

# Dacorum Borough Council

## Audit Committee Summary

For the year ended 31 March 2014

Audit Results Report – ISA (UK & Ireland) 260

30 July 2014



Building a better  
working world

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# Executive summary

## *Key findings*

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### Audit results and other key matters

The Audit Commission's Code of Audit Practice (the Code) requires us to report to those charged with governance – the Audit Committee - on the work we have carried out to discharge our statutory audit responsibilities together with any governance issues identified.

This report summarises the findings from the 2013/14 audit which is substantially complete. It includes the messages arising from our audit of your financial statements and the results of the work we have undertaken to assess your arrangements to secure value for money in your use of resources.

#### **Financial statements**

- ▶ As of 30 July 2014, we expect to issue an unqualified opinion on the financial statements. Our audit demonstrates that the Council has prepared its financial statements well and this is reflected in the low number of issues to bring to your attention.

#### **Value for money**

- ▶ We expect to conclude that you have made appropriate arrangements to secure economy, efficiency and effectiveness in your use of resources.

#### **Whole of Government Accounts**

- ▶ Alongside our work on the financial statements, we also review and report to the National Audit Office on your Whole of Government Accounts return. We have not yet completed our work on your Whole of Government Accounts return.

#### **Audit certificate**

- ▶ The audit certificate is issued to demonstrate that the full requirements of the Audit Commission's Code of Audit Practice have been discharged for the relevant audit year. We expect to issue the audit certificate once we have completed our work on the Whole of Government Accounts return.

# Extent and purpose of our work

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## The Council's responsibilities

The Council is responsible for preparing and publishing its Statement of Accounts, accompanied by the Annual Governance Statement. In the Annual Governance Statement, the Council reports publicly on the extent to which it complies with its own code of governance, including how it has monitored and evaluated the effectiveness of its governance arrangements in the year, and on any planned changes in the coming period.

The Council is also responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

## Purpose of our work

Our audit was designed to:

- Express an opinion on the 2013/14 financial statements
- Report on any exception on the governance statement or other information included in the foreword
- Consider and report any matters that prevent us being satisfied that the Council had put in place proper arrangements for securing economy, efficiency and effectiveness in the use of resources (the Value for Money conclusion)

In addition, this report contains our findings related to the areas of audit emphasis, our views on the Council's accounting policies and judgments and significant deficiencies in internal control.

As a component auditor, we also follow the group instructions and send to the National Audit Office our group assurance certificate, audit results report and auditor's report on the consolidation schedule.

This report is intended solely for the information and use of the Council. It is not intended to be and should not be used by anyone other than the specified party.

# Addressing audit risks

## Significant audit risks

We identified the following audit risks during the planning phase of our audit, and reported these to you in our Audit Plan. Here, we set out how we have gained audit assurance over those issues.

Audit risk identified within our Audit Plan	Audit procedures performed	Assurance gained and issues arising
Significant audit risks (including fraud risks)		
<p><b><u>Fraud and Management Override Risk</u></b></p> <p>As identified in ISA (UK &amp; Ireland) 240, management is in a unique position to perpetrate fraud because of their ability to directly or indirectly manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.</p> <p>An area we identified as being susceptible to manipulation is the capitalisation of revenue expenditure on Property, Plant and Equipment.</p>	<ul style="list-style-type: none"> <li>• Tested the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements;</li> <li>• Reviewed accounting estimates for evidence of management bias;</li> <li>• Evaluated the business rationale for any significant unusual transactions; and</li> <li>• Tested additions to the Property Plant and Equipment balance to ensure they are properly classified as capital expenditure.</li> </ul>	<p>All our planned procedures are complete. There are no findings that are indicate a risk of misstatement due to fraud or error.</p>

# Addressing audit risks

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Significant audit risks (including fraud risks)		
<p><b><u>Localisation of Business Rate Retention</u></b></p> <p>Significant changes in the arrangements for Non Domestic Rates meant that individual councils now need to provide for rating appeals. This includes not only claims from 1 April 2013, but claims that relate to earlier periods. Our audit plan identified the estimation of this provision as a significant risk.</p>	<ul style="list-style-type: none"> <li>We will review the detailed accounting for business rates to ensure the Council's accounts are materially accurate and compliant with the CIPFA Code of Practice.</li> <li>We will review the Council's provision for business rate appeals to ensure it has been calculated on a reasonable basis in line with IAS 37. As part of this we will ensure the provision is supported by appropriate evidence and that the level of estimation uncertainty is adequately disclosed in the accounts.</li> </ul>	<p>All our planned procedures are complete.</p> <p>Whilst the provision did not include an element for appeals not yet received, we have gained sufficient assurance that this element would not have a material impact. We therefore have sufficient assurance that the provision for business rate appeals is not materially misstated and the estimation process used in deriving it is not wholly unreasonable.</p>

# Addressing audit risks (Continued)

## Significant audit risks

Audit risk identified within our Audit Plan	Audit procedures performed	Assurance gained and issues arising
<b>Significant audit risks (including fraud risks)</b>		
<p><b><u>Property, Plant &amp; Equipment</u></b></p> <p>Valuation of property assets are significant accounting estimates that have material impact on the financial statements. We identified the following risks in relation to the valuation of property assets:</p> <ul style="list-style-type: none"> <li>• The application of an incorrect accounting treatment to information supplied by the Council's valuer; and</li> <li>• The incorrect classification of properties acquired by the Council to facilitate the regeneration of Hemel Hempstead town centre, resulting in an incorrect valuation basis for these properties</li> </ul>	<p>Our approach focussed on:</p> <ul style="list-style-type: none"> <li>• Reliance on management's expert.</li> <li>• Reliance on auditor expert.</li> <li>• Testing of the accounting treatment applied to changes in the valuation of property assets.</li> <li>• Reviewing of the classification of relevant property assets within the Council's balance sheet, ensuring those assets were classified in accordance with the CIPFA Code of Practice.</li> </ul>	<p>All our planned procedures are complete.</p> <p>Our assessment of management's valuation experts ( internal and external) found them to be competent and objective and their work was adequate for our purposes.</p> <p>We have no matters to bring to your attention from our testing.</p>

# Financial statements audit

## *Issues and misstatements arising from the audit*

### Progress of our audit

- ▶ The following areas of our work programme remain to be completed. We will provide an update of progress at the Audit Committee meeting:
  - ▶ Receipt of a Letter of Representation
  - ▶ Completion of our testing on the Comprehensive Income and Expenditure Account, and a small number of Reserve movements.
  - ▶ Final audit closing and review procedures.
- ▶ Subject to the satisfactory resolution of the above items, we propose to issue an unqualified audit report on the financial statements.

### Uncorrected Errors

There are no unadjusted errors for your consideration.

### Corrected Misstatements

- Our audit identified a limited number of disclosure errors which our team have highlighted to management for amendment. All of these have been adjusted during the course of our work.
- We identified two disclosure errors that in our professional judgement warrant communicating to you. These have been corrected by management within the revised financial statements.

The first error related to the misclassification of Receipts in Advance within Financial Instrument note 36. The effect of the correction was to:

- ▶ Reduce the value of short-term debtors disclosed within financial assets by £0.549 million.
- ▶ Reduce the value of short-term creditors within financial liabilities by £0.549 million.

The second error corrected a material inconsistency between the revaluation increases on Property Plant and Equipment. These were disclosed in the Revaluation Reserve Note 30 as £22.911 million, but was disclosed as £25.521 million in the Property, Plant and Equipment Note 19.

### Other Matters

As required by ISA (UK&I) 260 and other ISAs specifying communication requirements, we are required to communicate to you significant findings from the audit and other matters that are significant to your oversight of the Council's financial reporting process including the following:

- ▶ Qualitative aspects of your accounting practices; estimates and disclosures;
- ▶ Matters specifically required by other auditing standards to be communicated to those charged with governance. For example, issues about fraud, compliance with laws and regulations, external confirmations and related party transactions; and,
- ▶ Any significant difficulties encountered during the audit; and
- ▶ Other audit matters of governance interest.

We have no matters we wish to report.



# Financial statements audit (continued)

## *Internal Control, Written Representations & Whole of Government Accounts*

### **Internal Control**

It is the responsibility of the Council to develop and implement systems of internal financial control and to put in place proper arrangements to monitor their adequacy and effectiveness in practice. Our responsibility as your auditor is to consider whether the Council has put adequate arrangements in place to satisfy itself that the systems of internal financial control are both adequate and effective in practice.

We have tested the controls of the Council only to the extent necessary for us to complete our audit. We are not expressing an opinion on the overall effectiveness of internal control.

We have reviewed the Annual Governance Statement and can confirm that:

- ▶ It complies with the requirements of CIPFA/SOLACE Delivering Good Governance in Local Government Framework; and
- ▶ It is consistent with other information that we are aware of from our audit of the financial statements.

During the course of our audit, officers brought to our attention the findings of a recent Health & Safety Management Audit. This highlighted a number of weaknesses in the Council's current arrangements. An amendment has been made to the Annual Governance Statement reviewed by Members of the Audit Committee on 17 June 2014 to reflect this governance issue.

We have not identified any significant deficiencies in the design or operation of an internal control that might result in a material misstatement in your financial statements of which you are not aware.

### **Request for written representations**

We have requested a management representation letter to gain management's confirmation in relation to a number of matters. We have not requested any specific representations:

### **Whole of Government Accounts**

Alongside our work on the financial statements, we also review and report to the National Audit Office on your Whole of Government Accounts return. The extent of our review and the nature of my report are specified by the National Audit Office.

We have not yet completed our work on your Whole of Government Accounts return. Therefore we cannot formally conclude the audit and issue the audit certificate.

# Arrangements to secure economy, efficiency and effectiveness

*The Code of Audit Practice (2010) sets out our responsibility to satisfy ourselves that Dacorum Borough Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. In examining the Council's corporate performance management and financial management arrangements, we have regard to the following criteria and focus specified by the Audit Commission.*

## Criteria 1 - Arrangements for securing financial resilience

▶ *“Whether the Council has robust systems and processes to manage financial risks and opportunities effectively, and to secure a stable financial position that enables it to continue to operate for the foreseeable future”*

We did not identify any significant risks in relation to this criteria.

We have no issues to report in relation to this criteria.

## Criteria 2 - Arrangements for securing economy, efficiency and effectiveness

▶ *“Whether the Council is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.”*

We did not identify any significant risks in relation to this criteria.

We have no issues to report in relation to this criteria.

# Independence and audit fees

## Independence

- ▶ We confirm there are no changes in our assessment of independence since our confirmation in our Audit Plan dated 17 March 2014.
- ▶ We complied with the Auditing Practices Board's Ethical Standards for Auditors and the requirements of the Audit Commission's Code of Audit Practice and Standing Guidance. In our professional judgement the firm is independent and the objectivity of the audit engagement partner and audit staff has not been compromised within the meaning of regulatory and professional requirements.
- ▶ We confirm that we are not aware of any relationships that may affect the independence and objectivity of the firm that we are required by auditing and ethical standards to report to you.
- ▶ We consider that our independence in this context is a matter that should be reviewed by both you and ourselves. It is therefore important that you consider the facts of which you are aware and come to a view.

If you wish to discuss any matters concerning our independence, we will be pleased to do so at the forthcoming meeting of the Audit Committee on 30 July 2014.

- ▶ We confirm that we have met the reporting requirements to the Audit Committee, as 'those charged with governance' under International Standards on Auditing (UK&I) 260. Our communication plan to meet these requirements were set out in our Audit Plan of 17 March 2014.

## Audit fees

The table below sets out the scale fee and our final proposed audit fees.

	Proposed final fee 2013-14	Scale fee 2013-14	Variation comments
	£s	£s	
Total audit fee - Code work	96,900	96,900	None
Certification of claims and returns	33,584	33,584	None

- ▶ Our actual fee is in line with the agreed fee at this point in time, subject to the satisfactory clearance of the outstanding audit work.
- ▶ Our work on certification of claims and returns is ongoing. We will report the final fee for this work in our Certification Report in January 2015.
- ▶ We confirm that we have not undertaken any non-audit work outside of the Audit Commission's Audit Code requirements.

## Ernst & Young LLP

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In March 2010 the Audit Commission issued a revised version of the 'Statement of responsibilities of auditors and audited bodies' (Statement of responsibilities). It is available from the Chief Executive of each audited body and via the [Audit Commission's website](#).

The Statement of responsibilities serves as the formal terms of engagement between the Audit Commission's appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas.

The Standing Guidance serves as our terms of appointment as auditors appointed by the Audit Commission. The Standing Guidance sets out additional requirements that auditors must comply with, over and above those set out in the Code of Audit Practice 2010 (the Code) and statute, and covers matters of practice and procedure which are of a recurring nature.

This Audit Results Report is prepared in the context of the Statement of responsibilities. It is addressed to the Members of the audited body, and is prepared for their sole use. We, as appointed auditor, take no responsibility to any third party.

Our Complaints Procedure – If at any time you would like to discuss with us how our service to you could be improved, or if you are dissatisfied with the service you are receiving, you may take the issue up with your usual partner or director contact. If you prefer an alternative route, please contact Steve Varley, our Managing Partner, 1 More London Place, London SE1 2AF. We undertake to look into any complaint carefully and promptly and to do all we can to explain the position to you. Should you remain dissatisfied with any aspect of our service, you may of course take matters up with our professional institute. We can provide further information on how you may contact our professional institute.

