover the adequacy and effectiveness of the Key Controls in place across the four areas.	16		Q2-Q4								
	Treasury Management, Cash & Bank												
	Accounts Receivable												
	Accounts Payable												
	Budgetary Control	To cover strategic approach to co-ordinating budgetary control, monitoring and reporting, and also testing a sample of departments.	8		Q4								
	Council Tax	Covering adequacy and effectiveness of controls including liabilities, billing, cash collection, recovery and accounting.	8		Q3								
	NNDR	Covering adequacy and effectiveness of controls including Business Rate Retention Scheme, income maximisation, fair revenue distribution and appeals.	8		Q3								
	Housing Benefit and Council Tax Support	Covering adequacy and effectiveness of controls including new claims, size criteria, benefit caps, amendments, backdated benefits, payments and reconciliations.	8		Q3								
	Payroll & Pensions Administration	Covering of the adequacy and effectiveness of controls over starters, leavers, amendments, etc.	8	0.5	Q2	ToR Issued						Audit to start 22 <sup>nd</sup> July	
<b>Core Financial Systems Total</b>			<b>56</b>	<b>0.5</b>									

	Area	Scope	Plan Days	Days Delivered	Start of Fieldwork	Status	Opinion		Recommendations			Comments
							Evaluation	Testing	1	2	3	
Operational Risks	Community Safety Partnerships	Covering adequacy and effectiveness of controls over community safety, including governance, monitoring of priorities, award of grant funding and performance management.	7		Q2							
	Apprenticeships Scheme & Levy	Covering controls in place over compliance with the scheme requirements, maximisation of take up and integration into organisation	5		Q4							
	Housing Rents	Covering adequacy and effectiveness of controls over the management of housing rents and service charges, including collection of rent arrears.	10	9	Q1	Draft Report Issued						
Operational Risks Total			22	9								
Strategic Risks	VAT – Making Tax Digital	To confirm the Council's systems and processes are MTD compliant.	15		Q2							
	Leisure Services Contract Management	Covering adequacy and effectiveness of controls over management and monitoring of the new Leisure Contract.	12		Q2							
	Capital Programme	To review the Council's controls in place to prevent slippage of significant capital projects. The review will also look at the whole approach that the Council takes with a focus on particular projects.	15		Q3							
Strategic Risks Total			42									
Governance, Fraud & other Assurance Methods	Governance and Risk Management	Resources to assist in the development of Corporate/ Directorate Risk Registers, the use of CRSA to provide assurance that managers understand their requirements and take ownership of their	20		Q2-Q4	Ongoing	N/A					

	Area	Scope	Plan Days	Days Delivered	Start of Fieldwork	Status	Opinion		Recommendations			Comments
							Evaluation	Testing	1	2	3	
		responsibilities. Risk Management workshops/training.										
	Fraud	A review of the Fraud training programme, processes and communications.	10		Q2							
	Governance Role	Review of the new member induction and training processes and delivery. Prior to May and the next round of new member inductions and training post the 2019 elections.	10		Q3							
	Counter Fraud	Internal Audit will continue to work with the Council in the development of a fraud risk register, the provision of fraud awareness training, pro-active fraud exercises, etc.	10		Q2-4							
<b>Governance, Fraud &amp; other Assurance Methods</b>			<b>50</b>									
ICT	Disaster Recovery	The specific areas will be agreed with management but suggestions could include IT Asset Management, Disaster Recovery, Change Management, IT Project Management	10		Q3							
	Social Media Review	Review present controls and training in place for officers involved in Social Media. Gap analysis on where we do and do not use SM and where improvements could be made.	15		Q2							
<b>ICT total</b>			<b>25</b>									
Other	Follow-up of Recommendations	Follow-up of all priority 1 and 2 recommendations made in final reports issued.	10	2								
	Management		20	2								
<b>Other total</b>			<b>30</b>	<b>4</b>								
<b>Plan total</b>			<b>220</b>	<b>13.5</b>								

	Area	Scope	Plan Days	Days Delivered	Start of Fieldwork	Status	Opinion		Recommendations			Comments
							Evaluation	Testing	1	2	3	
	Ad Hoc	Contingency allocation to be utilised upon agreement of the Assistant Director (Finance & Resources).	25	-								
<b>TOTAL</b>			<b>250</b>	<b>13.5</b>								

## Appendix 2 – Follow-up of Recommendations

A follow-up audit has been undertaken in accordance with the 2019/18 audit plan. The objective was to confirm the extent to which the recommendations made in 2018/19 internal audit final reports have been implemented.

The tables below provides a summary of the status of all 2018/19 recommendations raised in final reports issued.

**2018/19**

Title	Raised	Implemented	Partly Implemented	Outstanding	No longer relevant	Original Due Date	Revised Due Date	Not yet due	Resp. Officer
Housing Rents	3	3				31 Oct 2018			Katie Kiely
GDPR	3	3				31 Oct 2018			John Worts
Commercial Asset Management (Garages)	3	3				31 Jan 2019			Layna Warden
IT Asset Management	2	2				31 May 2019			Gary Osler
NNDR	1					31 August 2019		1	Chris Baker
Council Tax	1					31 August 2019		1	Chris Baker
Procurement Strategy	3					31 Dec 2019		3	Ben Hosier
Planning	6	3				30 Sept 2019		3	Sara Whelan
Core Financials (Accounts Payable)	1					30 Sept 2019		1	Fiona Jump
IT Change Management	2	1				31 Dec 2019		1	Ben Trueman
Business Continuity	5					31 Oct 2019		5	Emma Walker
<b>Total</b>	<b>30</b>	<b>15</b>						<b>15</b>	

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## **Appendix 3 - Statement of Responsibility**

We take responsibility to Dacorum Borough Council for this report which is prepared on the basis of the limitations set out below.

The responsibility for designing and maintaining a sound system of internal control and the prevention and detection of fraud and other irregularities rests with management, with internal audit providing a service to management to enable them to achieve this objective. Specifically, we assess the adequacy and effectiveness of the system of internal control arrangements implemented by management and perform sample testing on those controls in the period under review with a view to providing an opinion on the extent to which risks in this area are managed.

We plan our work in order to ensure that we have a reasonable expectation of detecting significant control weaknesses. However, our procedures alone should not be relied upon to identify all strengths and weaknesses in internal controls, nor relied upon to identify any circumstances of fraud or irregularity. Even sound systems of internal control can only provide reasonable and not absolute assurance and may not be proof against collusive fraud.

The matters raised in this report are only those which came to our attention during the course of our work and are not necessarily a comprehensive statement of all the weaknesses that exist or all improvements that might be made. Recommendations for improvements should be assessed by you for their full impact before they are implemented. The performance of our work is not and should not be taken as a substitute for management's responsibilities for the application of sound management practices.

This report is confidential and must not be disclosed to any third party or reproduced in whole or in part without our prior written consent. To the fullest extent permitted by law Mazars LLP accepts no responsibility and disclaims all liability to any third party who purports to use or rely for any reason whatsoever on the Report, its contents, conclusions, any extract, reinterpretation amendment and/or modification by any third party is entirely at their own risk.

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# Agenda Item 11



## Dacorum Borough Council Final Internal Audit Report Budgetary Control

April 2019

This report has been prepared on the basis of the limitations set out on page 10.

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**Distribution List:**

Nigel Howcutt – Assistant Director (Finance and Resources)  
Fiona Jump – Group Manager (Financial Services)  
Caroline Souto – Financial Planning & Analysis Team Leader  
James Deane – Corporate Director (Finance and Operations)  
(Final Report Only)  
Sally Marshall – Chief Executive (Final Report only)

**Key Dates:**

Date of fieldwork: March 2019  
Date of draft report: April 2019  
Receipt of responses: April 2019  
Date of final report: April 2019

**Status of our reports**

This report ("Report") was prepared by Mazars LLP at the request of Dacorum Borough Council and terms for the preparation and scope of the Report have been agreed with them. The matters raised in this Report are only those which came to our attention during our internal audit work. Whilst every care has been taken to ensure that the information provided in this Report is as accurate as possible, Internal Audit have only been able to base findings on the information and documentation provided and consequently no complete guarantee can be given that this Report is necessarily a comprehensive statement of all the weaknesses that exist, or of all the improvements that may be required.

The Report was prepared solely for the use and benefit of Dacorum Borough Council and to the fullest extent permitted by law Mazars LLP accepts no responsibility and disclaims all liability to any third party who purports to use or rely for any reason whatsoever on the Report, its contents, conclusions, any extract, reinterpretation, amendment and/or modification. Accordingly, any reliance placed on the Report, its contents, conclusions, any extract, reinterpretation, amendment and/or modification by any third party is entirely at their own risk. Please refer to the Statement of Responsibility in Appendix C of this report for further information about responsibilities, limitations and confidentiality.

## Contents

1. Executive Summary .....	1
2. Scope of Assignment .....	3
3. Assessment of Control Environment.....	4
4. Observations and Recommendations.....	5
Appendix A - Reporting Definitions .....	6
Appendix B - Staff Interviewed.....	7
Statement of Responsibility.....	8

# 1. Executive Summary

## 1.1. Background

As part of the Internal Audit Programme for 2018/19, we have undertaken an audit of the Council's systems of internal control in respect of Budgetary Control.

The Section 151 Officer is responsible for determining the format of the revenue budgets and ensuring that they are prepared on an annual basis for consideration by the Cabinet, before submission to the Council in the fourth quarter of the financial year.

Corporate Directors, and their delegated representatives, are responsible for ensuring that budget estimates reflect agreed service plans and comply with the budget guidance issued by the S151 Officer which will take account of the Council's approved Medium Term Financial Strategy.

The submitted budgets will be scrutinised and endorsed by appropriate Members, including Portfolio Holders. These will be collated by the S151 Officer for submission to a combined meeting of the Overview and Scrutiny Committees to scrutinise the draft budget, prior to submission to Cabinet.

## 1.2. Audit Objective and Scope

The overall objective of this audit was to provide assurance over the adequacy and effectiveness of current controls over Budgetary Control, and provide guidance on how to improve the current controls going forward.

In summary, the scope covered the following areas: Policies, Procedures and Legislation; Budget Setting; Budget Upload; Budget Monitoring and Management Information; and Budget Adjustments and Virements.

## 1.3. Summary Assessment

Our audit of the Council's internal controls operating over the Budgetary Control found that there is a sound system of internal control designed to achieve the system objectives. The controls are being consistently applied.

Our assessment in terms of the design of, and compliance with, the system of internal control covered is set out below:

Evaluation Assessment	Testing Assessment
Full	Full

Management should be aware that our internal audit work was performed according to UK Public Sector Internal Audit Standards (PSIAS) which are different from audits performed in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. Similarly, the assurance gradings provided in our internal audit report are not comparable with the International Standard on Assurance Engagements (ISAE 3000) issued by the International Audit and Assurance Standards Board.

The classifications of our audit assessments and priority ratings definitions for our recommendations are set out in more detail in Appendix A, whilst further analysis of the control environment over Budgetary Control is shown in Section 3.

#### **1.4. Key Findings**

We identified no areas where we believe there is scope for improvement within the control environment.

#### **1.5. Management Response**

We did not raise any recommendations to which management response was required.

#### **1.6. Acknowledgement**

We would like to take this opportunity to thank all staff involved for their time and co-operation during the course of this visit.

## 2. Scope of Assignment

### 2.1. Objective

The overall objective of this audit was to provide assurance that the systems of control in respect of Budgetary Control, with regards to the areas set out in section 2.3, are adequate and being consistently applied.

### 2.2. Approach and Methodology

The following procedures were adopted to identify and assess risks and controls and thus enable us to recommend control improvements:

- Discussions with key members of staff to ascertain the nature of the systems in operation;
- Evaluation of the current systems of internal control through walk-through and other non-statistical sample testing;
- Identification of control weaknesses and potential process improvement opportunities;
- Discussion of our findings with management and further development of our recommendations; and
- Preparation and agreement of a draft report with the process owner.

### 2.3. Areas Covered

The audit was carried out to evaluate and test controls over the following areas:

#### Policies, Procedures and Legislation

All members of staff act consistently in compliance with the legislative and management requirements and the budget management functions are conducted in an economic, efficient and effective manner. Responsibility for managing budgets is clearly established and is delegated to appropriately qualified, trained and competent staff.

#### Budget Setting

Budgets are set and funds allocated so as to achieve the organisation's strategic and operational objectives.

#### Budget Upload

Budgets are appropriately approved and are completely and accurately loaded onto the financial management system in a timely manner.

Budgets are communicated to all the relevant parties to allow effective monitoring by budget holders.

#### Budget Monitoring and Management Information

Robust procedures are in place for the monitoring of budgets. Any variances identified are investigated and remedial actions taken, where appropriate, so as to minimise the risk of budget over/underspends.

Timely and accurate financial information is produced on a regular basis and is reported to the appropriate forum to facilitate effective monitoring and decision making.

#### Budget Adjustments and Virements

Budget adjustments, including virements, are completely, accurately, and validly processed in a timely manner and supporting documentation is retained to support the actions taken.

### 3. Assessment of Control Environment

The following table sets out in summary the control objectives we have covered as part of this audit, our assessment of risk based on the adequacy of controls in place, the effectiveness of the controls tested and any resultant recommendations.

The classifications of our assessment of risk for the design and operation of controls are set out in more detail in Appendix A.

Control Objectives Assessed	Design of Controls	Operation of Controls	Recommendations Raised
Policies, Procedures and Legislation	✓	✓	
Budget Setting	✓	✓	
Budget Upload	✓	✓	
Budget Monitoring and Management Information	✓	✓	
Budget Adjustments and Virements	✓	✓	

The classifications of our assessment of risk for the design and operation of controls are set out in more detail in Appendix A.

## 4. Observations and Recommendations

No recommendations have been raised as part of this audit.

## Appendix A - Reporting Definitions

### Audit assessment

In order to provide management with an assessment of the adequacy and effectiveness of their systems of internal control, the following definitions are used:

Level	Symbol	Evaluation Assessment	Testing Assessment
<b>Full</b>		There is a sound system of internal control designed to achieve the system objectives.	The controls are being consistently applied.
<b>Substantial</b>		Whilst there is a basically sound system of internal control design, there are weaknesses in design which may place some of the system objectives at risk.	There is evidence that the level of non-compliance with some of the controls may put some of the system objectives at risk.
<b>Limited</b>		Weaknesses in the system of internal control design are such as to put the system objectives at risk.	The level of non-compliance puts the system objectives at risk.
<b>Nil</b>		Control is generally weak leaving the system open to significant error or abuse.	Significant non-compliance with basic controls leaves the system open to error or abuse.

The assessment gradings provided here are not comparable with the International Standard on Assurance Engagements (ISAE 3000) issued by the International Audit and Assurance Standards Board and as such the grading of 'Full' does not imply that there are no risks to the stated control objectives.

### Grading of recommendations

In order to assist management in using our reports, we categorise our recommendations according to their level of priority as follows:

Level	Definition
<b>Priority 1</b>	Recommendations which are fundamental to the system and upon which the organisation should take immediate action.
<b>Priority 2</b>	Recommendations which, although not fundamental to the system, provide scope for improvements to be made.
<b>Priority 3</b>	Recommendations concerning issues which are considered to be of a minor nature, but which nevertheless need to be addressed.
<b>System Improvement Opportunity</b>	Issues concerning potential opportunities for management to improve the operational efficiency and/or effectiveness of the system.

## Appendix B - Staff Interviewed

The following personnel were consulted:

- Caroline Souto Financial Planning & Analysis Team Leader
  - Fiona Jump Financial Services Group Manager

We would like to thank the staff involved for their co-operation during the audit.

## Statement of Responsibility

We take responsibility to Dacorum Borough Council for this report which is prepared on the basis of the limitations set out below.

The responsibility for designing and maintaining a sound system of internal control and the prevention and detection of fraud and other irregularities rests with management, with internal audit providing a service to management to enable them to achieve this objective. Specifically, we assess the adequacy and effectiveness of the system of internal control arrangements implemented by management and perform sample testing on those controls in the period under review with a view to providing an opinion on the extent to which risks in this area are managed.

We plan our work in order to ensure that we have a reasonable expectation of detecting significant control weaknesses. However, our procedures alone should not be relied upon to identify all strengths and weaknesses in internal controls, nor relied upon to identify any circumstances of fraud or irregularity. Even sound systems of internal control can only provide reasonable and not absolute assurance and may not be proof against collusive fraud.

The matters raised in this report are only those which came to our attention during the course of our work and are not necessarily a comprehensive statement of all the weaknesses that exist or all improvements that might be made. Recommendations for improvements should be assessed by you for their full impact before they are implemented. The performance of our work is not and should not be taken as a substitute for management's responsibilities for the application of sound management practices.

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# Dacorum Borough Council

## Final Internal Audit Report

### Core Financial Systems

May 2019

This report has been prepared on the basis of the limitations set out on page 9.

CONFIDENTIAL

**Distribution List:**

Sally Nunn – Team Leader (Financial Services)  
Caroline Souto – Team Leader (Financial Planning & Analysis)  
Fiona Jump – Group Manager (Financial Services)  
Nigel Howcutt – Assistant Director (Finance and Resources)  
James Deane – Corporate Director (Finance and Operators) (Final Report Only)  
Sally Marshall – Chief Executive (Final Report only)

**Key Dates:**

Date of fieldwork: March/April 2019  
Date of draft report: May 2019  
Receipt of responses: May 2019  
Date of final report: May 2019

**Status of our reports**

This report ("Report") was prepared by Mazars LLP at the request of Dacorum Borough Council and terms for the preparation and scope of the Report have been agreed with them. The matters raised in this Report are only those which came to our attention during our internal audit work. Whilst every care has been taken to ensure that the information provided in this Report is as accurate as possible, Internal Audit have only been able to base findings on the information and documentation provided and consequently no complete guarantee can be given that this Report is necessarily a comprehensive statement of all the weaknesses that exist, or of all the improvements that may be required.

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## Contents

1. Executive Summary .....	1
2. Scope of Assignment .....	3
3. Assessment of Control Environment.....	5
4. Observations and Recommendations.....	6
Appendix A - Reporting Definitions .....	7
Appendix B - Staff Interviewed.....	8
Statement of Responsibility.....	9

# 1. Executive Summary

## 1.1. Background

As part of the Internal Audit Programme for 2018/19, we have undertaken an audit of the Council's systems of internal control in respect of the Core Financial Systems.

## 1.2. Audit Objective and Scope

The overall objective of this audit was to provide assurance over the adequacy and effectiveness of current controls over the Core Financial Systems, and provide guidance on how to improve the current controls going forward.

In summary, the scope covered the following areas: Accounts Receivable, Cash and Banking, Accounts Payable, Treasury Management and Main Accounting.

## 1.3. Summary Assessment

Our audit of the Council's internal controls operating over the Core Financial Systems found that there is a sound system of internal control designed to achieve the system objectives. There is evidence that the level of non-compliance with some of the controls may put some of the system objectives at risk.

Our assessment in terms of the design of, and compliance with, the system of internal control covered is set out below:

Evaluation Assessment	Testing Assessment
Full	Full

Management should be aware that our internal audit work was performed according to UK Public Sector Internal Audit Standards (PSIAS) which are different from audits performed in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. Similarly, the assurance gradings provided in our internal audit report are not comparable with the International Standard on Assurance Engagements (ISAE 3000) issued by the International Audit and Assurance Standards Board.

The classifications of our audit assessments and priority ratings definitions for our recommendations are set out in more detail in Appendix A, whilst further analysis of the control environment over the Core Financial Systems are shown in Section 3.

#### 1.4. Key Findings

We have raised one priority 3 recommendation, where we believe there is scope for improvement within the control environment. This is set out below:

- Delegated decision making (Priority 3)

A follow up of the recommendation raised in the 2017/18 Core Financial Systems internal audit report was also completed. We confirmed that the recommendation has been implemented. The details of the follow up status are as follows:

##### Recommendation 1: Implementation of approval process for Credit Notes (Priority 2)

Implemented – We confirmed that credit notes approval is given via the Agresso workflow system in line with the authorisation limits specified in the Council's Scheme of Delegation

Full details of the audit findings and recommendations are shown in Section 4 of the report.

#### 1.5. Management Response

We received the management response in a timely manner and this has been included in the main body of the report.

#### 1.6. Acknowledgement

We would like to take this opportunity to thank all staff involved for their time and co-operation during the course of this visit.

## 2. Scope of Assignment

### 2.1. Objective

The overall objective of this audit was to provide assurance that the systems of control in respect of the Core Financial Systems, with regards to the areas set out in section 2.3, are adequate and being consistently applied.

### 2.2. Approach and Methodology

The following procedures were adopted to identify and assess risks and controls and thus enable us to recommend control improvements:

- Discussions with key members of staff to ascertain the nature of the systems in operation;
- Evaluation of the current systems of internal control through walk-through and other non- statistical sample testing;
- Identification of control weaknesses and potential process improvement opportunities;
- Discussion of our findings with management and further development of our recommendations; and
- Preparation and agreement of a draft report with the process owner.

### 2.3. Areas Covered

The audit was carried out to evaluate and test controls over the following areas:

#### **Accounts Receivable**

Details of the invoices are checked for accuracy, completeness and validity. (For self-service invoice, this is now automated and checks are completed through a workflow. A sales order request turns into an invoice when it is approved)

BACS payment notification reports regularly checked to the bank statements.

Accuracy and validity of credit notes are checked.

Aged debtor reports are reviewed regularly.

Refunds and write-offs are approved prior to action being taken.

Debt recovery enforcement progress is monitored and recovery actions are undertaken in accordance with the Council's policy.

#### **Cash and Banking**

All cheque income receipted across sites or by the Central Admin team are accounted for and recorded fully on Aim promptly before they are banked.

All income (cheque, card payment, payments at paypoint/post office, or bank transfers) are receipted in the Council's bank account correctly and accounted for and recorded fully.

#### **Accounts Payable**

Formal and robust procedures are in place for making amendments to supplier information.

Invoices are matched to purchase orders prior to payment. (No PO No Pay process is now in place)

Retrospective purchase orders are monitored and any persistent non-compliance with the PO process is escalated.

For any exempt purchases (where a PO is not required), invoice is authorised in accordance with the approved scheme of delegation.

Any duplicate payments are identified and investigated promptly.

Exception reports are designed to identify high level purchase orders which potentially should have gone through the Procurement function in line with the Council's Standing Orders.

BACS payment runs are checked and authorised in accordance with the approved scheme of delegation.

Regular reconciliations with the main accounting system take place.

Open POs are regularly checked and cleansed to ensure the accuracy of the financial commitment raised on the system.

### **Treasury Management**

Any transactions/deals are made only with approved institutions, and are signed off in accordance with approved authorisation limits.

The cash flow position is monitored on a daily basis.

The Treasury Management system is regularly reconciled to the cash book and the main accounting system.

Investment performance reports are produced and reviewed regularly.

Investment strategy and performance is regularly reported to senior management and members as required.

### **Main Accounting**

Requests to amend or create new codes are authorised by an appropriate officer.

Journals are appropriately authorised and fully supported by documentation.

Suspense accounts are checked and cleared regularly.

All feeder systems (other than those above) are reconciled regularly and any variances investigated in a timely manner.

Bank reconciliation is undertaken regularly and any variances are investigated in a timely manner

### 3. Assessment of Control Environment

The following table sets out in summary the control objectives we have covered as part of this audit, our assessment of risk based on the adequacy of controls in place, the effectiveness of the controls tested and any resultant recommendations.

The classifications of our assessment of risk for the design and operation of controls are set out in more detail in Appendix A.

Control Objectives Assessed	Design of Controls	Operation of Controls	Recommendations Raised
Accounts Receivable			
Cash and Banking			
Accounts Payable			Recommendation 1
Treasury Management			
Main Accounting			

The classifications of our assessment of risk for the design and operation of controls are set out in more detail in Appendix A.

## 4. Observations and Recommendations

### Recommendation 1: Delegation of Decisions (Priority 3)

<b>Recommendation</b>
The Council should ensure that it is clear when Council Officers are approving purchase orders on behalf of the cabinet.
<b>Observation</b>
Audit carried out testing on raising purchase orders and it was found that in one instance the value of the purchase order was £11,989,954.01 and was approved in the Finance system by the Chief Executive. However the Financial Regulations set the authorisation limit of the Chief Executive as up to £10m. Further investigations into the specific purchase order confirmed that it related to a development that had been approved by cabinet prior to the Chief Executive approving the purchase order and therefore the CEO was approving on the Cabinet's behalf.  To ensure the financial regulations are aligned to the Council's operations the delegated limits should be updated to reflect the instances where purchase orders are approved on behalf of the cabinet.  There is a risk that the delegations are not aligned to the operations of the business.
<b>Responsibility</b>
Group Manager (Financial Services)
<b>Management response / deadline</b>
The approval of a transaction on the Council's financial system is an officer function. The Chief Executive has the highest approval limit of any Council officer. She is the appropriate officer to approve the transaction cited above on the Council's financial system.  Financial system authorisation limits will be updated as part of the refresh of the Council's Financial Regulations to encompass expected high value transactions associated with contractual and other arrangements made in line with the Council's Procurement Standing Orders. Deadline: 30 September 2019.

## Appendix A - Reporting Definitions

### Audit assessment

In order to provide management with an assessment of the adequacy and effectiveness of their systems of internal control, the following definitions are used:

Level	Symbol	Evaluation Assessment	Testing Assessment
<b>Full</b>		There is a sound system of internal control designed to achieve the system objectives.	The controls are being consistently applied.
<b>Substantial</b>		Whilst there is a basically sound system of internal control design, there are weaknesses in design which may place some of the system objectives at risk.	There is evidence that the level of non-compliance with some of the controls may put some of the system objectives at risk.
<b>Limited</b>		Weaknesses in the system of internal control design are such as to put the system objectives at risk.	The level of non-compliance puts the system objectives at risk.
<b>Nil</b>		Control is generally weak leaving the system open to significant error or abuse.	Significant non-compliance with basic controls leaves the system open to error or abuse.

The assessment gradings provided here are not comparable with the International Standard on Assurance Engagements (ISAE 3000) issued by the International Audit and Assurance Standards Board and as such the grading of 'Full' does not imply that there are no risks to the stated control objectives.

### Grading of recommendations

In order to assist management in using our reports, we categorise our recommendations according to their level of priority as follows:

Level	Definition
<b>Priority 1</b>	Recommendations which are fundamental to the system and upon which the organisation should take immediate action.
<b>Priority 2</b>	Recommendations which, although not fundamental to the system, provide scope for improvements to be made.
<b>Priority 3</b>	Recommendations concerning issues which are considered to be of a minor nature, but which nevertheless need to be addressed.
<b>System Improvement Opportunity</b>	Issues concerning potential opportunities for management to improve the operational efficiency and/or effectiveness of the system.

## Appendix B - Staff Interviewed

The following personnel were consulted:

- Sally Nunn Financial Services Team Leader
- Catherine Hamilton Financial Services Lead Officer
- Lexi Schultz Financial and Regulatory Accounting Team Leader
- Fiona Jump Financial Services Group Manager
- Jackie Doyle Financial Accountant
- Tracy Claridge Assistant Financial Accountant
- Andrew Linden Commissioning, Procurement & Compliance Team Leader
- Sarah Allen Lead Officer Central Admin

We would like to thank the staff involved for their co-operation during the audit.

## Statement of Responsibility

We take responsibility to Dacorum Borough Council for this report which is prepared on the basis of the limitations set out below.

The responsibility for designing and maintaining a sound system of internal control and the prevention and detection of fraud and other irregularities rests with management, with internal audit providing a service to management to enable them to achieve this objective. Specifically, we assess the adequacy and effectiveness of the system of internal control arrangements implemented by management and perform sample testing on those controls in the period under review with a view to providing an opinion on the extent to which risks in this area are managed.

We plan our work in order to ensure that we have a reasonable expectation of detecting significant control weaknesses. However, our procedures alone should not be relied upon to identify all strengths and weaknesses in internal controls, nor relied upon to identify any circumstances of fraud or irregularity. Even sound systems of internal control can only provide reasonable and not absolute assurance and may not be proof against collusive fraud.

The matters raised in this report are only those which came to our attention during the course of our work and are not necessarily a comprehensive statement of all the weaknesses that exist or all improvements that might be made. Recommendations for improvements should be assessed by you for their full impact before they are implemented. The performance of our work is not and should not be taken as a substitute for management's responsibilities for the application of sound management practices.

This report is confidential and must not be disclosed to any third party or reproduced in whole or in part without our prior written consent. To the fullest extent permitted by law Mazars LLP accepts no responsibility and disclaims all liability to any third party who purports to use or rely for any reason whatsoever on the Report, its contents, conclusions, any extract, reinterpretation amendment and/or modification by any third party is entirely at their own risk.

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# Dacorum Borough Council

## Final Internal Audit Report

### Business Continuity

May 2019

This report has been prepared on the basis of the limitations set out on page 13.

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**Distribution List:**

Jenifer Young – Corporate Health, Safety and Resilience Officer  
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Emma Walker – Group Manager (Environmental & Community Protection)  
David Austin – Assistant Director (Neighbourhood Delivery)  
Nigel Howcutt - Assistant Director (Finance and Resources)  
James Deane – Corporate Director (Finance and Operations) (Final Report Only)  
Sally Marshall – Chief Executive (Final Report only)

**Key Dates:**

Date of fieldwork:	November 2018
Date of draft report:	December 2018
Receipt of responses:	May 2019
Date of final report:	May 2019

**Status of our reports**

This report ("Report") was prepared by Mazars LLP at the request of Dacorum Borough Council and terms for the preparation and scope of the Report have been agreed with them. The matters raised in this Report are only those which came to our attention during our internal audit work. Whilst every care has been taken to ensure that the information provided in this Report is as accurate as possible, Internal Audit have only been able to base findings on the information and documentation provided and consequently no complete guarantee can be given that this Report is necessarily a comprehensive statement of all the weaknesses that exist, or of all the improvements that may be required.

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## Contents

1. Executive Summary .....	1
2. Scope of Assignment .....	3
3. Assessment of Control Environment.....	4
4. Observations and Recommendations.....	5
<b>Recommendation 1: Responsibilities for Business Continuity are clearly defined and understood. (Priority 3) .....</b>	<b>5</b>
<b>Recommendation 2: Staff Training (Priority 3) .....</b>	<b>6</b>
<b>Recommendation 3: Review and Update of Business Continuity Plans (Priority 1) .....</b>	<b>7</b>
<b>Recommendation 4: Test / Exercise Programme for Business Continuity Plans &amp; Plan Assumptions (Priority 2) .....</b>	<b>9</b>
<b>Recommendation 5: Regular monitoring and reporting of business continuity management system (Priority 2).....</b>	<b>11</b>
Appendix A - Reporting Definitions .....	12
Appendix B Statement of Responsibility .....	13

# 1. Executive Summary

## 1.1. Background

As part of the Internal Audit Plan for 2018/2019, we undertook a review of Dacorum Borough Council's key controls and processes for Business Continuity.

This area was included in the plan at request of the Audit Committee and also due to significance of risks related to the area in Dacorum Borough Council's Risk Register. Under the Civil Contingencies Act 2004, the authority has a statutory duty to maintain business continuity plans to ensure they can maintain services in the event of an emergency.

We are grateful to the Assistant Director (Neighbourhood Delivery), the Corporate Health, Safety and Resilience Team and other council staff for their assistance provided to us during the course of the audit.

This report summarises the results of the internal audit work and, therefore does not include all matters that came to our attention during the audit. Such matters have been discussed with relevant staff.

## 1.2. Audit Objective and Scope

The overall objective of this audit was to provide assurance over the adequacy and effectiveness of current controls over Business Continuity, and provide guidance on how to improve the current controls going forward.

In summary, the scope covered the following areas: Roles and Responsibilities, Policies and Procedures, Business Continuity Plans, Business Continuity Testing Lessons Learned and the Monitoring and Reporting arrangements that are in place.

Further detail on scope of the audit is provided in Section 2 of the report.

## 1.3. Summary Assessment

Our audit of DBC's internal controls in operation found that whilst there is a basically sound system of internal control design, there are weaknesses in design which may place some of the system objectives at risk. The level of non-compliance puts the system objectives at risk.

Our assessment in terms of the design of, and compliance with, the system of internal control covered is set out below:

Evaluation Assessment	Testing Assessment
Substantial	Limited

Management should be aware that our internal audit work was performed according to UK Public Sector Internal Audit Standards (PSIAS) which are different from audits performed in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. Similarly, the assurance gradings provided in our internal audit report are not comparable with the International Standard on Assurance Engagements (ISAE 3000) issued by the International Audit and Assurance Standards Board.

The classifications of our audit assessments and priority ratings definitions for our recommendations are set out in more detail in Appendix A, whilst further analysis of the control environment is shown in Section 3.

#### **1.4. Key Findings**

One priority 1 recommendation, two priority 2 recommendations and two priority 3 recommendations were raised where we believe there is scope for improvement within the control environment. These are set out below:

- Review and Update of Business Continuity Plans (Priority 1)
- Test / Exercise Programme for Business Continuity Plans & Plan Assumptions (Priority 2)
- Responsibilities for Business Continuity are defined and understood (Priority 3)
- Staff Training (Priority 3)
- Regular monitoring and reporting of business continuity management system (Priority 2)

Full details of the audit findings and recommendations are shown in Section 4 of the report.

#### **1.5. Management Response**

The management responses have been included in the main body of the report.

#### **1.6. Acknowledgement**

We would like to take this opportunity to thank all staff involved for their time and co-operation during the course of this visit.

## 2. Scope of Assignment

### 2.1. Background

As part of the agreed 2018/2019 Audit Plan, Mazars have undertaken a review of the controls in place at Dacorum Borough Council in relation to Business Continuity.

### 2.2. Scope of the Audit

The audit was carried out to evaluate and test controls over the following areas:

- Adequate and effective controls over the management of business continuity within the Council are in place and operating as intended.

#### Roles & Responsibilities

Roles and responsibilities in respect of business continuity across the council are clearly defined, communicated and understood;

Individuals with responsibility for Business Continuity have undergone appropriate training to enable them to undertake their roles effectively.

#### Policies, Procedures & Business Continuity Plans

Appropriate policies and procedures are maintained to ensure a consistent and effective approach to managing business continuity is applied across the Council;

There are appropriate, adequate and up to date Business Continuity Plans in place across the council's services;

There is clear alignment between Business Continuity Plans and individual service expectations are aligned to the capabilities of the council.

Business Continuity Plans are subject to regular reviews and updates;

Policies, Procedures & Business Continuity Plans are readily available and accessible.

#### Business Continuity Testing

An agreed annual Business Continuity testing plan is being developed across the council, which adequately reflects the current risks being faced;

Each of the Business Continuity Plans are subject to periodic testing to ensure they remain fit for purpose in the event that the plans need to be activated.

#### Lessons Learned

The delivery of testing plans, associated outcomes and unplanned events is monitored with systems embedded to ensure lessons are learnt;

The Council carry out benchmarking and/or communicate with similar councils to ensure lessons learned/best practice shared etc.

#### Monitoring & Reporting

There is regular monitoring and reporting of business continuity processes and issues to ensure effective scrutiny and oversight of arrangements.

### 3. Assessment of Control Environment

The following table sets out in summary the control objectives we have covered as part of this audit, our assessment of risk based on the adequacy of controls in place, the effectiveness of the controls tested and any resultant recommendations.

The classifications of our assessment of risk for the design and operation of controls are set out in more detail in Appendix A.

Control Objectives Assessed	Design of Controls	Operation of Controls	Recommendations Raised
Roles & Responsibilities			Recommendations 1 and 2
Policies, Procedures & Plans			Recommendations 3
Business Continuity Testing			Recommendation 4
Lessons Learned			
Monitoring & Reporting			Recommendation 5

The classifications of our assessment of risk for the design and operation of controls are set out in more detail in Appendix A.

## 4. Observations and Recommendations

**Recommendation 1: Responsibilities for Business Continuity are clearly defined and understood. (Priority 3)**

**Recommendation:**

The Council should review where responsibilities for Business Continuity are currently assigned and then review job descriptions to confirm that these responsibilities are clearly stated and post holders are aware of them.

**Observation:**

The Corporate Health, Safety & Resilience Team have responsibilities for the co-ordination of Business Continuity at the Council and this is clearly stated within their Job Descriptions.

The Assistant Director (Neighbourhood Delivery) is the Chair of the Business Continuity Leadership Team in the event of activating the Corporate Business Continuity Plans, however upon review of this job description, it was found no reference to business continuity responsibilities was made. Moreover, the Group Managers are listed as Service Level Business Continuity Plan Owners, which comes with specific responsibilities, but again their job descriptions did not document this responsibility.

Audit were informed that when new post holders with Business Continuity responsibilities being in post a member of the CHSR Team meet with them to inform them of their responsibilities, although it is noted no records of these meetings are taken.

Therefore, there is a risk that staff are unaware of their responsibilities for business continuity and would be unable to execute business continuity plans in the event of activation.

**Responsibility:** Corporate Health, Safety and Resilience Team in co-operation with Hertfordshire County Council

**Management response / deadline:**

The current BC plan clearly states the responsibilities of all staff involved in a BC incident.

The Health, Safety and Resilience Committee (Chaired by Assistant Director Neighbourhood Delivery) has changed its terms of reference as of 13<sup>th</sup> March 2019 to include all resilience matters. This was approved by Corporate Management Team on the 2<sup>nd</sup> April 2019. This means resilience matters and updates will be passed through this committee on a quarterly basis and reported to Corporate Management Team. Corporate Management Team includes Chief Executive, Directors and Assistant Directors of the Council. This will further embed those involved in BC in their roles.

Resilience Policy Statement to include Business Continuity responsibilities will be presented at the June 2019 Health, Safety and Resilience Committee, this will reflect the Health and Safety Policy statement which clearly outlines all staff responsible for resilience matters including but not limited to the Assistant Director (Neighbourhood Delivery) and the Director of Finance and Resources.

HR have been instructed to update Induction checklist to clarify new starters GM and above to meet with the Corporate Health, Safety and Resilience Team to go through their responsibilities, records will be kept in all staff induction records. Further records will be held with the CHSR team.

JD's are reviewed as part of the recruitment process, they will be reviewed when either of the posts mentioned above become vacant.

**Recommendation 2: Staff Training (Priority 3)****Recommendation:**

The Council should ensure they retain Business Continuity Awareness Training Records to confirm current levels of training and that these are regularly updated.

The Council should consider the level of Business Continuity Training that is available and how frequently that staff key post holders should undertake training.

**Observation:**

Business Continuity Awareness Training was previously delivered in house and training records were maintained, a review of these records to current staff shows that some current members of staff completed training prior to 2011. Audit were informed that the training records were not up to date and a Leadership Training day was delivered in May 2018.

The Council training provider for Business Continuity is through the Hertfordshire Authorities Resilience Partnership (HARP). Upon request the HARP confirmed only four staff from the Council have completed any Business Continuity courses, with a number of courses offered but later cancelled as well.

The Council should ensure that all post holders with key responsibilities in regards to Business Continuity have undertaken relevant training, there is a risk that staff are unable to carry out their assigned responsibilities effectively.

**Responsibility:** Group Manager (Environmental & Community Protection), Corporate Health, Safety and Resilience Team Leader

**Management response / deadline:**

A training exercise was completed on 17<sup>th</sup> May 2018, a further refresh session will take place at the leadership event to the CEO, Directors, Assistant Directors and Group Managers on the 11<sup>th</sup> July 2019.

A resilience exercise has been planned for October 2019, this will enable the leadership team to put into practice skills they have refreshed in the leadership event in July 2019.

HCC are currently looking at E-Learning options to support the face to face delivery of training they currently provide.

In addition an awareness campaign to promote specific behaviours to increase organisational resilience is planned for August 2019.

**Recommendation 3: Review and Update of Business Continuity Plans (Priority 1)****Recommendation:**

The Council should ensure that the Corporate Business Continuity Plan and the Service Level Business Continuity Plans are reviewed and updated. These should be aligned to ensure that critical function for the council are appropriately covered within the Service Level plans.

The Council should consider adopting an annual review timetable to ensure that all plans are appropriately reviewed and updated across the year.

**Observation:**

The Council currently has a Corporate Business Continuity Plan supported by eight service level plans. Business Continuity Plans should be regularly reviewed and updated to ensure that they remain fit for purpose and within each of the council's plans it states:

*Plans are reviewed and updated at least once a year. There may be several events which would occasion a re-assessment of the plan before the annual review. Examples of such events are: Acquisition of new equipment, or upgrading of operational systems Staff or organisational changes, Changes of contractors or suppliers, Changes of addresses or telephone numbers, Changes to business processes, Changes in operating practices, Changes in legislation, Relocation of unit / team.*

A review of all the continuity plans found they had not been updated for some time, with the last updates noted below:

- Corporate BCP (April 2016)
- Housing (May 2017)
- Environmental Services (January 2017)
- People and Performance (December 2016)
- Procurement (December 2016)
- Regulatory Services (now ECP) (September 2016)
- Revenues, Benefits and Fraud (December 2016)
- Finance (April 2017)
- ICT (August 2016)

A key part of activating business continuity plans is contacting the key individuals within the Council and the lack of regular update of plans increases the risk that incorrect individuals are listed and or contact numbers are incorrect. This would delay or hamper any activation of the plan.

Moreover, informing staff is also an important part of activation and each of the plans currently refer to the use of an SMS Text Service that should be utilised. However, upon review it was found that this system had been replaced by a different system so the plans are currently not in line with the correct processes that would be followed.

It was noted from review of the BCP's that a number of them still made reference to the old civic centre building with the Corporate BCP still having the old building plans included within its appendices. Moreover the Corporate BCP details ten critical services that the Council needs to maintain in the event of an emergency however it was identified there is a lack of alignment between the critical services listed in Corporate BCP and the existing scope of the Service level BCP's. Audit were informed that this is due to the lack of updated plans following the restructure of service areas. Therefore the current plans are clearly out of date.

At present, the Council currently has out of date business continuity plans that could impact upon its ability to maintain critical services in a timely manner in the event of an incident or emergency.

**Responsibility:**

Group Managers – Service level BC plans

Corporate BC plan: Group Manager (Environmental & Community Protection), Corporate Health, Safety and Resilience Team Leader

**Management response / deadline:**

All Service level BC plans were reviewed and updated by Group Managers early in 2019. There had been some service realignment prior to the updates however the plans still covered all the critical areas just not necessarily held in the correct Group area. These have now been moved to the correct manager's plans.

HCC are reviewing and updating the Corporate BC plan, final draft should be submitted to CHSR at the end of May 2019, once reviewed by CHSR Team this will be submitted to the Health, Safety and Resilience Committee for approval, before being submitted to Corporate Management Team. This will then replace the existing Corporate Business Continuity Plan.

#### **Recommendation 4: Test / Exercise Programme for Business Continuity Plans & Plan Assumptions (Priority 2)**

##### **Recommendation:**

The Council should put in place an appropriate test / exercise programme to ensure that business continuity plans are subject to regular testing so that they remain effective and robust.

Once a test / exercise programme has been established, the Council should ensure that the outcomes and lessons learned from them are part of the review and update process.

The Council should consider how it will gain assurance that the assumptions within the Business Continuity Management system are being complied with.

This could include an element of dip sampling or random testing of plans periodically to ensure they are being effectively maintained in line with current assumptions.

##### **Observation:**

The Civil Contingencies Act 2004 places a statutory duty on local authorities to maintain business continuity management arrangements to ensure that they can continue to perform their functions in the event of an emergency, so far as is reasonably practicable.

The Council's Corporate Business Continuity Plans states:

*The plan owner is responsible for the regular review and maintenance of this plan.*

*Business Continuity Plans must be validated and supported by a comprehensive BCM training and exercising programme, to ensure plans are effective, key staff are rehearsed, and systems tested.*

- *Appropriate training will ensure that staff are confident and competent concerning the contents of the plan and their role(s) within it; and*
- *Exercising, in the form of call-out exercises, table-top exercises or live exercises, will validate current plans and procedures.*

*Lessons learnt and key recommendations from exercises will be incorporated into the plan review and maintenance schedule.*

However, upon review it was found that there is no test or exercise programme in place to regularly carry out tests on business continuity plans. These have been done on an ad hoc basis historically but again upon review it was found that the last test of a business continuity plan took place in 2011.

The Corporate Business Continuity Plan sets out a number of assumptions that it expects in regards to the delivery of a robust Business Continuity Management system at the Council. One of the assumptions is:

*Each Group Manager maintains up to date Service Continuity Plans, including contact details, critical assets and appropriate arrangements for a battle box or similar where necessary;*

However, it has been highlighted during the audit that there is a lack of compliance with these assumptions and expectations as the corporate plan and service level plans have not been regularly maintained and updated (refer to recommendation 3).

The Corporate Management Team should therefore review how it gets assurance that the council is maintaining effective business continuity plans.

The lack of regular business continuity tests increases the risk that existing plans are not fit for purpose and in the event of an emergency or major incident the council would fail in its statutory duty to maintain services.

##### **Responsibility:**

Group Manager (Environmental & Community Protection), Corporate Health, Safety and Resilience Team Leader

**Management response / deadline:**

Business Continuity Exercise is planned for October 2019, this will take place in the Leadership Event for the Chief Executive, Directors, Assistant Directors and Group Managers.

Herts County Council will review the updated service level Business Continuity plans in July 2019, this will then be added annually from there on in to their work plan.

Quarterly updates on resilience matters will be reported to the Health, Safety and Resilience Committee on a quarterly basis. This will include feedback on training, exercises, Local Authority Resilience Group (LARG), Hertfordshire Authorities Resilience Partnership (HARP).

**Recommendation 5: Regular monitoring and reporting of business continuity management system (Priority 2)**

**Recommendation:**

The Council should ensure that it is effectively monitoring the business continuity management system and seek assurance that it remains effective and fit for purpose.

Consideration should be given to having a regular update on current business continuity activities. This could include but not be limited to:

- An annual report on the business continuity management system;
- Any activation of business continuity plans and the lessons learned;
- Outcomes from business continuity tests;
- Outcomes from any dip sampling of business continuity plans; and
- Feedback on items discussed at Local Authorities Resilience Group.

**Observation:**

The Corporate business continuity plan is owned by the Corporate Management Team (CMT) and it was confirmed that any reports in regard to business continuity are reported to the CMT meeting, however it was confirmed that no regular reports in regards to business continuity are produced.

The CMT meeting does not have a terms of reference, however the information provided on the Council's intranet confirmed they have oversight of resilience. Some ad hoc reports have been presented in regard to business continuity and audit evidenced these, however the last business continuity update to the CMT was in September 2016.

Audit were informed that the Council attends the Local Authorities Resilience Group, which is run by the district councils in Hertfordshire and is an informal meeting where representatives from the authorities meet to share best practice and discuss any issues being faced. It should be considered how feedback or any issues raised through this forum are reported within the Council.

There is an increased risk that an ineffective or inappropriate business continuity system is not identified through regular monitoring and reporting, placing the Council at risk of being unable to carry out its statutory duties effectively in the event of an incident or emergency.

**Responsibility:** Corporate Health, Safety and Resilience Team

**Management response / deadline:**

The Health and Safety Committee (Chaired by Assistant Director Neighbourhood Deliver) has changed its terms of reference as of 13<sup>th</sup> March 2019 to include resilience matters. This was approved by Corporate Management Team on the 2<sup>nd</sup> April. This will mean resilience matters and updates will be passed through this committee on a quarterly basis and reported to Corporate Management Team. Corporate Management Team included, COE, Directors and Assistant Directors of the Council. Quarterly updates on resilience matters will be reported to the Health, Safety and Resilience Committee on a quarterly basis. This will include feedback on training, exercises, Local Authority Resilience Group (LARG), Hertfordshire Authorities Resilience Partnership (HARP). This will further embed those involved in BC in their roles.

In addition an awareness campaign to promote specific behaviours to increase organisational resilience is planned for August 2019

## Appendix A - Reporting Definitions

### Audit assessment

In order to provide management with an assessment of the adequacy and effectiveness of their systems of internal control, the following definitions are used:

Level	Symbol	Evaluation Assessment	Testing Assessment
<b>Full</b>		There is a sound system of internal control designed to achieve the system objectives.	The controls are being consistently applied.
<b>Substantial</b>		Whilst there is a basically sound system of internal control design, there are weaknesses in design which may place some of the system objectives at risk.	There is evidence that the level of non-compliance with some of the controls may put some of the system objectives at risk.
<b>Limited</b>		Weaknesses in the system of internal control design are such as to put the system objectives at risk.	The level of non-compliance puts the system objectives at risk.
<b>Nil</b>		Control is generally weak leaving the system open to significant error or abuse.	Significant non-compliance with basic controls leaves the system open to error or abuse.

### Grading of recommendations

In order to assist management in using our reports, we categorise our recommendations according to their level of priority as follows:

Level	Definition
<b>Priority 1</b>	Recommendations which are fundamental to the system and upon which the organisation should take immediate action.
<b>Priority 2</b>	Recommendations which, although not fundamental to the system, provide scope for improvements to be made.
<b>Priority 3</b>	Recommendations concerning issues which are considered to be of a minor nature, but which nevertheless need to be addressed.
<b>System Improvement Opportunity</b>	Issues concerning potential opportunities for management to improve the operational efficiency and/or effectiveness of the system.

## Appendix B Statement of Responsibility

We take responsibility to Dacorum Borough Council for this report which is prepared on the basis of the limitations set out below.

The responsibility for designing and maintaining a sound system of internal control and the prevention and detection of fraud and other irregularities rests with management, with internal audit providing a service to management to enable them to achieve this objective. Specifically, we assess the adequacy and effectiveness of the system of internal control arrangements implemented by management and perform sample testing on those controls in the period under review with a view to providing an opinion on the extent to which risks in this area are managed.

We plan our work in order to ensure that we have a reasonable expectation of detecting significant control weaknesses. However, our procedures alone should not be relied upon to identify all strengths and weaknesses in internal controls, nor relied upon to identify any circumstances of fraud or irregularity. Even sound systems of internal control can only provide reasonable and not absolute assurance and may not be proof against collusive fraud.

The matters raised in this report are only those which came to our attention during the course of our work and are not necessarily a comprehensive statement of all the weaknesses that exist or all improvements that might be made. Recommendations for improvements should be assessed by you for their full impact before they are implemented. The performance of our work is not and should not be taken as a substitute for management's responsibilities for the application of sound management practices.

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Registered in England and Wales No 0C308299.



# Dacorum Borough Council

## Final Internal Audit Report

### IT Change Management

July 2019

This report has been prepared on the basis of the limitations set out on page 9.

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Nigel Howcutt – Assistant Director (Finance and Resources)  
James Deane – Corporate Director (Finance and Operations) (Final Report Only)  
Sally Marshall – Chief Executive (Final Report only)

**Key Dates:**

Date of fieldwork:	March 2019
Date of draft report:	May 2019
Receipt of responses:	May 2019
Date of final report:	July 2019

**Status of our reports**

This report ("Report") was prepared by Mazars LLP at the request of Dacorum Borough Council and terms for the preparation and scope of the Report have been agreed with them. The matters raised in this Report are only those which came to our attention during our internal audit work. Whilst every care has been taken to ensure that the information provided in this Report is as accurate as possible, Internal Audit have only been able to base findings on the information and documentation provided and consequently no complete guarantee can be given that this Report is necessarily a comprehensive statement of all the weaknesses that exist, or of all the improvements that may be required.

The Report was prepared solely for the use and benefit of Dacorum Borough Council and to the fullest extent permitted by law Mazars LLP accepts no responsibility and disclaims all liability to any third party who purports to use or rely for any reason whatsoever on the Report, its contents, conclusions, any extract, reinterpretation, amendment and/or modification. Accordingly, any reliance placed on the Report, its contents, conclusions, any extract, reinterpretation, amendment and/or modification by any third party is entirely at their own risk. Please refer to the Statement of Responsibility in Appendix C of this report for further information about responsibilities, limitations and confidentiality.

## Contents

1. Executive Summary .....	1
2. Scope of Assignment .....	3
3. Assessment of Control Environment.....	4
4. Observations and Recommendations.....	5
Appendix A - Reporting Definitions .....	7
Appendix B - Staff Interviewed.....	8
Appendix C Statement of Responsibility.....	9

# 1. Executive Summary

## 1.1. Background

As part of the agreed 2018/2019 Audit Plan, Mazars has undertaken a review of the controls in place at Dacorum to ensure controls have been adequately designed and implemented. IT change management helps the Council manage their systems more effectively.

We are grateful to the ICT Operations Team Leader, and other council staff for their assistance provided during the course of the audit.

This report summarises the results of the internal audit work and, therefore, does not include all matters that came to our attention during the audit. Such matters have been discussed with relevant staff.

## 1.2. Audit Objective and Scope

The overall objective of the audit was to evaluate and test controls over the following areas:

- IT Change Management Process;
- Software Changes;
- Hardware Changes;

Further detail on scope of the audit is provided in Section 2 of the report.

## 1.3. Summary Assessment

Our audit of DBC's internal controls in operation found that there is a sound system of internal control designed to achieve the system objectives. There is evidence that the level of non-compliance with some of the controls may put some of the system objectives at risk.

Our assessment in terms of the design of, and compliance with, the system of internal control covered is set out below:

Evaluation Assessment	Testing Assessment
Full	Substantial

Management should be aware that our internal audit work was performed according to UK Public Sector Internal Audit Standards (PSIAS) which are different from audits performed in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. Similarly, the assurance gradings provided in our internal audit report are not comparable with the International Standard on Assurance Engagements (ISAE 3000) issued by the International Audit and Assurance Standards Board.

The classifications of our audit assessments and priority ratings definitions for our recommendations are set out in more detail in Appendix A, whilst further analysis of the control environment is shown in Section 3.

#### **1.4. Key Findings**

Two priority 2 recommendations were raised where we believe there is scope for improvement within the control environment. These are set out below:

- Change Advisory Board meetings/Minutes should be formally recorded/minuted in order for all actions to be monitored by Management (Priority 2).
- An impact analysis should be performed to identify any compatibility issues that may arise through the implementation of new systems or software in the existing ICT infrastructure. Note the timing of this analysis - it should occur before the system/software is procured/developed. (Priority 2).

Full details of the audit findings and recommendations are shown in Section 4 of the report.

#### **1.5. Management Response**

We received the management responses in a timely manner and these have been included in the main body of the report.

#### **1.6. Acknowledgement**

We would like to take this opportunity to thank all staff involved for their time and co-operation during the course of this visit.

## 2. Scope of Assignment

### 2.1. Background

As part of the agreed 2018/2019 Audit Plan, Mazars has undertaken a review of the controls in place at Dacorum Borough Council in relation to IT Change Management.

### 2.2. Scope of the Audit

The review focused on providing an independent and objective opinion on the degree to which the Council manages the risks associated with IT change management, and assessed whether the current arrangements are robust and sufficient relative to the risk identified in relation to the following areas:

- An IT Change Management Policy is in place to aid managing the IT estate, the policy is up to date and available to all IT staff. Responsibility for asset management has been designated.
- All changes to the live environment and the ICT hardware estate should be formally authorised by an appropriate level of management. Consideration should be given to approval from the Finance department for purchases of software or hardware assets. These authorisations/approvals should be formally recorded within the change management documentation. Depending on the classification of the change, it may need to be approved by differing levels of management up to a Change Advisory Board.
- Changes should be scheduled for release into the live environment at times where minimal disruption will be caused to normal working operations. These schedules should cater for both routine and ad hoc changes. Where emergency changes, such as security fixes, are required to be implemented, then these are scheduled at the earliest convenience.
- The compatibility of new/updated systems and software should be assessed against the existing ICT environment prior to the implementation of these changes. Any issues that are identified should be formally documented and taken into consideration as part of the procurement/development process.
- An IT replacement programme promotes the proactive management of the hardware environment through the structured, periodic update of assets to better support the processing requirements of the business. In this manner obsolete equipment is removed from the organisation and the cost of these updates is spread over the lifetime of the replacement programme.

The audit approach was developed by an assessment of risks and management controls operating within each area of the scope. The following procedures were adopted:

- Identification of the role and objective of each area;
- Identification of risks relating to the auditable area and the controls in place that enable the control objectives to be achieved;
- Evaluation and testing of controls within the system.

### 3. Assessment of Control Environment

The following table sets out in summary the control objectives we have covered as part of this audit. Our assessment of risk based on the adequacy of controls in place, the effectiveness of the controls tested and any resultant recommendations.

The classifications of our assessment of risk for the design and operation of controls are set out in more detail in Appendix A.

Control Objectives Assessed	Design of Controls	Operation of Controls	Recommendations Raised
An IT Change Management Policy is in place to aid managing the IT estate, the policy is up to date and available to all IT staff. Responsibility for asset management has been designated.			
All changes to the live environment and the ICT hardware estate should be formally authorised by an appropriate level of management. Consideration should be given to approval from the Finance department for purchases of software or hardware assets. These authorisations/approvals should be formally recorded within the change management documentation. Depending on the classification of the change, it may need to be approved by differing levels of management up to a Change Advisory Board.			<b>Recommendation 1 (P2)</b>
Changes should be scheduled for release into the live environment at times where minimal disruption will be caused to normal working operations. These schedules should cater for both routine and ad hoc changes. Where emergency changes, such as security fixes, are required to be implemented, then these are scheduled at the earliest convenience.			
The compatibility of new/updated systems and software should be assessed against the existing ICT environment prior to the implementation of these changes. Any issues that are identified should be formally documented and taken into consideration as part of the procurement/development process.			<b>Recommendation 2 (P2)</b>
An IT replacement programme promotes the proactive management of the hardware environment through the structured, periodic update of assets to better support the processing requirements of the business. In this manner obsolete equipment is removed from the organisation and the cost of these updates is spread over the lifetime of the replacement programme.			

The classifications of our assessment of risk for the design and operation of controls are set out in more detail in Appendix A.

## 4. Observations and Recommendations

**Recommendation 1: Change Advisory Board Minutes formally recorded/minuted.  
(Priority 2).**

**Recommendation**

Change Advisory Board meetings/Minutes should be formally recorded/minuted in order for all actions to be monitored by Management.

**Observation**

From discussions with the ICT Operations Team Leader, it was noted that there are no formally recorded Change Advisory Board minutes, to ensure all actions discussed are captured and all items are actioned accordingly.

**Risk:**

Change requests may be incorrectly or inconsistently interpreted resulting in uncontrolled or unwarranted changes being implemented.

Failure to adequately complete change management records increases the risk that records are not accurate and do not reflect a true picture of the organisation's change state. Therefore, cannot be relied upon.

**Responsibility: Group Manager – Technology & Digital Transformation**

**Management response / deadline**

The Change process is designed to lead to a binary decision by the Change Advisory Board (CAB) whether to approve or reject a specific change request, rather than free text commentary. Considerable detail (covering the nature and timing of the change, responsibility for its implementation, an assessment of associated risks and planned mitigation) is required by the CAB before a decision on its approval is made. It is unclear how free text minuted records of discussions around these binary decisions would in isolation address the risk that 'Change requests may be incorrectly or inconsistently interpreted..."

We firmly commit, however, that where there is any lack of clarity within a change request or where the CAB requires an alteration to the initial request (for example a change in timing or risk mitigation) the initial request will be rejected. A new request, reflecting accurately the expectations of the CAB, will then be required ahead of any approval.

In this way, we will ensure that the prescriptive expectations of the CAB are properly recorded within the formal process.

**We will ensure this process is followed immediately.**

**Recommendation 2: Impact analysis' not always performed for new system implementations (Priority 2).**

**Recommendation**

An impact analysis should be performed to identify any compatibility issues that may arise through the implementation of new systems or software in the existing ICT infrastructure. Note the timing of this analysis - it should occur before the system/software is procured/developed.

**Observation**

From discussions with the ICT Operations Team Leader, it was noted that impact analyses are not always carried out for implementation of new systems to identify any compatibility issues which may arise. The ICT Operations Team Leader agreed that all system procurement should come via ICT. Due to cloud based systems now being procured by some managers, this does not always happen.

**Risk:**

Disruptions or data errors caused by inaccurate specifications or incomplete impact assessment/analysis.

Users not using systems as not meeting their requirements. This results in wasted expenditure as the anticipated benefits are not achieved.

- User requirements are not understood.

**Responsibility: Group Manager – Technology & Digital Transformation**

**Management response / deadline**

The ICT SLA (agreed by CMT) lists among 'Customer Responsibilities' 'Ensuring IT related equipment and software is purchased only through ICT'. However, as for historical reasons some technology budgets are held not by ICT but within services' budgets, the practical application of this responsibility can be challenging.

For this reason, as part of the Council's New Normal Programme it is planned to establish a Technical Design Authority (TDA). The TDA would sit within the Council's formal procurement process and would undertake impact assessments at technical, operational and technology strategy levels to the purchase and deployment of any new systems or software.

**The establishment of the TDA will form part of a wider review of the Council's Project Management approach and is expected to be in place in Q3 2019/20.**

## Appendix A - Reporting Definitions

### Audit assessment

In order to provide management with an assessment of the adequacy and effectiveness of their systems of internal control, the following definitions are used:

Level	Symbol	Evaluation Assessment	Testing Assessment
<b>Full</b>		There is a sound system of internal control designed to achieve the system objectives.	The controls are being consistently applied.
<b>Substantial</b>		Whilst there is a basically sound system of internal control design, there are weaknesses in design which may place some of the system objectives at risk.	There is evidence that the level of non-compliance with some of the controls may put some of the system objectives at risk.
<b>Limited</b>		Weaknesses in the system of internal control design are such as to put the system objectives at risk.	The level of non-compliance puts the system objectives at risk.
<b>Nil</b>		Control is generally weak leaving the system open to significant error or abuse.	Significant non-compliance with basic controls leaves the system open to error or abuse.

The assessment gradings provided here are not comparable with the International Standard on Assurance Engagements (ISAE 3000) issued by the International Audit and Assurance Standards Board and as such the grading of 'Full' does not imply that there are no risks to the stated control objectives.

### Grading of recommendations

In order to assist management in using our reports, we categorise our recommendations according to their level of priority as follows:

Level	Definition
<b>Priority 1</b>	Recommendations which are fundamental to the system and upon which the organisation should take immediate action.
<b>Priority 2</b>	Recommendations which, although not fundamental to the system, provide scope for improvements to be made.
<b>Priority 3</b>	Recommendations concerning issues which are considered to be of a minor nature, but which nevertheless need to be addressed.
<b>System Improvement Opportunity</b>	Issues concerning potential opportunities for management to improve the operational efficiency and/or effectiveness of the system.

## Appendix B - Staff Interviewed

The following personnel were consulted:

Audit sponsor: Linda Roberts – Assistant Director, Performance, People and Innovation

Audit Contacts: Ben Trueman – Group Manager, Technology & Digital Transformation

Gary Osler – ICT Operations Team Leader

Amanda Jefferies – Service Desk/Change Manager

We would like to thank the staff involved for their co-operation during the audit.

## Appendix C Statement of Responsibility

We take responsibility to Dacorum Borough Council for this report which is prepared on the basis of the limitations set out below.

The responsibility for designing and maintaining a sound system of internal control and the prevention and detection of fraud and other irregularities rests with management, with internal audit providing a service to management to enable them to achieve this objective. Specifically, we assess the adequacy and effectiveness of the system of internal control arrangements implemented by management and perform sample testing on those controls in the period under review with a view to providing an opinion on the extent to which risks in this area are managed.

We plan our work in order to ensure that we have a reasonable expectation of detecting significant control weaknesses. However, our procedures alone should not be relied upon to identify all strengths and weaknesses in internal controls, nor relied upon to identify any circumstances of fraud or irregularity. Even sound systems of internal control can only provide reasonable and not absolute assurance and may not be proof against collusive fraud.

The matters raised in this report are only those which came to our attention during the course of our work and are not necessarily a comprehensive statement of all the weaknesses that exist or all improvements that might be made. Recommendations for improvements should be assessed by you for their full impact before they are implemented. The performance of our work is not and should not be taken as a substitute for management's responsibilities for the application of sound management practices.

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