



The Annual Audit Letter for Dacorum Borough Council

Year ended 31 March 2017

October 2017

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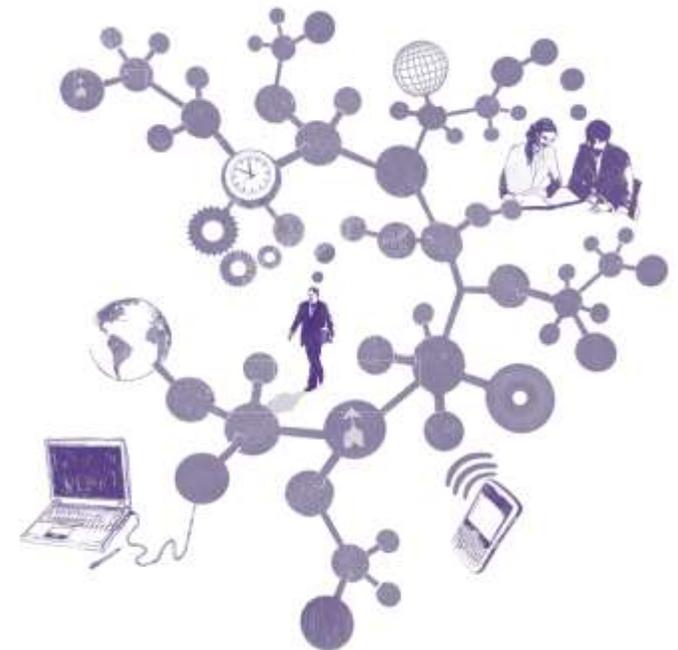
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Executive summary

Purpose of this letter

Our Annual Audit Letter (Letter) summarises the key findings arising from the work we have carried out at Dacorum Borough Council (the Council) for the year ended 31 March 2017.

This Letter provides a commentary on the results of our work to the Council and its external stakeholders, and highlights issues we wish to draw to the attention of the public. In preparing this letter, we have followed the National Audit Office (NAO)'s Code of Audit Practice (the Code) and Auditor Guidance Note (AGN) 07 – 'Auditor Reporting'.

We reported the detailed findings from our audit work to the Council's Audit Committee (as those charged with governance) in our Audit Findings Report on 20 September 2017.

Our responsibilities

We have carried out our audit in accordance with the NAO's Code of Audit Practice, which reflects the requirements of the Local Audit and Accountability Act 2014 (the Act). Our key responsibilities are to:

- give an opinion on the Council's financial statements (section two)
- assess the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources (the value for money conclusion) (section three).

In our audit of the Council's financial statements, we comply with International Standards on Auditing (UK and Ireland) (ISAs) and other guidance issued by the NAO.

Our work

Financial statements opinion

We gave an unqualified opinion on the Council's financial statements on 29 September 2017.

Value for money conclusion

We were satisfied that the Council put in place proper arrangements to ensure economy, efficiency and effectiveness in its use of resources during the year ended 31 March 2017. We reflected this in our audit opinion on 29 September 2017.

Certificate

We certified that we had completed the audit of the accounts of the Council in accordance with the requirements of the Code on 29 September 2017.

Certification of grants

We also carry out work to:

- certify the Council's Housing Benefit subsidy claim on behalf of the Department for Work and Pensions; and
- Certify the Pooling of Capital Receipts return.

Our work in these areas is not yet complete as we are awaiting the issuing of final guidance. The work will be finalised by 30 November 2017. We will report the results of this work to the Audit Committee in our Annual Certification Letter.

Working with the Council/Authority

We would like to record our appreciation for the assistance and co-operation provided to us during our audit by the Council's staff.

Grant Thornton UK LLP
October 2017

Audit of the accounts

Our audit approach

Materiality

In our audit of the Council's accounts, we applied the concept of materiality to determine the nature, timing and extent of our work, and to evaluate the results of our work. We define materiality as the size of the misstatement in the financial statements that would lead a reasonably knowledgeable person to change or influence their economic decisions.

We determined materiality for our audit of the Council's accounts to be £2.9 million, which is 2% of the Council's gross revenue expenditure. We used this benchmark, as in our view, users of the Council's accounts are most interested in how it has spent the income it has raised from taxation and grants during the year.

The scope of our audit

Our audit involves obtaining enough evidence about the amounts and disclosures in the financial statements to give reasonable assurance they are free from material misstatement, whether caused by fraud or error. This includes assessing whether:

- the Council's accounting policies are appropriate, have been consistently applied and adequately disclosed;
- significant accounting estimates made by the Corporate Director (Finance and Operations) are reasonable; and
- the overall presentation of the financial statements gives a true and fair view.

We also read the narrative report and annual governance statement to check they are consistent with our understanding of the Council and with the accounts included in the Statement of Accounts on which we gave our opinion.

We carry out our audit in line with ISAs (UK and Ireland) and the NAO Code of Audit Practice. We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our audit approach was based on a thorough understanding of the Council's business and is risk based.

We identified key risks and set out overleaf the work we performed in response to these risks and the results of this work.

Audit of the accounts

These are the risks which had the greatest impact on our overall strategy and where we focused more of our work.

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>The revenue cycle includes fraudulent transactions</p> <p>Under ISA (UK&I) 240 there is a 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 the revenue streams at Dacorum Borough Council, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:</p> <ul style="list-style-type: none"> • there is little incentive to manipulate revenue recognition; • opportunities to manipulate revenue recognition are very limited; and • the culture and ethical frameworks of local authorities, including Dacorum Borough Council, mean that all forms of fraud are seen as unacceptable. <p>Regardless of this we carry out the following work in relation to this risk:</p> <ul style="list-style-type: none"> • Reviewed the revenue recognition policies; • Reviewed accounting estimates, judgments and decisions made by management and review any unusual significant transactions • Substantively tested a sample of grant and other revenues 	<p>Our audit work did not identify any issues in respect of revenue recognition.</p>
<p>Valuation of pension fund net liability</p> <p>The Council's pension fund asset and liability as reflected in its balance sheet represent a significant estimate in the financial statements</p>	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> • Identified the controls put in place by management to ensure that the pension fund liability is not materially misstated. We also assessed whether these controls were implemented as expected and whether they are sufficient to mitigate the risk of material misstatement • Reviewed the competence, expertise and objectivity of the actuary who carried out your pension fund valuation. We gained an understanding of the basis on which the valuation is carried out • Undertook procedures to confirm the reasonableness of the actuarial assumptions made • Reviewed the consistency of the pension fund asset and liability and disclosures in notes to the financial statements with the actuarial report from your actuary • Enquired about any data which was provided to the actuary in making their valuation and we reviewed the reasonableness and accuracy of this data 	<p>Our audit work did not identified any issues in respect of the valuation of the pension fund net liability.</p>

Audit of the accounts (continued)

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Valuation of property, plant and equipment The Council revalues its assets on a rolling basis over a five year period. The Code requires that the Council ensures that the carrying value at the balance sheet date is not materially different from the current value. This represents a significant estimate by management in the financial statements.</p>	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> Assessed the revaluation control environment and carried out a walkthrough to confirm that controls have been implemented Reviewed the competence, expertise and objectivity of management experts used, the instructions issued to valuation experts and the scope of their work Discussed with valuer the basis on which the valuation is carried out and challenged the key assumptions Reviewed and challenged the information used by the valuer to ensure it is robust and consistent with our understanding Reviewed management's processes and assumptions for the calculation of the estimate Tested revaluations made during the year to ensure they are input correctly into the Council's asset register 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 Reviewed the disclosures made by the Council in its financial statements to ensure they are in accordance with the requirements of the CIPFA Code of Practice and IFRS 	<p>Our audit work did not identify any issues in respect of the valuation of property, plant and equipment.</p>

Audit of the accounts

Audit opinion

We gave an unqualified opinion on the Council's accounts on 29 September 2017, in advance of the 30 September 2017 national deadline.

The Council made the accounts available for audit in line with the agreed timetable, and provided a good set of supporting working papers. The finance team responded promptly and efficiently to our queries during the audit.

Issues arising from the audit of the accounts

We reported the key issues from our audit of the accounts of the Council to the Council's Audit Committee on 20 September 2017.

Annual Governance Statement and Narrative Report

We are required to review the Council's Annual Governance Statement and Narrative Report. It published them on its website with the draft accounts in line with the national deadlines.

Both documents were prepared in line with the relevant guidance and were consistent with the supporting evidence provided by the Council and with our knowledge of the Council.

Value for Money conclusion

Background

We carried out our review in accordance with the NAO Code of Audit Practice (the Code), following the guidance issued by the NAO in November 2016 which specified the 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.

Key findings

Our first step in carrying out our work was to perform a risk assessment and identify the key risks where we concentrated our work.

The key risks we identified and the work we performed are set out in table 2 overleaf.

Overall VfM conclusion

We are satisfied that in all significant respects the Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2017.

Value for Money

Table 2: Value for money risks

Risk identified	Work carried out	Findings and conclusions
<p>Medium term financial resilience</p> <p>Efficiency Savings Gap</p> <p>Central Government funding of the Council is likely to continue to decline in the medium term. You have looked ahead and identified a savings gap of £3.7 million in the next 4 years through to 2020. This gap in funding represents a significant challenge for you and to this end you have set out an efficiency plan covering 2016/17 through to 2019/20.</p> <p>Capital Investment</p> <p>You have successfully completed significant capital projects on operational buildings in 2016/17. You have ongoing plans for continued capital projects including the delivery of 300 social housing units by 2020 and large regeneration projects in the area. Your medium term financial plans are contingent on the success of these projects through attracting residents and private investment in the area.</p>	<ul style="list-style-type: none"> We reviewed your arrangements for updating and developing your medium term financial planning We reviewed your planning assumptions, including any sensitivity analysis. We reviewed your governance arrangements for capital planning. 	<p>Efficiency Savings Gap</p> <p>We reviewed the arrangements for updating your Medium Term Financial Strategy and particularly the assumptions which feed into this on future grants/income, inflation, service demand and other one off items. These assumptions were reasonable and were in line with our own expectations and the assumptions applied in other similar sized Councils. You have set out a 3 year efficiency/savings plan from the 2016/17 year which gives an overview of the main plans cited by management as having the potential to close the £3.7 million. You have both a corporate savings plan and also a multi-year savings plan which is service focussed and demonstrates an ownership throughout the organisations for recognising savings.</p> <p>You have a track record of delivering savings plans and it is clear that the plans set out in overview are drawn from a range of more detailed strategy and planning documents which have been through your governance and decision making processes. We concluded that your financial planning process is robust and should mitigate against this risk.</p> <p>Capital Investment</p> <p>The Council is progressing with its capital investment plans although it is recognised that there are various plans which are at very different stages of development. Our discussions with management and review of your Financial Regulations for the approval of capital plans has given us assurance that the Council has put in place proper arrangements for making decisions about the capital developments through its reporting to members. Governance arrangements are clearly understood and adhered to by key officers and the consultation with the public is made through its website.</p> <p>Prior to presentation to Members a capital project business case must proceed through Corporate Management Team (CMT) approval followed by scrutiny by the Budget Review Group and the Scrutiny Committee to ensure the bid is realistic, reasonable and meets the Council's objectives. The case then proceeds to Cabinet and Council for approval. On incorporation into the Capital Programme the project is entered into the Council's Rocket project management information system which is used to monitor delivery against timescales/objectives/budget. Delivery of capital projects is regularly monitored and scrutinised at the monthly Performance Board and Project Managers will be challenged on variances against plan.</p> <p>Through our review and discussion of the governance and monitoring of capital planning we concluded that the capital planning process is robust and should mitigate against this risk.</p>

Appendix A: Reports issued and fees

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

Fees

	Proposed fee £	Actual fees £
Statutory audit of Council	73,350	73,350
Housing Benefit Grant Certification	17,543	TBC

The proposed fees for the statutory audit for the year were in line with the scale fee set by Public Sector Audit Appointments Ltd (PSAA). The other work hasn't been completed yet.

Reports issued

Report	Date issued
Audit Plan	June 2017
Audit Findings Report	September 2017
Annual Audit Letter	October 2017

Fees for other services

Service	Fees £
Non audit-related services:	
Pooling of capital receipts return certification	TBC

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. The table above summarises all other services which were identified.
- We will consider whether other services might be perceived as a threat to our independence as the Council's auditor on agreement of the terms of the engagement and the fee, which has yet to be completed.



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