Year End Report to the Audit Committee - DRAFT

Dacorum Borough Council

Year end report for the year ended 31 March 2024

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January 2025

Important notice

This report is presented under the terms of our audit under Public Sector Audit Appointments (PSAA) contract.

The content of this report is based solely on the procedures necessary for our audit.

Purpose of this report

This Report has been prepared in connection with our audit of the financial statements of Dacorum Borough Council (the 'Council'), prepared in accordance with International Financial Reporting Standards ('IFRSs') as adapted Code of Practice on Local Authority Accounting in the United Kingdom 2023/24, as at and for the year ended 31 March 2024.

This Report has been prepared for the Council's Audit Committee, a sub-group of those charged with governance, in order to communicate matters that are significant to the responsibility of those charged with oversight of the financial reporting process as required by ISAs (UK), and other matters coming to our attention during our audit work that we consider might be of interest, and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone (beyond that which we may have as auditors) for this Report, or for the opinions we have formed in respect of this Report.

This report summarises the key issues identified during our audit but does not repeat matters we have previously communicated to you by written communication.

Limitations on work performed

This Report is separate from our audit report and does not provide an additional opinion on the Council's financial statements, nor does it add to or extend or alter our duties and responsibilities as auditors.

Yours sincerely,

Christopher Paisley
Director KPMG LLP
31 January 2025

We have not designed or performed procedures outside those required of us as auditors for the purpose of identifying or communicating any of the matters covered by this Report.

The matters reported are based on the knowledge gained as a result of being your auditors. We have not verified the accuracy or completeness of any such information other than in connection with and to the extent required for the purposes of our audit.

Status of our audit

Our audit is not yet complete and matters communicated in this Report may change pending signature of our audit report. We will provide an oral update on the status. Page 3 'Our Audit Findings' outlines the outstanding matters in relation to the audit.
Our conclusions will be discussed with you before our audit report is signed.

Restrictions on distribution

The report is provided for the information of the Audit Committee of the Council; that it will not be quoted or referred to, in whole or in part, without our prior written consent; and that we accept no responsibility to any third party in relation to it.

Our audit findings

Significant audit risks	Pages 5 - 14
Significant audit risks	**Our findings**
Management override of controls	We have not identified any indicators of management override of controls
Valuation of land and buildings	We identified no material misstatements in respect of depreciated replacement cost, existing use, or housing revenue beacon valuations.
Valuation of investment property	We have identified one unadjusted audit difference regarding the valuation of investment properties. See page 10 for details.
Valuation of post retirement benefit obligations	We have identified two unadjusted audit differences in respect of the return on planned assets and the minimum funding obligation. Additionally, we have challenged the methodology behind the calculation of the 'asset ceiling' within the latest IAS19 actuarial report.
Key accounting estimates	
Valuation of land and building	Assumptions were found to be neutral.
Valuation of Investment properties	We have identified a material understatement regarding on valued property. Assumptions over the remaining investment properties were found to be neutral.
Valuation of Pension Liabilities	Assumptions were found to be neutral.

Uncorrected Audit Misstatements		Page 26
Understatement/ (overstatement)	**£m**	**%**
Other Comprehensive income and expenditure	(1.2)	(2.4)
Surplus/(deficit) for the year	0	0
Net assets	1.2	0.1
Total taxpayers' equity	0	0

Misstatements in respect of Disclosures	Page 26
To date we have identified no misstatements in respect of disclosures	

Number of Control deficiencies	Page 27
Significant control deficiencies	0
Other control deficiencies	2
Prior year control deficiencies remediated	N/A

Outstanding matters

Our audit is not yet complete, our testing in ongoing for the following outstanding matters

- Final reconciliation of reserves movements throughout the year;
- Consideration of any matters arising (e.g. subsequent events) which may affect our financial statements audit opinion, up until the date of signing our opinion;
- Final review of the Council's financial statements to ensure compliance with the CIPFA code and to ensure the internal consistency and arithmetical accuracy of the financial statements; and
- Receipt of the management representation letter.

Key changes to our audit plan

We have not made any changes to our audit plan as communicated to you on 20 March 2024, other than as follows:

Risk	Risk change	Effect on audit strategy and plan
Expenditure recognition	Practice Note 10 states that the risk of material misstatement due to fraudulent financial reporting may arise from the manipulation of expenditure recognition is required to be considered. Having considered the risk factors relevant to the Council and the nature of expenditure within the Council, we have determined that a significant risk relating to expenditure recognition is not required. Specifically, while the financial position of the Council remains stretched we consider that there are insufficient incentives to manipulate expenditure recognition around year-end. Our risk assessment analysis of the nature of expenditure has not identified any specific risk factors.	We have performed procedures to address the risk of error surrounding expenditure recognition, we will not perform procedures to specifically address the risk of fraudulent expenditure recognition.

Significant risks and Other audit risks

We discussed the significant risks which had the greatest impact on our audit with you when we were planning our audit.

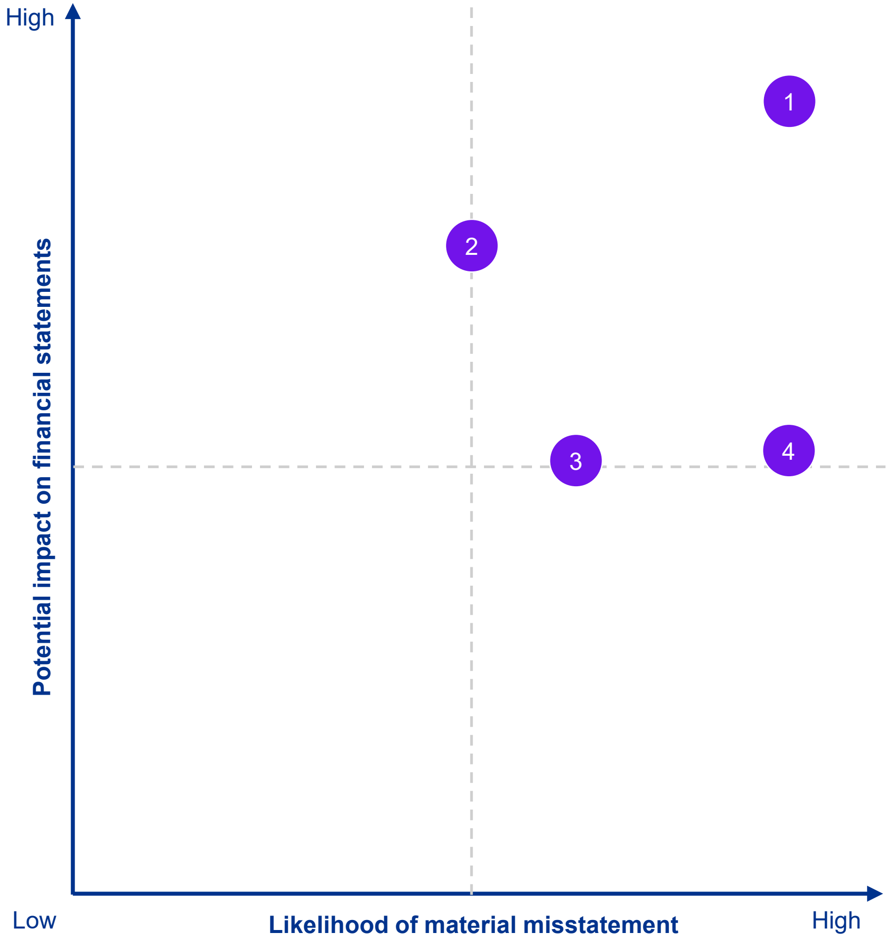
Our risk assessment draws upon our knowledge of the business, the industry and the wider economic environment in which Dacorum Borough Council operates.

We also use our regular meetings with senior management to update our understanding and take input from local audit teams and internal audit reports.

During our audit we identified changes to our risks of material misstatement as highlighted on page 4.

Significant risks	
1.	Valuation of land and buildings
2.	Valuation of investment property
3.	Management override of controls
4.	Valuation of post retirement benefit obligations

Key: # Significant financial statement audit risks



Audit risks and our audit approach

1 Valuation of land and buildings

The carrying amount of revalued Land & Buildings differs materially from the fair value

Significant audit risk

- The Code requires that where assets are subject to revaluation, their year end carrying value should reflect the appropriate fair value at that date. The Council has adopted a rolling revaluation model which sees all land and buildings revalued over a five year cycle. The last full revaluation was performed as at 31st January 2020.
- This creates a risk that the carrying value of assets not revalued in year differs materially from the year end fair value.
- The value of the Council's Land & Buildings at 31 March 2024 was £145.8m.
- The Council undertakes an annual valuation of the housing properties within the HRA. The value of Council Dwellings at 31 March 2024 was £1,191m.

Our response

We have performed the following procedures designed to specifically address the significant risk associated with the valuation:

- We critically assessed the independence, objectivity and expertise of Wilks Head & Eve, the valuers used in developing the valuation of the Council's properties at 31 March 2024.
- We inspected the instructions issued to the valuers for the valuation of land and buildings to verify they are appropriate to produce a valuation consistent with the requirements of the CIPFA Code.
- We compared the accuracy of the data provided to the valuers for the development of the valuation to underlying information.
- We evaluated the design and implementation of controls in place for management to review the valuation and the appropriateness of assumptions used.
- We challenged the appropriateness of the valuation of land and buildings; including any material movements from the previous revaluations. We challenged key assumptions within the valuation as part of our judgement.
- We agreed the calculations performed of the movements in value of land and buildings and verified that these have been accurately accounted for in line with the requirements of the CIPFA Code.
- Disclosures: We considered the adequacy of the disclosures concerning the key judgements and degree of estimation involved in arriving at the valuation.

Audit risks and our audit approach (cont.)

1 Valuation of land and buildings (cont.)

The carrying amount of revalued Land & Buildings differs materially from the fair value

Significant audit risk

- The Code requires that where assets are subject to revaluation, their year end carrying value should reflect the appropriate fair value at that date. The Council has adopted a rolling revaluation model which sees all land and buildings revalued over a five year cycle. The last full revaluation was performed as at 31st January 2020.
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- The value of the Council’s Land & Buildings at 31 March 2024 was £145.8m.
- The Council undertakes an annual valuation of the housing properties within the HRA. The value of Council Dwellings at 31 March 2024 was £1,191m.

Our findings

- Auditing standards require us to report that the design and implementation of the management review control relating to this area remains ineffective in line with the ISA definition. The ISAs acknowledge that it is difficult for management to design controls that address subjectivity in a manner that effectively prevents, or detects and corrects, material misstatements. We also identified that the Council lacks a formal control over the valuation of land and building, including council dwellings, to ensure that relevant valuation was appropriate as the Council does not have the relevant in house valuation expertise. However we are aware that management operates a control that they are satisfied with that provides the Council with assurance over this area
- We confirmed the independence, objectivity and expertise of Wilks Head & Eve, the Council’s valuation advisors.
- We confirmed that the instructions issued to the valuers for the valuation of land and buildings were appropriate to produce a valuation consistent with the requirements of the CIPFA Code.
- We confirmed that management reviewed and challenged the valuation and the appropriateness of assumptions used by Wilks Head & Eve.
- We compared the accuracy of the data provided to the valuers for the development of the valuation to underlying information provided by the Council. We did not identify any information used by the valuers which was not supported by underlying Council information.
- We challenged the appropriateness of the valuation of land and buildings; including any material movements from the previous revaluations. We challenged key assumptions within the valuation as part of our judgement. We found the judgements applied by the valuers when considering the valuation of these assets to be neutral.

Continued overleaf

Audit risks and our audit approach (cont.)

1 Valuation of land and buildings (cont.)

The carrying amount of revalued Land & Buildings differs materially from the fair value

Significant audit risk

- The Code requires that where assets are subject to revaluation, their year end carrying value should reflect the appropriate fair value at that date. The Council has adopted a rolling revaluation model which sees all land and buildings revalued over a five year cycle. The last full revaluation was performed as at 31st January 2020.
- This creates a risk that the carrying value of assets not revalued in year differs materially from the year end fair value.
- The value of the Council's Land & Buildings at 31 March 2024 was £145.8m.
- The Council undertakes an annual valuation of the housing properties within the HRA. The value of Council Dwellings at 31 March 2024 was £1,191m.

Our findings

- We confirmed that management performed a review of assets not subject to valuation to ensure the value was not materially misstated, the value of assets which were not subject to valuation were £17.4m.
- We selected a sample of 25 beacon properties to confirm the appropriateness of the underlying assumption underpinning the valuation, the value of the HRA properties represented by these 25 Beacons was £927.6m. This included comparing the property prices to comparable market data. We found the judgements applied by the valuers when considering the valuation of these assets to be neutral.
- We identified no material misstatements regarding the calculation performed of the movements in value of land and buildings or the subsequent disclosures in respect of the valuation.

Audit risks and our audit approach (cont.)

2 Valuation of investment property

The carrying amount of revalued investment property differs materially from the fair value

Significant audit risk

- The Code defines an investment property as one that is used solely to earn rentals or for capital appreciation or both. Property that is used to facilitate the delivery of services or production of goods as well as to earn rentals or for capital appreciation does not meet the definition of an investment property. At 31 March 2024 the Council had investment property with a total value of £64.1m. While the majority of the properties are individually not material in value, there is significant estimation uncertainty within the reported balance.
- There is a risk that investment properties are not being held at fair value, as is required by the Code. At each reporting period, the valuation of the investment property must reflect market conditions. Significant judgement is required to assess fair value and management experts are often engaged to undertake the valuations.

Our response

We have performed the following procedures designed to specifically address the significant risk associated with the valuation:

- We critically assessed the independence, objectivity and expertise of Wilks Head & Eve, the valuers used in developing the valuation of the Council's investment property at 31 March 2024.
- We inspected the instructions issued to the valuers to verify they are appropriate to produce a valuation consistent with the requirements of the CIPFA Code.
- We compared the accuracy of the data provided to the valuers for the development of the valuation to underlying information.
- We evaluated the design and implementation of controls in place for management to review the valuation and the appropriateness of assumptions used.
- We challenged the appropriateness of the valuation; including any material movements from the previous revaluations. We challenge key assumptions within the valuation as part of our judgement.
- We agreed the calculations performed of the movements and verify that these have been accurately accounted for in line with the requirements of the CIPFA Code.
- We utilised our own valuation specialists to review the valuation report prepared by the Council's valuers to confirm the appropriateness of the methodology used.
- Disclosures: We considered the adequacy of the disclosures concerning the key judgements and degree of estimation involved in arriving at the valuation.

Audit risks and our audit approach (cont.)

2 Valuation of investment property (cont.)

The carrying amount of revalued investment property differs materially from the fair value

Significant audit risk

- The Code defines an investment property as one that is used solely to earn rentals or for capital appreciation or both. Property that is used to facilitate the delivery of services or production of goods as well as to earn rentals or for capital appreciation does not meet the definition of an investment property. At 31 March 2024 the Council had investment property with a total value of £64.1m. While the majority of the properties are individually not material in value, there is significant estimation uncertainty within the reported balance.
- There is a risk that investment properties are not being held at fair value, as is required by the Code. At each reporting period, the valuation of the investment property must reflect market conditions. Significant judgement is required to assess fair value and management experts are often engaged to undertake the valuations.

Our findings

- Auditing standards require us to report that the design and implementation of the management review control relating to this area remains ineffective in line with the ISA definition. The ISAs acknowledge that it is difficult for management to design controls that address subjectivity in a manner that effectively prevents, or detects and corrects, material misstatements. We also identified that the Council lacks a formal control over the valuation of investment properties to ensure that relevant valuation was appropriate as the Council does not have the relevant in house valuation expertise. However we are aware that management operates a control that they are satisfied with that provides the Council with assurance over this area
- We confirmed the independence, objectivity and expertise of Wilks Head & Eve, the Council's valuation advisors.
- We confirmed that the instructions issued to the valuers for the valuation of land and buildings were appropriate to produce a valuation consistent with the requirements of the CIPFA Code.
- We utilised our KPMG Real Estate Valuation specialist who selected a sample of four investment properties and one property classified as surplus Property Plant & Equipment valued under the Fair Value valuation method. These assets represented a gross value of £27.5m.
- Our testing identified one asset where the value of the land was outside of the observed range when compared to comparable transactions within the available market data. This represented an understatement of £1,754k. See page 26 for further details. We identified no further misstatements.
- We compared the accuracy of the data provided to the valuers for the development of the valuation to underlying information provided by the Council. We did not identify any information used by the valuers which was not supported by underlying Council records.
- We identified no material misstatements regarding the calculation performed of the movements in value of investment properties or the subsequent disclosures in respect of the valuation.

Audit risks and our audit approach (cont.)

3 Management override of controls[a]

Fraud risk related to unpredictable way management override of controls may occur

Significant audit risk

- Professional standards require us to communicate the fraud risk from management override of controls as significant.
- Management is in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.
- We have not identified any specific additional risks of management override relating to this audit.

Note: (a) Significant risk that professional standards require us to assess in all cases.

Our response

- Our audit methodology incorporates the risk of management override as a default significant risk.
- We assessed accounting estimates for biases by evaluating whether judgements and decisions in making accounting estimates, even if individually reasonable, indicate a possible bias;
- We evaluated the selection and application of accounting policies;
- In line with our methodology, we evaluated the design and implementation of controls over journal entries and post closing adjustments;
- We assessed the appropriateness of changes compared to the prior year to the methods and underlying assumptions used to prepare accounting estimates;
- We assessed the business rationale and the appropriateness of the accounting for significant transactions that are outside the Council’s normal course of business, or are otherwise unusual;
- We analysed all journals through the year and focussed our testing on those with a higher risk, such as journals with unusual capital spend combinations.

Audit risks and our audit approach (cont.)

3 Management override of controls[a] (cont.)

Fraud risk related to unpredictable way management override of controls may occur

Significant audit risk

- Professional standards require us to communicate the fraud risk from management override of controls as significant.
- Management is in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.
- We have not identified any specific additional risks of management override relating to this audit.

Our findings

- Our testing of journal entries and other adjustments meeting our high-risk criteria did not identify any indicators of management override of controls.
- We evaluated accounting estimates, including the consideration of the valuation of land and building, investment properties and post retirement benefit obligations. We did not identify any indicators of management bias. See pages 7, 10 and 14 respectively for further discussion.
- Our procedures did not identify any significant unusual transactions.

Note: (a) Significant risk that professional standards require us to assess in all cases.

Audit risks and our audit approach (cont.)

4 Valuation of post retirement benefit obligations

An inappropriate amount is estimated and recorded for the defined benefit obligation

Significant audit risk

- The valuation of the post retirement benefit obligations involves the selection of appropriate actuarial assumptions, most notably the discount rate applied to the scheme liabilities, inflation rates and mortality rates. The selection of these assumptions is inherently subjective and small changes in the assumptions and estimates used to value the Council’s pension liability could have a significant effect on the financial position of the Council.
- The effect of these matters is that, as part of our risk assessment, we determined that post retirement benefits obligation has a high degree of estimation uncertainty. The financial statements disclose the assumptions used by the Council in completing the year end valuation of the pension deficit and the year on year movements.
- We have identified this in relation to the following pension scheme memberships: Local Government Pension Scheme
- Also, recent changes to market conditions have meant that more Council are finding themselves moving into surplus in their Local Government Pension Scheme (or surpluses have grown and have become material). The requirements of the accounting standards on recognition of these surplus are complicated and requires actuarial involvement.

Our response

We have performed the following procedures :

- Evaluated the competency, objectivity of the actuaries to confirm their qualifications and the basis for their calculations;
- Performed inquiries of the accounting actuaries to assess the methodology and key assumptions made, including actual figures where estimates have been used by the actuaries, such as the rate of return on pension fund assets;
- Agreed the data provided by the audited entity to the Scheme Administrator for use within the calculation of the scheme valuation;
- Challenged, with the support of our own actuarial specialists, the key assumptions applied, being the discount rate, inflation rate and mortality/life expectancy against externally derived data;
- Confirmed that the accounting treatment and entries applied by the Council were in line with IFRS and the CIPFA Code of Practice;
- Considered the adequacy of the Council’s disclosures in respect of the sensitivity of the deficit to these assumptions; and
- Where applicable, assessed the level of surplus that should be recognised by the entity.

Audit risks and our audit approach (cont.)

4 Valuation of post retirement benefit obligations (cont.)

An inappropriate amount is estimated and recorded for the defined benefit obligation

Significant audit risk

- The valuation of the post retirement benefit obligations involves the selection of appropriate actuarial assumptions, most notably the discount rate applied to the scheme liabilities, inflation rates and mortality rates. The selection of these assumptions is inherently subjective and small changes in the assumptions and estimates used to value the Council's pension liability could have a significant effect on the financial position of the Council.
- The effect of these matters is that, as part of our risk assessment, we determined that post retirement benefits obligation has a high degree of estimation uncertainty. The financial statements disclose the assumptions used by the Council in completing the year end valuation of the pension deficit and the year on year movements.
- We have identified this in relation to the following pension scheme memberships: Local Government Pension Scheme
- Also, recent changes to market conditions have meant that more Council are finding themselves moving into surplus in their Local Government Pension Scheme (or surpluses have grown and have become material). The requirements of the accounting standards on recognition of these surplus are complicated and requires actuarial involvement.

Our findings

- Auditing standards require us to report that the design and implementation of the management review control relating to this area remains ineffective in line with the ISA definition. The ISAs acknowledge that it is difficult for management to design controls that address subjectivity in a manner that effectively prevents, or detects and corrects, material misstatements. We also identified that the Council lacks a formal control over the valuation of post retirement benefit obligations as the Council does not have the relevant in-house valuation expertise. However we are aware that management operates a control that they are satisfied with that provides the Council with assurance over this area.
- We confirmed the independence, objectivity and expertise of Hymans Robertson, the Council's actuarial advisors.
- We developed an expectation of the total return on planned assets and compared to the actual return on assets. We identified that the difference was immaterial but above our posting threshold; we have provided further details at page 26.
- We confirmed that the cashflow data included within the Pensions note was materially correct.
- We performed testing over the asset ceiling / minimum funding obligation calculation to determine whether the Council is able to recognise its share of the scheme surplus within the financial statements. Our review of the calculation identified that assumptions underpinning this calculation performed by the actuary were not appropriate in that they made simplistic assumptions relating to future deficit reduction contributions that we considered to be unrealistic. Assuming secondary contributions increased by 3% per annum, in line with the Council's Medium Term Financial Strategy, the impact would be an increase of £1,605k on the net liability.
- We engaged our KPMG actuaries to critically assess the underlying assumptions applied. All other assumptions were within the KPMG expected range.

Key accounting estimates and management judgements – Overview

Our view of management judgement

Cautious | Neutral | Optimistic

Our views on management judgments with respect to accounting estimates are based solely on the work performed in the context of our audit of the financial statements as a whole. We express no assurance on individual financial statement captions.

Asset/liability class	Our view of management judgement (Cautious – Neutral – Optimistic)	Balance (£m)	YoY change (£m)	Our view of disclosure of judgements & estimates (Needs improvement – Neutral – Best practice)	Further comments
Council Dwellings	Neutral	1,191	(53)	Neutral	Assumptions applied were found to be neutral.
Other Land and Buildings	Neutral	146	0	Neutral	Assumptions applied were found to be neutral.
Investment properties	Cautious	64	(1)	Neutral	Assumptions applied were found to be cautious when compared to our benchmark expectations. Further details can be found at page 10.
Defined benefit obligations	Neutral	236	0	Neutral	Assumptions applied were found to be neutral.

Other significant matters

Control deficiencies

We obtain an understanding of internal control to design appropriate audit procedures, but not to express an opinion on the effectiveness of the Council's internal control.

Control deficiencies identified through our audit can be found at page 27.

Quality and timeliness of information prepared by management

In our view, the quality of information:

- supported our ability to understand key decisions better and obtain sufficient audit evidence.
- enabled informed challenge of management decisions; and
- supported audit quality and better disclosure.

There were some areas where possible improvements were identified with respect to the quality of audit evidence provided, which will be discussed with management in debriefing the 2023/24 audit. This includes information available to support Collection Fund (Council Tax and NNDR) income, to support our audit approach in these areas.

Other matters

Annual report

We have read the contents of the 2023/24 Annual Report (including the Accountability Report, Directors Report, Performance Report and Annual Governance Statement (AGS)) and audited the relevant parts of the Remuneration Report. We have checked compliance with the Code of Practice on Local Authority Accounting in the United Kingdom 2023/24 issued by Chartered Institute of Public Finance and Accountancy (CIPFA). Based on the work performed:

- We have not identified any inconsistencies between the contents of the Accountability, Performance and Officer’s Reports and the financial statements.
- We have not identified any material inconsistencies between the knowledge acquired during our audit and the director’s statements. As Councillors you confirm that you consider that the annual report and accounts taken as a whole are fair, balanced and understandable and provide the information necessary for patients, regulators and other stakeholders to assess the Council’s performance, business model and strategy.
- Our review of the AGS confirmed this is consistent with the financial statements and complies with relevant guidance.
- Our review of the report of the Audit Committee included in the Annual Report confirmed it includes the content expected to be disclosed as set out in the Code of Practice and is consistent with our knowledge of the work of the Committee during the year.

Independence and Objectivity

ISA 260 also requires us to make an annual declaration that we are in a position of sufficient independence and objectivity to act as your auditors, which we completed at planning and no further work or matters have arisen since then.

Audit Fees

Our PSAA prescribed 2023/24 audit scale fee for the audit was £192,000 plus VAT (£109,000 in 2022/23). As outlined in our External Audit Plan 2023/24 the fee agreed through the PSAA procurement process did not reflect the impact of ISA315 and ISA240. We stated in our plan that we expected this additional fee to be between 5 and 10% of our scale fee. We propose an additional fee of £11.500 (c6% of our scale fee) in respect of this scope variation. All additional fees are subject to the fees variation process as outlined by the PSAA.

See Pages 23 and 24 for details of non-audit work performed at the Council for 2023/24. We are satisfied that this non-audit work does not have any impact on our independence as the external auditor of the Council.

Value for money risk assessment

Value for money

We are required under the Audit Code of Practice to confirm whether we have identified any significant weaknesses in the Council’s arrangements for securing economy, efficiency and effectiveness in its use of resources.

In discharging these responsibilities we include a statement within the opinion on your accounts to confirm whether we have identified any significant weaknesses. We also prepare a commentary on your arrangements that is included within our Auditor’s Annual Report, which is required to be published on your website alongside your annual report and accounts.

Commentary on arrangements

We have prepared our Auditor’s Annual Report and a copy of the report is included within the papers for the Committee alongside this report. The report is required to be published on your website alongside the publication of the annual report and accounts.

Summary of findings

We have set out in the table below the outcomes from our procedures against each of the domains of value for money:

Domain	Risk assessment	Summary of arrangements
Financial sustainability	No significant risks identified	No significant weaknesses identified
Governance	No significant risks identified	No significant weaknesses identified
Improving economy, efficiency and effectiveness	No significant risks identified	No significant weaknesses identified

Further detail will be set out in our Auditor’s Annual Report.

Dacorum Borough Council Appendices

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Required communications

Type		Response
Our draft management representation letter	OK	We do not expect to request any specific representations in addition to those areas normally covered by our standard representation letter for the year ended 31 March 2024
Adjusted audit differences	OK	To date, there are no adjusted audit differences
Unadjusted audit differences	OK	To date, the aggregated surplus impact of unadjusted audit differences would be £1,168k. In line with ISA 450 we request that you adjust for these items. However, they will have no effect on the opinion in the auditor's report, individually or in aggregate. See page 26 for further details.
Related parties	OK	There were no significant matters that arose during the audit in connection with the entity's related parties.
Other matters warranting attention by the Audit Committee	OK	There were no matters to report arising from the audit that, in our professional judgment, are significant to the oversight of the financial reporting process.
Control deficiencies	OK	We communicate to management in writing all deficiencies in internal control over financial reporting of a lesser magnitude than significant deficiencies identified during the audit that had not previously been communicated in writing.
Actual or suspected fraud, noncompliance with laws or regulations or illegal acts	OK	No actual or suspected fraud involving Council management, employees with significant roles in internal control, or where fraud results in a material misstatement in the financial statements identified during the audit.
Make a referral to the regulator	OK	If we identify that potential unlawful expenditure might be incurred then we are required to make a referral to your regulator. We have not identified any such matters.
Issue a report in the public interest	OK	We are required to consider if we should issue a public interest report on any matters which come to our attention during the audit. We have not identified any such matters.

Type		Response
Significant difficulties	OK	No significant difficulties were encountered during the audit to date.
Modifications to auditor's report	OK	None
Disagreements with management or scope limitations	OK	The engagement team had no disagreements with management and no scope limitations were imposed by management during the audit.
Other information	OK	To date no material inconsistencies were identified related to other information in the annual report, Strategic and Directors' reports. The Strategic report is fair, balanced and comprehensive, and complies with the law.
Breaches of independence	OK	No matters to report. The engagement team and others in the firm, have complied with relevant ethical requirements regarding independence.
Accounting practices	OK	Over the course of our audit, we have evaluated the appropriateness of the Council's accounting policies, accounting estimates and financial statement disclosures. In general, we believe these are appropriate.
Significant matters discussed or subject to correspondence with management	OK	We identified no significant matters.
Certify the audit as complete	X	We have not yet certified the audit as complete because our work on WGA is outstanding.

Fees

Audit fee

Our fees to date for the year ending 31 March 2024 are set out in the PSAA Scale Fees communication and are shown below.

Entity	2023/24 (£'000)	*2022/23 (£'000)*
Statutory audit	192	*109*[(a)]
ISA315r and ISA240	12	-
Other scope variation	TBC	-
TOTAL	**204**	*109*

Note: (a) Fee charged by Grant Thornton LLP – your predecessor auditor.

As per PSAA's Scale Fees Consultation, the fees did not include new requirements of ISA315 revised (risk of material misstatement); or ISA 240 (auditor's responsibilities relating to fraud). Based on our work to date we have proposed an additional fee of c6% of the scale fee. Additional fees are subject to the fees variation process as outlined by the PSAA.

Billing arrangements

- Fees have been billed in accordance with the milestone completion phasing that has been communicated by the PSAA.

Proposed fee variations

	Recurrent?	£
New auditing standards (ISA (UK) 315 and ISA (UK) 240) not included in scale fee	Yes – built into FY25 scale fee by PSAA	11,500
Additional work related to delays in provision of information for testing of NNDR (Business Rates)	No, assuming we are able to address in 2024/25 via debrief process	Pending discussion and agreement with management
Additional work and investigations by our Pensions team around recognition of the LGPS surplus and reasonableness of minimum funding obligation calculation	Possibly, depending on complexities in the LGPS valuation for FY25	

Confirmation of Independence

We confirm that, in our professional judgement, KPMG LLP is independent within the meaning of regulatory and professional requirements and that the objectivity of the Director and audit staff is not impaired.

To the Audit and Risk Committee members

Assessment of our objectivity and independence as auditor of Dacorum Borough Council

Professional ethical standards require us to provide to you at the planning stage of the audit a written disclosure of relationships (including the provision of non-audit services) that bear on KPMG LLP's objectivity and independence, the threats to KPMG LLP's independence that these create, any safeguards that have been put in place and why they address such threats, together with any other information necessary to enable KPMG LLP's objectivity and independence to be assessed.

This letter is intended to comply with this requirement and facilitate a subsequent discussion with you on audit independence and addresses:

- General procedures to safeguard independence and objectivity;
- Independence and objectivity considerations relating to the provision of non-audit services; and
- Independence and objectivity considerations relating to other matters.

General procedures to safeguard independence and objectivity

KPMG LLP is committed to being and being seen to be independent. As part of our ethics and independence policies, all KPMG LLP partners/directors and staff annually confirm their compliance with our ethics and independence policies and procedures including in particular that they have no prohibited shareholdings. Our ethics and independence policies and procedures are fully consistent with the requirements of the FRC Ethical Standard. As a result we have underlying safeguards in place to maintain independence through:

- Instilling professional values.
- Communications.
- Internal accountability.
- Risk management.
- Independent reviews.

We are satisfied that our general procedures support our independence and objectivity

Independence and objectivity considerations relating to the provision of non-audit services

Summary of non-audit services

Description of scope	Threats to independence	Safeguards applied	Value of service and basis of fee
Housing Benefit Assurance Process (HBAP) Certification	None identified	Separate teams	Fixed fee
Pooling of Housing Capital Receipts (PHCR) Certification	None identified	Separate teams	Fixed fee

Confirmation of Independence (cont.)

Disclosure	Description of scope of services	Principal threats to Independence	Safeguards Applied	Basis of fee	Value of Services Delivered in the year ended 31 March 2023 £k	Value of Services Committed but not yet delivered £k
1	Housing Benefit Assurance Process (HBAP) Certification	None identified	• The engagement contract makes clear that we will not perform any management functions. • The work is performed is not relied on during the audit • Our work does not involve judgement and are statements of fact based on agreed upon procedures.	Fixed	30	0
2	Agreed upon procedures in respect of the Pooling of Housing Capital Receipts (PHCR) Certification	None identified	• The engagement contract makes clear that we will not perform any management functions. • The work is performed is not relied on during the audit • Our work does not involve judgement and are statements of fact based on agreed upon procedures.	Fixed	5	0

Confirmation of Independence (cont.)

Summary of fees

We have considered the fees charged by us to the Group and its affiliates for professional services provided by us during the reporting period.

Fee ratio

The ratio of non-audit fees to audit fees for the year is anticipated to be below 0.5:1. We do not consider that the total non-audit fees create a self-interest threat since the absolute level of fees is not significant to our firm as a whole.

	2023/24
	£'000
Statutory audit	204
Other Assurance Services	35
Total Fees	**239**

Application of the FRC Ethical Standard 2019

Your previous auditors will have communicated to you the effect of the application of the FRC Ethical Standard 2019. That standard became effective for the first period commencing on or after 15 March 2020, except for the restrictions on non-audit and additional services that became effective immediately at that date, subject to grandfathering provisions.

AGN 01 states that when the auditor provides non-audit services, the total fees for such services to the audited entity and its controlled entities in any one year should not exceed 70% of the total fee for all audit work carried out in respect of the audited entity and its controlled entities for that year.

We confirm that as at 15 March 2020 we were not providing any non-audit or additional services that required to be grandfathered.

Independence and objectivity considerations relating to other matters

There are no other matters that, in our professional judgment, bear on our independence which need to be disclosed to the Audit and Risk Committee.

Confirmation of audit independence

We confirm that as of the date of this letter, in our professional judgment, KPMG LLP is independent within the meaning of regulatory and professional requirements and the objectivity of the partner and audit staff is not impaired.

This report is intended solely for the information of the Audit and Risk Committee of the Group and should not be used for any other purposes.

We would be very happy to discuss the matters identified above (or any other matters relating to our objectivity and independence) should you wish to do so.

Yours faithfully,

KPMG LLP

Audit misstatements

Under UK auditing standards (ISA (UK) 260) we are required to provide the Audit Committee with a summary of uncorrected audit differences (including disclosure misstatements) identified during the course of our audit, other than those which are ‘clearly trivial’, which are not reflected in the financial statements. In line with ISA (UK) 450 we request that you correct uncorrected misstatements. However, they will have no effect on the opinion in our auditor’s report, individually or in aggregate. As communicated previously with the Audit Committee, details of all adjustments greater than £200k are shown below:

Uncorrected audit differences (£’000s)				
No.	**Detail**	**CIES Dr/(cr)**	**Balance Sheet Dr/(cr)**	**Comments**
1	Dr Net Pension Liability Cr Actuarial (Gains)/Losses on Pension Asset / Liabilities	£0 (£1,019)	£1,019 (£0)	Management included an estimated value for the return on planned assets within their draft financial statements, based on the initial report provided by the actuary. Upon receipt of the revised IAS19 report, which included the actual return on plan assets for the year, it was identified that the return on planned assets was £1,019k greater than the estimated value.
2	Dr Actuarial (gains)/losses on Pension Asset/Liabilities Cr Effect of the asset ceiling on net Asset/Liabilities	£1,605 (£0)	£0 (£1,605)	Our testing identified that the Council’s actuary, Hyman Roberts, had not included the estimated increase in secondary contributions when calculating the minimum funding obligation. Inclusion of this assumption resulted in an additional £1,605 impact on the overall LGPS deficit.
3	Dr Investment Property Cr Financing and Investment Income	£0 (£1,754)	£1,754 (£0)	Our testing identified one asset where the value of the land was outside of the acceptable range when compared to comparable evidence. This represented an understatement of £1,754k
Total		**(£1,168)**	**£1,168**	

Under UK auditing standards (ISA (UK) 260) we are required to provide the Audit Committee with a summary of corrected audit differences (including disclosures) identified during the course of our audit. To date we have identified no corrected audit misstatements.

Control Deficiencies

The recommendations raised as a result of our work in the current year are as follows:

Priority rating for recommendations		
❶ **Priority one:** issues that are fundamental and material to your system of internal control. We believe that these issues might mean that you do not meet a system objective or reduce (mitigate) a risk.	❷ **Priority two:** issues that have an important effect on internal controls but do not need immediate action. You may still meet a system objective in full or in part or reduce (mitigate) a risk adequately but the weakness remains in the system.	❸ **Priority three:** issues that would, if corrected, improve the internal control in general but are not vital to the overall system. These are generally issues of best practice that we feel would benefit you if you introduced them.

#	Risk	Issue, Impact and Recommendation	Management Response/Officer/Due Date
1	❷	**Comparable evidence used by the valuer** Our review of the fixed asset valuations identified that the Council's independent valuer, Wilks Head and Eve, had based their valuation of land on comparable transactions from 2020/21 which had then been indexed according to observed market movements. Additionally, we noted that the valuer had used historical house sales as comparable evidence to support the HRA valuation. However investigation identified more contemporary comparable sales which could have been used to support the valuation. Note that none of the matters above resulted in material misstatements in the current year. We recommend that for 2024/25 additional sources of market data are obtained to identify more contemporary transactions that can be used in estimating the current value of land and buildings, including HRA beacon properties.	
2	❸	**Bad debt provision policy** Our testing identified that the Council does not have a formal bad debt policy. The Council prepare the bad debt calculation based on professional judgement and cumulative knowledge of the individuals debtors. Whilst we confirmed that this resulted in an accurate provision in year, this approach may result in inconsistency of application of provision against debtors that share similar characteristics, for example, debtor type, age and value. Additionally, this creates exposure to human error. We recommend the Council introduce a formal policy to ensure consistency is applied when calculating the bad debt provision.	

ISA (UK) 240 Revised: changes embedded in our practices

Ongoing impact of the revisions to ISA (UK) 240

ISA (UK) 240 (revised May 2021, effective for periods commencing on or after 15 December 2021) The auditor's responsibilities relating to fraud in an audit of financial statements included revisions introduced to clarify the auditor's obligations with respect to fraud and enhance the quality of audit work performed in this area. These changes are embedded into our practices and we will continue to maintain an increased focus on applying professional scepticism in our audit approach and to plan and perform the audit in a manner that is not biased towards obtaining evidence that may be corroborative, or towards excluding evidence that may be contradictory.

We will communicate, unless prohibited by law or regulation, with those charged with governance any matters related to fraud that are, in our judgment, relevant to their responsibilities. In doing so, we will consider the matters, if any, to communicate regarding management's process for identifying and responding to the risks of fraud in the entity and our assessment of the risks of material misstatement due to fraud.

Matters related to fraud that are, in our judgement, relevant to the responsibilities of Those Charged with Governance

Our assessment of the risks of material misstatement due to fraud may be found in our external audit plan presented on 20 March 2024. We also considered the following matters required by ISA (UK) 240 (revised May 2021, effective for periods commencing on or after 15 December 2021) *The auditor's responsibilities relating to fraud in an audit of financial statements*, to communicate regarding management's process for identifying and responding to the risks of fraud in the entity and our assessment of the risks of material misstatement due to fraud:

- Concerns about the nature, extent and frequency of management's assessments of the controls in place to prevent and detect fraud and of the risk that the financial statements may be misstated.
- A failure by management to address appropriately the identified significant deficiencies in internal control, or to respond appropriately to an identified fraud.
- Our evaluation of the entity's control environment, including questions regarding the competence and integrity of management.
- Actions by management that may be indicative of fraudulent financial reporting, such as management's selection and application of accounting policies that may be indicative of management's effort to manage earnings in order to deceive financial statement users by influencing their perceptions as to the entity's performance and profitability.
- Concerns about the adequacy and completeness of the authorization of transactions that appear to be outside the normal course of business.

Based on our assessment, we have no matters to report to Those Charged with Governance

KPMG's Audit quality framework

Audit quality is at the core of everything we do at KPMG and we believe that it is not just about reaching the right opinion, but how we reach that opinion.

To ensure that every engagement lead and employee concentrates on the fundamental skills and behaviours required to deliver an appropriate and independent opinion, we have developed our global Audit Quality Framework. Responsibility for quality starts at the top through our governance structures as the UK Board is supported by the Audit Oversight Committee, and accountability is reinforced through the complete chain of command in all our teams.

Commitment to continuous improvement

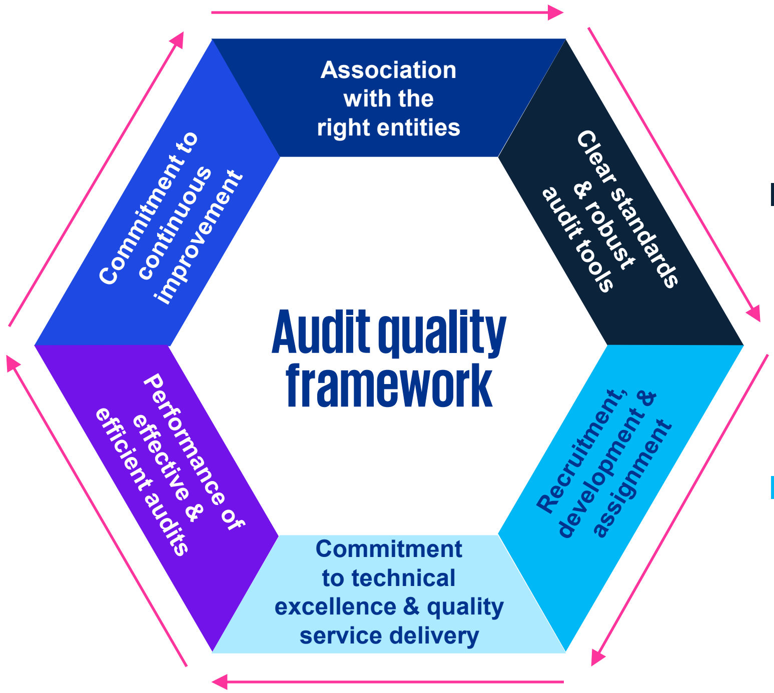
- Comprehensive effective monitoring processes
- Significant investment in technology to achieve consistency and enhance audits
- Obtain feedback from key stakeholders
- Evaluate and appropriately respond to feedback and findings

Performance of effective & efficient audits

- Professional judgement and scepticism
- Direction, supervision and review
- Ongoing mentoring and on the job coaching, including the second line of defence model
- Critical assessment of audit evidence
- Appropriately supported and documented conclusions
- Insightful, open and honest two way communications

Commitment to technical excellence & quality service delivery

- Technical training and support
- Accreditation and licensing
- Access to specialist networks
- Consultation processes
- Business understanding and industry knowledge
- Capacity to deliver valued insights



Association with the right entities

- Select clients within risk tolerance
- Manage audit responses to risk
- Robust client and engagement acceptance and continuance processes
- Client portfolio management

Clear standards & robust audit tools

- KPMG Audit and Risk Management Manuals
- Audit technology tools, templates and guidance
- KPMG Clara incorporating monitoring capabilities at engagement level
- Independence policies

Recruitment, development & assignment of appropriately qualified personnel

- Recruitment, promotion, retention
- Development of core competencies, skills and personal qualities
- Recognition and reward for quality work
- Capacity and resource management
- Assignment of team members employed KPMG specialists and specific team members

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