



Annual Audit Letter

Year ending 31 March 2018

Dacorum Borough Council

24 August 2018



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Executive Summary

Purpose

Our Annual Audit Letter (Letter) summarises the key findings arising from the work that we have carried out at Dacorum Borough Council (the Council) for the year ended 31 March 2018.

This Letter is intended to provide a commentary on the results of our work to the Council and external stakeholders, and to highlight issues that 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 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 25 July 2018.

Our work

Materiality	We determined materiality for the audit of the Council's financial statements to be £2,848,000, which is 2% of the Council's audited prior year gross expenditure.
Financial Statements opinion	We gave an unqualified opinion on the Council's financial statements on 31 July 2018.
Whole of Government Accounts (WGA)	We completed work on the Council's consolidation return following guidance issued by the NAO.
Use of statutory powers	We did not identify any matters which required us to exercise our additional statutory powers.
Value for Money arrangements	We were satisfied that the Council put in place proper arrangements to ensure economy, efficiency and effectiveness in its use of resources. We reflected this in our audit report to the Council on 31 July 2018.
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. Our work on this claim is not yet complete and will be finalised by 30 November 2018. We will report the results of this work to the Audit Committee in our Annual Certification Letter.
Certificate	We certify that we have completed the audit of the accounts of Dacorum Borough Council in accordance with the requirements of the Code of Audit Practice.

During the 2017/18 financial year we have

- Worked closely with the new officers in your Finance Team to complete and efficient audit for the earlier 31 July 2018 submission deadline
- Sharing our insight – we provided regular audit committee updates covering best practice. We also shared our thought leadership reports

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

Respective 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 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 financial statements, we comply with International Standards on Auditing (UK) (ISAs) and other guidance issued by the NAO.

Audit of the Accounts

Our audit approach

Materiality

In our audit of the Council's financial statements, we use the concept of materiality to determine the nature, timing and extent of our work, and in evaluating 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 the audit of the Council's accounts to be £2,848,000, which is 2% of the Council's audited prior year gross expenditure. We used this benchmark as, in our view, users of the Council's financial statements are most interested in where the Council has spent its revenue in the year.

We set a lower threshold of £142,000, above which we reported errors to the Audit Committee in our Audit Findings Report.

The scope of our audit

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

- the accounting policies are appropriate, have been consistently applied and adequately disclosed;
- the significant accounting estimates made by management are reasonable; and
- the overall presentation of the financial statements gives a true and fair view.

We also read the remainder of the Statement of Accounts, the Narrative Report and the Annual Governance Statement to check they are consistent with our understanding of the Council and with the financial statements included in the Statement of Accounts on which we gave our opinion.

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

Our audit approach is 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

Significant Audit Risks

These are the significant 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>Improper revenue recognition</p> <p>Under ISA 240 (UK) 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 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"> • there is little incentive to manipulate revenue recognition • opportunities to manipulate revenue recognition are very limited • The culture and ethical frameworks of local authorities, including Dacorum Borough Council, mean that all forms of fraud are seen as unacceptable <p>Therefore we do not consider this to be a significant risk for Dacorum Borough Council.</p>	<p>Our audit work did not identify any issues in respect of improper revenue recognition.</p>
<p>Management override of controls</p> <p>Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities.</p> <p>We identified management override of controls as a risk requiring special audit consideration.</p>	<p>Our audit work included but not restricted to:</p> <ul style="list-style-type: none"> • gaining an understanding of accounting estimates, judgements and decisions made by management and considered their reasonableness • obtaining a full list of journal entries, identifying and testing unusual journal entries for appropriateness and • evaluating the rationale for any changes in accounting policies or significant unusual transactions 	<p>In our journals testing we identified one controls issue where journals generated in the financial system are automatically assigned a unique voucher number which is sequential, however it is possible to delete journals removing the audit trail. We recommended that that your finance team keep a log or run regular exception reports to ensure there is an audit trail of deleted journals, and this recommendation was agreed by management.</p>

Audit of the Accounts

Significant Audit Risks (continued)

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Valuation of property, plant and equipment You revalue your land and buildings on an quinquennial basis to ensure that carrying value is not materially different from current value. This represents a significant estimate by management in the financial statements.</p> <p>We identified the valuation of land and buildings revaluations and impairments as a risk requiring special audit consideration.</p>	<p>Our audit work included:</p> <ul style="list-style-type: none"> • review of your processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work • considering the competence, expertise and objectivity of any management experts used • corresponding with your valuer on the basis on which the valuation is carried out and challenge of the key assumptions • reviewing and challenging the information used by your valuer to ensure it is robust and consistent with our understanding • testing revaluations made during the year to ensure they are input correctly into your asset register • evaluating the assumptions made by you for those assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value 	<p>Our audit work did not identify any issues in respect of the valuation of property, plant and equipment.</p>
<p>Valuation of pension fund net liability Your pension fund asset and liability as reflected in its balance sheet represent a significant estimate in the financial statements.</p> <p>We identified the valuation of the pension fund net liability as a risk requiring special audit consideration.</p>	<p>Our audit work included:</p> <ul style="list-style-type: none"> • identifying the controls put in place by you to ensure that the pension fund net liability is not materially misstated and assessing whether those controls were implemented as expected and whether they were sufficient to mitigate the risk of material misstatement • evaluating the competence, expertise and objectivity of the actuary who carried out your pension fund valuation. We have gained an understanding of the basis on which the valuation was carried out • undertaking procedures to confirm the reasonableness of the actuarial assumptions made • checking the consistency of the pension fund asset and liability and disclosures in the notes to the financial statements with the actuarial report from your actuary 	<p>An amendment was agreed relating to the pension disclosures. In line with previous years, the draft financial statements included pensions disclosures based on the estimated valuations of Dacorum's share of the fair value pension fund assets as at Quarter 3. However, the actual Quarter 4 data was available to the administrating body Hertfordshire County Council (HCC). As a result HCC commissioned the actuary, Hyman Robertson LLP, to re-estimate the actuarial estimates resulting in a proportionately small (in proportion to the overall liability) but overall material decrease in the pensions liability in the Balance Sheet.</p> <p>Management revised the pensions disclosures as a result of the updated information provided by the actuary during the audit. Whilst it is appropriate to use estimates produced from Quarter 3 data, when more up to date data became available it was appropriate to amend the draft accounts.</p>

Audit of the Accounts

Audit opinion

We gave an unqualified opinion on the Council's financial statements on 31 July 2018, complying with the national deadline.

Preparation of the accounts

The Council presented us with draft accounts in accordance with the national deadline, and provided a good set of working papers to support them. The finance team responded promptly and efficiently to our queries during the course of the audit.

Issues arising from the audit of the accounts

We reported the key issues from our audit to the Council's Audit Committee on 25 July 2018.

In addition to the key audit risks reported above we also carried out specific audit work on the accounting treatment of the disposal of the Jarmans Park site. This site had been held at nil value due to the underlying arrangement including a lease at a peppercorn rent for a period of 150 years and receipt by the Council of an initial lease premium. Bids were invited to purchase the leased asset on the premise that the lessor would surrender their lease. Negotiations with the lessor included returning a proportion of the original lease premium. On the date of contractual surrender of the lease and disposal of the asset, the asset was re-recognised in the accounts (at the fair value of the portion of the asset related to the proceeds due to the Council) and subsequently disposed of in the statements at that value.

As part of the original lease the initial premium received was accounted for as a long term creditor was amortised over the lifetime of the lease. On disposal of the lease the long term creditor was no longer required and an adjustment was made to the draft accounts to reflect the acceleration of the amortisation of the lease premium paid.

We discussed the events and facts around the disposal to understand the substance of the transaction. We challenged management on the accounting treatment and looked at the transaction in the light of IFRS and the CIPFA Code of Practice guidance. Our audit work allowed us to conclude that these complex transactions were materially correct in the financial statements.

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 in the Statement of Accounts in line with the national deadlines.

Both documents were prepared in line with the CIPFA Code and relevant supporting guidance. We confirmed that both documents were consistent with the financial statements prepared by the Council and with our knowledge of the Council.

Other statutory powers

We also have additional powers and duties under the Act, including powers to issue a public interest report, make written recommendations, apply to the Court for a declaration that an item of account is contrary to law, and to give electors the opportunity to raise questions about the Council's accounts and to raise objections received in relation to the accounts.

Certificate of closure of the audit

We are also required to certify that we have completed the audit of the accounts of Dacorum Borough Council in accordance with the requirements of the Code of Audit Practice.

Value for Money conclusion

Background

We carried out our review in accordance with the NAO Code of Audit Practice, following the guidance issued by the NAO in November 2017 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 overleaf.

Overall Value for Money 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 2018.

Value for Money conclusion

Risks identified in our audit plan	Findings and conclusions
<p>Medium term financial resilience</p> <p>Efficiency Savings Gap</p> <p>Looking ahead over the 4 years to 2021/22, the Council identified a savings gap of £3.6 million. The Council has identified £1.6 million of these savings in the 2018/19 approved budget. The Council has also set out a 3 year efficiency/savings plan to address the gap which is service focussed, leading to a further £0.75 million of savings being identified.</p> <p>The current financial position indicates this is under control, but the medium term savings gap remains a challenge and one which can be affected unpredictably by central government funding and taxation decisions.</p>	<p><u>Revenue outturn for 2017/18</u></p> <p>Despite the continued challenging funding settlement for local authorities nationally, Dacorum Borough Council have a good track record of delivery of services within budget and attainment of planned savings and income generation targets.</p> <p>The Council delivered a budget surplus for 2017/18 of £0.091 million. After the 2017-18 outturn results, technical accounting adjustments and movements in earmarked reserves this left the Council's "available for spending" reserves at a consistent level of £12.2 million (£12.3 million in 2016/17).</p> <p>The Council maintains the general fund at 5-15% of net service expenditure a policy unchanged from the prior two years. There is no "correct" level of reserves to hold and it very much depends on local circumstances, risk analysis and risk appetite. We were satisfied that the considerations and assumptions that management have in place to monitor reserves levels at what they consider to be a safe level are reasonable and are fully disclosed for consideration and approval by those responsible for monitoring of risk levels.</p> <p>The Medium Term Financial Strategy (MTFS) is the key financial planning document which sets out the financial implications of the corporate strategy over 5 years for the purposes of decision making and for assurance that there is a sustainable plan in place to deliver service priorities and other investments in the local area. We analysed the detailed breakdown of anticipated and estimated reductions/increases in income and expenditure and 2018/19 and subsequent periods. We also discussed the key items with management and looked at the key assumptions in the MTFS. Through this work we concluded that they were realistically and prudently estimated.</p> <p>There was a savings requirement of £2.8 million through to 2020/21 to achieve balanced positions and maintain the general fund at its current level. We discussed with management the arrangements to address this gap and concluded that there are appropriate planning and monitoring arrangements to achieve the current savings requirement in the MTFS.</p> <p>With efficiencies becoming harder to find after several years of concentrating on this as the source of savings, management are increasingly focussing on becoming more commercial and plans which increase income through getting more from the existing asset base. An example of this is the recent competitive re-tender process for the operation of your leisure portfolio. The outcome of this process indicates an expectation to receive revenue from the new operator of the portfolio where before the Council had made payments to the previous operator.</p> <p>The Council continue to progress various capital investment plans which aim to attract new residents to the area and provide additional capital receipts. There are a number of plans at very different stages of development but examples include:</p> <ul style="list-style-type: none"> - ongoing delivery of new social housing for the borough - potential formation of a development company or partnership to develop the old Civic Site into a mixture of properties for social rental, private sector rental and sale <p>All these plans aim to increase the council tax base revenues and aim to ensure your longer term financial sustainability whilst also providing opportunities for continued investments to improve the quality of life in the borough for residents.</p>

A. Reports issued and fees

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

Reports issued

Report	Date issued
Audit Plan	7 February 2018
Audit Findings Report	25 July 2018
Annual Audit Letter	24 August 2018

Fees

	Planned £	Actual fees £	2016/17 fees £
Statutory Council audit	£73,350	£73,350	£73,350
Housing Benefit Grant Certification	£22,220	£TBC (work not yet complete)	£17,543
Total fees	£95,570	£TBC	£90,893

The planned fees for the year were in line with the scale fee set by Public Sector Audit Appointments Ltd (PSAA)

Fees for non-audit services

Service	Fees £
Audit related services	£2,000
- Certification of Housing Capital Receipts grant	
	£2,000

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 non-audit services which were identified.
- We have considered whether non-audit services might be perceived as a threat to our independence as the Council's auditor and have ensured that appropriate safeguards are put in place.

The above non-audit services are consistent with the Council's policy on the allotment of non-audit work to your auditor.



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