



# The Audit Findings for Dacorum Borough Council

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**Year ended 31 March 2017**

20 September 2017

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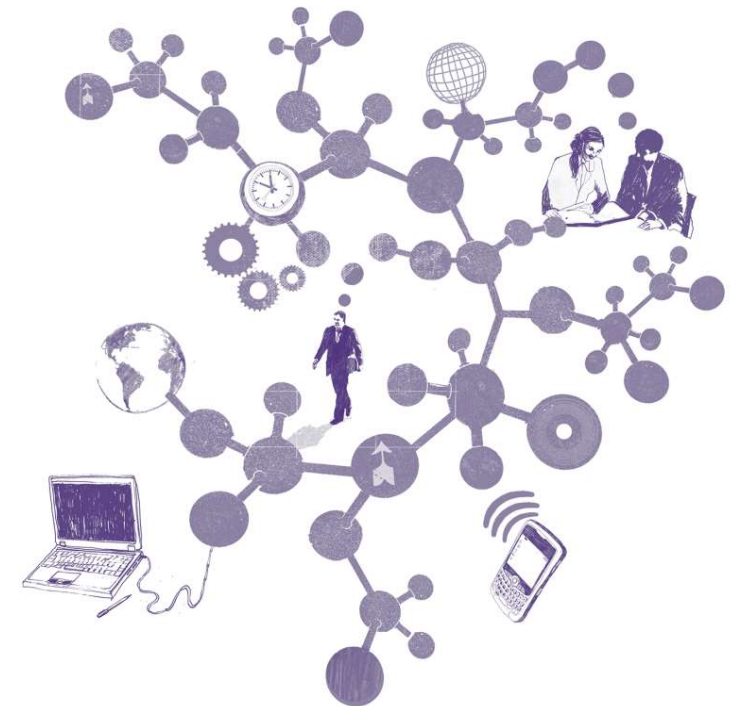
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20 September 2017

Dear Members of the Audit Committee

**Audit Findings for Dacorum Borough Council for the year ending 31 March 2017**

This Audit Findings report highlights the key findings arising from the audit that are significant to the responsibility of those charged with governance (in the case of Dacorum Borough Council, the Audit Committee), to oversee the financial reporting process, as required by International Standard on Auditing (UK & Ireland) 260, the Local Audit and Accountability Act 2014 and the National Audit Office Code of Audit Practice. Its contents have been discussed with your Finance Team management.

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

The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed primarily for the purpose of expressing our opinion on the financial statements and giving a value for money conclusion. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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

Yours sincerely

Sarah Ironmonger

Engagement lead

**Chartered Accountants**

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# Section 1: Executive summary

**01. Executive summary**

**02. Audit findings**

**03. Value for Money**

**04. Fees, non audit services and independence**

**05. Communication of audit matters**

## Purpose of this report

This report highlights the key issues affecting the results of Dacorum Borough Council ('the Council') and the preparation of your financial statements for the year ended 31 March 2017. It is also used to report our audit findings to management and those charged with governance in accordance with the requirements of ISA (UK&I) 260, and the Local Audit and Accountability Act 2014 ('the Act').

Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion, your financial statements give a true and fair view of the financial position of the Council and its income and expenditure for the year and whether they have been properly prepared in accordance with the CIPFA Code of Practice on Local Authority Accounting. .

We are also required to consider other information published together with the audited financial statements (including the Annual Governance Statement (AGS) and Narrative Report, whether it is consistent with the financial statements, apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Council acquired in the course of performing our audit; or otherwise misleading.

We are required to carry out sufficient work to satisfy ourselves on whether you have made proper arrangements to secure economy, efficiency and effectiveness in its use of resources ('the value for money (VFM) conclusion').

Auditor Guidance Note 7 (AGN07) clarifies our reporting requirements in the Code and the Act. We are required to provide a conclusion whether in all significant respects, you have put in place proper arrangements to secure value for money through economic, efficient and effective use of its resources for the year.

The Act also details the following additional powers and duties for local government auditors, which we are required to report to you if applied:

- a public interest report if we identify any matter that comes to our attention in the course of the audit that in our opinion should be considered by the Council or brought to the public's attention (section 24 of the Act);
- written recommendations which should be considered by the Council and responded to publicly (section 24 of the Act);
- application to the court for a declaration that an item of account is contrary to law (section 28 of the Act);
- issue of an advisory notice (section 29 of the Act); and
- application for judicial review (section 31 of the Act).

We are also required to give electors the opportunity to raise questions about the accounts and consider and decide upon objections received in relation to the accounts under sections 26 and 27 of the Act.

## Introduction

In the conduct of our audit we have not had to change our audit approach, which we communicated to you in our Audit Plan dated 28 June 2017.

Our audit is substantially complete although we are finalising our procedures in the following areas:

- completion of our testing of other revenues; of revenues year end cut off; of operating expenditure; and of our testing of creditors;
- obtaining the final outstanding external confirmations of investment balances held;
- completion of our senior management review of the other completed areas of audit testing which may raise further queries;
- review of the final version of the financial statements
- obtaining and reviewing the management letter of representation
- updating our post balance sheet events review, to the date of signing the opinion

We received draft financial statements and accompanying working papers at the commencement of our work, in accordance with the agreed timetable.

## **Key audit and financial reporting issues**

### **Financial statements opinion**

Subject to completion of the work as identified on the previous page, we have not identified any adjustments affecting your reported financial position. The draft financial statements for the year ended 31 March 2017 recorded net income of £55,937k; the audited financial statements show unchanged net income. We have recommended a number of minor adjustments to improve the presentation of the financial statements.

The key messages arising from our audit of your financial statements are:

- We were provided with a good quality set of financial statements and the financial position has not been adjusted through the audit;
- Your Finance Team were helpful and prompt in responding to our queries
- As this was the first year of the audit and some of our testing procedures differed from your previous auditor. We will meet with the finance team after completion for a debrief to share any learnings to further improve the efficiency of the audit.

Further details are set out in section two of this report.

We anticipate providing a unqualified audit opinion in respect of the financial statements (see Appendix B).

### **Other financial statement responsibilities**

As well as an opinion on the financial statements, we are required to give an opinion on whether other information published together with the audited financial statements is consistent with the financial statements. This includes if the AGS and Narrative Report is misleading or inconsistent with the

information of which we are aware from our audit.

Based on our review of your Narrative Report and AGS we are satisfied that they are consistent with the audited financial statements. We are also satisfied that the AGS meets the requirements set out in the CIPFA/SOLACE guidance and that the disclosures included in the Narrative Report are in line with the requirements of the CIPFA Code of Practice.

## **Controls**

### **Roles and responsibilities**

Your management is responsible for the identification, assessment, management and monitoring of risk, and for developing, operating and monitoring the system of internal control.

Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we report these to you.

### **Findings**

Our work has not identified any control weaknesses which we wish to highlight for your attention.

## **Value for Money**

Based on our review, we are satisfied that, in all significant respects, you had proper arrangements in place to secure economy, efficiency and effectiveness in its use of resources.

Further detail of our work on Value for Money are set out in section three of this report.

## **Other statutory powers and duties**

We have not identified any issues that have required us to apply our statutory powers and duties under the Act.

### **Grant certification**

In addition to our responsibilities under the Code, we are required to certify the your Housing Benefit subsidy claim on behalf of the Department for Work and Pensions. At present our work on this claim is in progress and is not due to be finalised until 30 November 2017. We will report the outcome of this certification work through a separate report to the Audit and Governance Committee.

### **The way forward**

Matters arising from the financial statements audit and our review of your arrangements for securing economy, efficiency and effectiveness in its use of resources have been discussed with the Director of Finance and Operations.

### **Acknowledgement**

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

**Grant Thornton UK LLP**  
**September 2017**

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## Section 2: Audit findings

01. Executive summary

**02. Audit findings**

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# Materiality

In performing our audit, we apply the concept of materiality, following the requirements of ISA (UK&I) 320: Materiality in planning and performing an audit. The standard states that 'misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements'.

As we reported in our audit plan, we determined overall materiality to be £2,889k (being 2% of gross revenue expenditure). We have considered whether this level remained appropriate during the course of the audit and have made no changes to our overall materiality.

We also set an amount below which misstatements would be clearly trivial and would not need to be accumulated or reported to those charged with governance because we would not expect that the accumulated effect of such amounts would have a material impact on the financial statements. We have defined the amount below which misstatements would be clearly trivial to be £144k. This remains the same as reported in our audit plan.

We did not identify any separate materiality levels.

Misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements; Judgments about materiality are made in light of surrounding circumstances, and are affected by the size or nature of a misstatement, or a combination of both; and Judgments about matters that are material to users of the financial statements are based on a consideration of the common financial information needs of users as a group. The possible effect of misstatements on specific individual users, whose needs may vary widely, is not considered. (ISA (UK&I) 320)

# Audit findings against significant risks

In this section we detail our response to the significant risks of material misstatement which we identified in the Audit Plan. As we noted in our plan, there are two presumed significant risks which are applicable to all audits under auditing standards.

Risks identified in our audit plan	Work completed	Assurance gained and issues arising
<p><b>The revenue cycle includes fraudulent transactions</b></p> <p>Under ISA (UK&amp;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"> <li>• there is little incentive to manipulate revenue recognition;</li> <li>• opportunities to manipulate revenue recognition are very limited; and</li> <li>• the culture and ethical frameworks of local authorities, including Dacorum Borough Council, mean that all forms of fraud are seen as unacceptable.</li> </ul>	<p>Subject to completion of the work set out on pages 5-6, our audit work has not identified any issues in respect of revenue recognition.</p>
<p><b>Management over-ride of controls</b></p> <p>Under ISA (UK&amp;I) 240 it is presumed that the risk of management over-ride of controls is present in all entities.</p>	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> <li>• Assessment of the journal control environment and carried out a walkthrough to confirm that controls have been implemented</li> <li>• Reviewed the journal entry process and selected unusual journal entries for testing back to supporting documentation</li> <li>• Reviewed accounting estimates, judgments and decisions made by management and reviewed any unusual significant transactions.</li> </ul>	<p>Our audit work has not identified any evidence of management override of controls.</p> <p>In particular the findings of our review of journal controls and testing of journal entries has not identified any significant issues.</p> <p>We set out later in this section of the report our work and findings on key accounting estimates and judgements.</p>

"Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, due to either size or nature, and that therefore occur infrequently. Judgmental matters may include the development of accounting estimates for which there is significant measurement uncertainty." (ISA (UK&I) 315) . In making the review of unusual significant transactions "the auditor shall treat identified significant related party transactions outside the entity's normal course of business as giving rise to significant risks." (ISA (UK&I) 550)

# Audit findings against other risks

In this section we detail our response to the other risks of material misstatement which we identified in the Audit Plan.

Risks identified in our audit plan	Work completed	Assurance gained and issues arising
<p><b>Operating expenses</b> Year end creditors and accruals are understated or not recorded in the correct period</p>	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> <li>• Identified and walked through controls</li> <li>• Substantive testing of a sample expenditure processed through the purchase ledger</li> <li>• Completed testing for unrecorded liabilities/missing creditors</li> </ul>	<p>Subject to completion of the work set out on pages 5-6, our audit work has not identified any issues in respect of revenue recognition.</p>
<p><b>Employee remuneration</b> Employee remuneration accruals are understated</p>	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> <li>• <b>Identified and walked through controls</b></li> <li>• Carried out a trend analysis of monthly payroll amounts</li> <li>• Completed substantive testing of employee remuneration</li> </ul>	<p>Subject to completion of the work set out on pages 5-6, our audit work has not identified any issues in respect of revenue recognition.</p>

"In respect of some risks, the auditor may judge that it is not possible or practicable to obtain sufficient appropriate audit evidence only from substantive procedures. Such risks may relate to the inaccurate or incomplete recording of routine and significant classes of transactions or account balances, the characteristics of which often permit highly automated processing with little or no manual intervention. In such cases, the entity's controls over such risks are relevant to the audit and the auditor shall obtain an understanding of them." (ISA (UK&I) 315)

## Audit findings against other risks continued

Risks identified in our audit plan	Work completed	Assurance gained and issues arising
<p><b>Valuation of pension fund net liability</b>                      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"> <li>• We 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</li> <li>• We 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</li> <li>• We undertook procedures to confirm the reasonableness of the actuarial assumptions made</li> <li>• We 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</li> <li>• We enquired about any data which was provided to the actuary in making their valuation and we reviewed the reasonableness and accuracy of this data</li> </ul>	<p>Subject to completion of the work set out on pages 5-6, our audit work has not identified any issues in respect of revenue recognition.</p>

# Audit findings against other risks continued

Risks identified in our audit plan	Work completed	Assurance gained and issues arising
<p><b>Valuation of property, plant and equipment</b>                      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"> <li>Assessed the revaluation control environment and carried out a walkthrough to confirm that controls have been implemented</li> <li>Reviewed the competence, expertise and objectivity of management experts used, the instructions issued to valuation experts and the scope of their work</li> <li>Discussed with valuer the basis on which the valuation is carried out and challenged the key assumptions</li> <li>Reviewed and challenged the information used by the valuer to ensure it is robust and consistent with our understanding</li> <li>Reviewed management's processes and assumptions for the calculation of the estimate</li> <li>Tested revaluations made during the year to ensure they are input correctly into the Council's asset register</li> <li>Evaluated the assumptions made by management for those assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value</li> <li>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</li> </ul>	<p>Subject to completion of the work set out on pages 5-6, our audit work has not identified any issues in respect of revenue recognition.</p>

## Audit findings against other risks continued

Risks identified in our audit plan	Work completed	Assurance gained and issues arising
<p><b>Property, plant and equipment improperly expensed</b> Due to the high level of capital expenditure in the 2016/17 year there is a risk of incorrect treatment of this expenditure</p>	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> <li>• Walkthrough of the control environment for the classification of capital expenditure</li> <li>• Assessment of the control environment around capitalisation and classification of expenditure</li> <li>• Substantive testing of capital additions and substantive testing of operating expenditure for correct classification between capital and revenue</li> </ul>	<p>Subject to completion of the work set out on pages 5-6, our audit work has not identified any issues in respect of revenue recognition.</p>
<p><b>Changes to the presentation of local authority financial statements</b> CIPFA has been working on the ‘Telling the Story’ project, for which the aim was to streamline the financial statements and improve accessibility to the user and this has resulted in changes to the 2016/17 Code of Practice.</p> <p>The changes affect the presentation of income and expenditure in the financial statements and associated disclosure notes. A prior period adjustment (PPA) to restate the 2015/16 comparative figures is also required.</p>	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> <li>• We documented and evaluated the process for integrating the required financial reporting changes into the 2016/17 financial statements</li> <li>• We reviewed any re-classification of the Comprehensive Income and Expenditure Statement (CIES) comparatives to ensure that they are in line with the Authority’s internal reporting structure</li> <li>• We reviewed the classification of income and expenditure reported within the new Expenditure and Funding Analysis (EFA) note to the financial statements</li> <li>• We reviewed the new segmental reporting disclosures within the 2016/17 financial statements to ensure compliance with the CIPFA Code of Practice</li> </ul>	<p>Subject to completion of the work set out on pages 5-6, our audit work has not identified any issues in respect of revenue recognition.</p>


### Going concern

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

We reviewed the management's assessment of the going concern assumption and the disclosures in the financial statements and concluded that the adoption of the going concern basis is reasonable.

# Accounting policies, estimates and judgements

In this section we report on our consideration of accounting policies, in particular revenue recognition policies, and key estimates and judgements made and included with the Council's financial statements.

Accounting area	Summary of policy	Comments	Assessment
<p><b>Revenue recognition</b></p>	<p>Revenues from sale of goods and provision of services</p> <ul style="list-style-type: none"> <li>revenue from the sale of goods is recognised when the Council transfers the significant risk and rewards of ownership to the purchaser and it is probable that economic benefits or service potential associated with the transaction will flow to the Council</li> <li>revenue from the provision of services is recognised when the Council can measure reliably the percentage of completion of the transaction and it is probable that economic benefits or service potential associated with the transaction will flow to the Council.</li> </ul> <p>Revenues Government Grants and Other Contributions</p> <p>Whether paid on account, by instalments or in arrears, government grants and third party contributions are recognised as due to the Council when there is reasonable assurance that:</p> <ul style="list-style-type: none"> <li>the Council will comply with the conditions attached to the payments; and</li> <li>the grants or contributions will be received.</li> </ul> <p>Amounts recognised as due to the Council are not credited to the Comprehensive Income and Expenditure Statement until conditions attached to the grant or contribution have been satisfied. Conditions are stipulations that specify that the future economic benefits or service potential embodied in the asset in the form of the grant or contribution are required to be consumed by the recipient as specified, or future economic benefits or service potential must be returned to the transferor.</p> <p>Monies advanced as grants and contributions for which conditions have not been satisfied are carried in the Balance Sheet as Creditors. When conditions are satisfied, the grant or contribution is credited to the relevant service line (attributable revenue grants and contributions) or Taxation and Non-Specific Grant Income (non-ringfenced revenue grants and all capital grants) in the Comprehensive Income and Expenditure Statement.</p>	<p>The revenue recognition policies are appropriate and in accordance with the CIPFA Code and International Financial Reporting Standards (IFRS)</p>	<p style="text-align: center;">   <b>Green</b> </p>




**Assessment**

● Marginal accounting policy which could potentially attract attention from regulators

● Accounting policy appropriate but scope for improved disclosure

● Accounting policy appropriate and disclosures sufficient

# Accounting policies, estimates and judgements continued

Accounting area	Summary of policy	Comments	Assessment
<b>Council Tax and Non-Domestic Rates</b>	<p>Billing authorities act as agents, collecting council tax and non-domestic rates (NDR) on behalf of the major preceptors (including government for NDR) and, as principals, collecting council tax and NDR for themselves. Billing authorities are required by statute to maintain a separate fund (ie the Collection Fund) for the collection and distribution of amounts due in respect of council tax and NDR. Under the legislative framework for the Collection Fund, billing authorities, major preceptors and central government share proportionately the risks and rewards that the amount of council tax and NDR collected could be less or more than predicted.</p> <p>The council tax and NDR income included in the Comprehensive Income and Expenditure Statement is the authority's share of accrued income for the year. However, regulations determine the amount of council tax and NDR that must be included in the authority's General Fund. Therefore, the difference between the income included in the Comprehensive Income and Expenditure Statement and the amount required by regulation to be credited to the General Fund is taken to the Collection Fund Adjustment Account and included as a reconciling item in the Movement in Reserves Statement. The Balance Sheet includes the authority's share of the end of year balances in respect of council tax and NDR relating to arrears, impairment allowances for doubtful debts, overpayments and prepayments and appeals.</p>	The accounting policies in relation to Council Tax and Non-Domestic Rates are appropriate and in accordance with the CIPFA Code and International Financial Reporting Standards (IFRS)	 <b>Green</b>
<b>Judgements and estimates</b>	<p>Key estimates and judgements include:</p> <ul style="list-style-type: none"> <li>– Useful life of PPE</li> <li>– Land and building revaluations</li> <li>– Impairments</li> <li>– Expenditure and Income Accruals</li> <li>– Valuation of pension fund net liability</li> <li>– Provision for NNDR appeals</li> <li>– Treatment of pension guarantees</li> </ul>	Our review of key judgements and estimates did not identify any significant issues.	 <b>Green</b>
<b>Going concern</b>	The Director of Finance and Operations, s151 officer has a reasonable expectation that the services provided by you will continue for the foreseeable future. Members concur with this view. For this reason, you continue to adopt the going concern basis in preparing the financial statements.	We have reviewed your assessment and are satisfied with management's assessment that the going concern basis is appropriate for the 2016/17 financial statements.	 <b>Green</b>

**Assessment**

● Marginal accounting policy which could potentially attract attention from regulators

● Accounting policy appropriate but scope for improved disclosure

● Accounting policy appropriate and disclosures sufficient



# Accounting policies, estimates and judgements continued

Accounting area	Summary of policy	Comments	Assessment
Other accounting policies	We have reviewed your policies against the requirements of the CIPFA Code of Practice.	Your accounting policies are appropriate and consistent with previous years.	●

**Assessment**

● Marginal accounting policy which could potentially attract attention from regulators

● Accounting policy appropriate but scope for improved disclosure

● Accounting policy appropriate and disclosures sufficient

# Other communication requirements

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

	Issue	Commentary
1.	<b>Matters in relation to fraud</b>	The Audit and Governance Committee considers the risk of fraud. We have not been made aware of any other incidents in the period and no other issues have been identified during the course of our audit procedures.
2.	<b>Matters in relation to related parties</b>	From the work we carried out, we have not identified any related party transactions which have not been disclosed.
3.	<b>Matters in relation to laws and regulations</b>	You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work.
4.	<b>Written representations</b>	<ul style="list-style-type: none"> <li>• A standard letter of representation has been requested from the Council.</li> <li>• We are expecting to receive the signed letter at the 20 September Audit Committee.</li> </ul>
5.	<b>Confirmation requests from third parties</b>	We obtained direct confirmations from the Public Works Loans Board for loans and requested from management permission to send confirmation requests to counterparties for bank and investment balances. This permission was granted and the requests were sent. We are still awaiting responses from some of the bodies. We expect to receive these confirmations in advance of issuing our opinion, but will undertake alternative audit procedures where necessary, as allowed under the ISA, to obtain assurance over the year end balances included in the financial statements.
6.	<b>Disclosures</b>	Our review found no material omissions in the financial statements.
7.	<b>Matters on which we report by exception</b>	<ul style="list-style-type: none"> <li>• We are required to report on a number of matters by exception in a number of areas:</li> </ul> <p>Subject to the outstanding work highlighted on pages 5 and 6 of this report, we have not identified any issues we would be required to report by exception in the following areas:</p> <ul style="list-style-type: none"> <li>• If the Annual Governance Statement does not meet the disclosure requirements set out in the CIPFA/SOLACE guidance or is misleading or inconsistent with the information of which we are aware from our audit</li> <li>• The information in the Narrative Report is materially inconsistent with the information in the audited financial statements or our knowledge of the Group/Council acquired in the course of performing our audit, or otherwise misleading.</li> </ul>
8.	<b>Specified procedures for Whole of Government Accounts</b>	<p>We are required to carry out specified procedures (on behalf of the NAO) on the Whole of Government Accounts (WGA) consolidation pack under WGA group audit instructions.</p> <ul style="list-style-type: none"> <li>• Note that work is not required as you do not exceed the threshold.</li> </ul>

# Misclassifications and disclosure changes

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

Adjustment type	Value £'000	Account balance	Impact on the financial statements
1 Disclosures			Various minor amendments to the disclosures in the accounts to improve the presentation of the financial statements.

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## Section 3: Value for Money

01. Executive summary

02. Audit findings

**03. Value for Money**

04. Fees, non-audit services and independence

05. Communication of audit matters

## Background

We are required by section 21 of the Local Audit and Accountability Act 2014 ('the Act') and the NAO Code of Audit Practice ('the Code') to satisfy ourselves that you have put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the Value for Money (VFM) conclusion.

We are required to carry out sufficient work to satisfy ourselves that you have put in place proper arrangements. The Act and NAO guidance state that for local government bodies, auditors are required to give a conclusion on whether you have put proper arrangements in place.

In carrying out this work, we are required to follow the NAO's Auditor Guidance Note 3 (AGN 03) issued in November 2016. AGN 03 identifies one single criterion for auditors to evaluate:

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

AGN03 provides examples of proper arrangements against three sub-criteria but specifically states that these are not separate criteria for assessment purposes and that auditors are not required to reach a distinct judgement against each of these.

## Risk assessment

We carried out an initial risk assessment in June 2017 and identified one significant risk in respect of specific areas of proper arrangements using the guidance contained in AGN03. We communicated these risks to you in our Audit Plan dated 28 June 2017.

We have continued our review of relevant documents up to the date of giving our report, and have not identified any further significant risks where we need to perform further work.

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

### **Significant qualitative aspects**

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

We have focused our work on the significant risks that we identified in the Council's arrangements. In arriving at our conclusion, our main considerations were:

- Your arrangements for updating and developing your Medium Term Financial Strategy;
- Discussion and review of governance arrangements and decision making processes around capital investments.

We have set out more detail on the risks we identified, the results of the work we performed and the conclusions we drew from this work on page 24.

### **Overall conclusion**

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

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

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

### **Significant difficulties in undertaking our work**

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

### **Significant matters discussed with management**

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

### **Any other matters**

There were no other matters from our work which were significant to our consideration of your arrangements to secure value for money in your use of resources.

**Key findings**

We set out below our key findings against the significant risks we identified through our initial risk assessment and further risks identified through our ongoing review of documents.

Significant risk	Work to address	Findings and conclusions
<p><b>Medium term financial resilience</b></p> <p><b>Efficiency Savings Gap</b></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><b>Capital Investment</b></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"> <li>• We reviewed your arrangements for updating and developing your medium term financial planning</li> <li>• We reviewed your planning assumptions, including any sensitivity analysis.</li> <li>• We reviewed your governance arrangements for capital planning.</li> </ul>	<p><b>Efficiency Savings Gap</b></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 have concluded that your financial planning process is robust and should mitigate against this risk.</p> <p><b>Capital Investment</b></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 conclude that the capital planning process is robust and should mitigate against this risk.</p>

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## Section 4: Fees, non-audit services and independence

01. Executive summary

02. Audit findings

03. Value for Money

04. Fees, non audit services and independence

05. Communication of audit matters



We confirm below our final fees charged for the audit and confirm there were no fees for the provision of non audit services.

### Fees

	Proposed fee £	Final fee £
Council audit	73,350	73,350
Grant certification	17,543	TBC
<b>Total audit fees (excluding VAT)</b>	<b>90,893</b>	<b>TBC</b>

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

### Grant certification

Our fees for grant certification cover only housing benefit subsidy certification, which falls under the remit of Public Sector Audit Appointments Limited. Fees in respect of other grant work, such as reasonable assurance reports, are shown under 'Fees for other services'.

### Independence and ethics

- We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Auditing Practices Board's Ethical Standards and confirm that we are independent and are able to express an objective opinion on the financial statements.
- We confirm that we have implemented policies and procedures to meet the requirements of the Auditing Practices Board's Ethical Standards.

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## Section 5: Communication of audit matters

01. Executive summary

02. Audit findings

03. Value for Money

04. Fees, non audit services and independence

05. Communication of audit matters

# Communication to those charged with governance

ISA (UK&I) 260, as well as other ISAs, prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table opposite.

This document, The Audit Findings, outlines those key issues and other matters arising from the audit, which we consider should be communicated in writing rather than orally, together with an explanation as to how these have been resolved.

## Respective responsibilities

The Audit Findings Report has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by Public Sector Audit Appointments Limited (<http://www.psa.co.uk/appointing-auditors/terms-of-appointment/>)

We have been appointed as the Council's independent external auditors by the Audit Commission, the body responsible for appointing external auditors to local public bodies in England at the time of our appointment. As external auditors, we have a broad remit covering finance and governance matters.

Our annual work programme is set in accordance with the Code of Audit Practice ('the Code') issued by the NAO (<https://www.nao.org.uk/code-audit-practice/about-code/>). Our work considers the Council's key risks when reaching our conclusions under the Code.

It is the responsibility of the Council to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Council is fulfilling these responsibilities.

Our communication plan	Audit Plan	Audit Findings
Respective responsibilities of auditor and management/those charged with governance	✓	
Overview of the planned scope and timing of the audit. Form, timing and expected general content of communications	✓	
Views about the qualitative aspects of the entity's accounting and financial reporting practices, significant matters and issues arising during the audit and written representations that have been sought		✓
Confirmation of independence and objectivity	✓	✓
A statement that we have complied with relevant ethical requirements regarding independence, relationships and other matters which might be thought to bear on independence. Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged Details of safeguards applied to threats to independence	✓	✓
Material weaknesses in internal control identified during the audit		✓
Identification or suspicion of fraud involving management and/or others which results in material misstatement of the financial statements		✓
Non compliance with laws and regulations		✓
Expected modifications to auditor's report, or emphasis of matter		✓
Unadjusted misstatements and material disclosure omissions		✓
Significant matters arising in connection with related parties		✓
Significant matters in relation to going concern	✓	✓

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# Appendices

## A. Audit Opinion

# A: Draft audit opinion

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

**DRAFT INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF DACORUM BOROUGH COUNCIL**

We have audited the financial statements of Dacorum Borough Council (the "Authority") for the year ended 31 March 2017 under the Local Audit and Accountability Act 2014 (the "Act"). The financial statements comprise Expenditure and Funding Analysis, the Comprehensive Income and Expenditure Statement, the Movement in Reserves Statement, the Balance Sheet, the Cash Flow Statement, the Housing Revenue Account - Income and Expenditure Account, the Statement of Movement on the Housing Revenue Account, the Collection Fund and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Act and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the Authority's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the Corporate Director (Finance and Operations) and auditor

As explained more fully in the Statement of Responsibilities for the Annual Statement of Accounts, the Corporate Director (Finance and Operations) is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17, which give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law, the Code of Audit Practice published by the National Audit Office on behalf of the Comptroller and Auditor General (the "Code of Audit Practice") and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to

the Authority's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Corporate Director (Finance and Operations); and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Narrative Report, and the Annual Governance Statement to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion:

- the financial statements present a true and fair view of the financial position of the Authority as at 31 March 2017 and of its expenditure and income for the year then ended; and
- the financial statements have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 and applicable law.

Opinion on other matters

In our opinion, the other information published together with the audited financial statements in the Narrative Report by the Corporate Director (Finance & Operations), and the Annual Governance Statement for the financial year for which the financial statements are prepared is consistent with the audited financial statements.

Matters on which we are required to report by exception

We are required to report to you if:

- in our opinion the Annual Governance Statement does not comply with the guidance included in 'Delivering Good Governance in Local Government: Framework (2016)' published by CIPFA and SOLACE; or
- we have reported a matter in the public interest under section 24 of the Act in the course of, or at the conclusion of the audit; or
- we have made a written recommendation to the Authority under section 24 of the Act in the course of, or at the conclusion of the audit; or
- we have exercised any other special powers of the auditor under the Act.

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

Conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

Respective responsibilities of the Authority and auditor

The Authority is responsible for putting in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

We are required under Section 20(1)(c) of the Act to be satisfied that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Scope of the review of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria issued by the Comptroller and Auditor General in November 2016, as to whether the Authority had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined this criteria as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2017.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to form a view on whether in all significant respects the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

Conclusion

On the basis of our work, having regard to the guidance on the specified criteria issued by the Comptroller and Auditor General in November 2016, we are satisfied that in all significant respects the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2017.

Certificate

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

\*\*\*\*\*

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

Grant Thornton UK LLP  
30 Finsbury Square  
London

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[Date]



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