

# Dacorum Borough Council

Annual Audit Letter for the year ended 31 March 2015

28 October 2015

Ernst & Young LLP







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28 October 2015

Dear Members

## **Annual Audit Letter 2014/15**

The purpose of this annual audit letter is to communicate the key issues arising from our work to the Members and external stakeholders, including members of the public.

We have already reported the detailed findings from our audit work in our 2014/15 audit results report presented to the 29 July 2015 meeting of the Audit Committee, representing those charged with governance. We do not repeat those findings here.

The matters reported here are those we consider most significant for Dacorum Borough Council.

We would like to take this opportunity to thank officers for their assistance during the course of our work.

Yours faithfully

Mark Hodgson  
Executive Director  
For and on behalf of Ernst & Young LLP  
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## Contents

1. Executive summary .....	1
2. Key findings .....	3
3. Control themes and observations .....	6
4. Looking ahead.....	7

Relevant parts of the Audit Commission Act 1998 are transitionally saved by the Local Audit and Accountability Act 2014 (Commencement No. 7, Transitional Provisions and Savings) Order 2015 for 2014-15 audits.

The Audit Commission's 'Statement of responsibilities of auditors and audited bodies' (Statement of responsibilities). It is available from the accountable officer 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 Annual Audit Letter 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.

# 1. Executive summary

Our 2014/15 audit work was undertaken in accordance with our Audit Plan issued on the 11 February 2015 and was conducted in accordance with the Audit Commission's Code of Audit Practice, International Standards on Auditing (UK and Ireland) and other guidance issued by the Audit Commission.

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

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

As auditors we are responsible for:

- forming an opinion on the financial statements, and on the consistency of other information published with them
- reviewing and reporting by exception on the Council's AGS
- forming a conclusion on the arrangements the Council has to secure economy, efficiency and effectiveness in its use of resources
- undertaking any other work specified by the Audit Commission and the Code of Audit Practice.

Summarised below are the results of our work across all these areas:

Area of work	Result
Audit of the financial statement of Dacorum Borough Council for the financial year ended 31 March 2015 in accordance with International Standards on Auditing (UK & Ireland).	On 31 July 2015 we issued an unqualified audit opinion on the Council's financial statements.
Form a conclusion on the arrangements the Council has made for securing economy, efficiency and effectiveness in its use of resources.	On 31 July 2015 we issued an unqualified value for money conclusion.
Report to the National Audit Office on the accuracy of the consolidation pack the Council needs to prepare for the Whole of Government Accounts.	We submitted our assurance statement to the National Audit Office on 1 October 2015. We had no issues to report.
Consider the completeness of disclosures on the Council's AGS, identify any inconsistencies with other information which we know about from our work and consider whether it complies with CIPFA/ SOLACE guidance.	No issues to report.
Consider whether we should make a report in the public interest on any matter coming to our notice in the course of the audit.	No issues to report.
Determine whether we need to take any other action in relation to our responsibilities under the Audit Commission Act.	No issues to report.
<b><i>As a result of the above we have also:</i></b>	
Issued a report to those charged with governance of the Council communicating the significant findings from our audit.	Our Audit Results Report was presented to the Audit Committee on 29 July 2015.

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Issued a certificate that we have completed the audit in accordance with the requirements of the Audit Commission Act 1998 and the Code of Practice issued by the Audit Commission.

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We issued our certificate on 1 October 2015.

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In December 2015, we will also issue a report to those charged with governance of the Council summarising the certification (of grant claims and returns) work we have undertaken.

## 2. Key findings

### 2.1 Financial statement audit

The Council's Statement of Accounts is an important tool to show both how the Council has used public money and how it can demonstrate its financial management and financial health.

We audited the Council's Statement of Accounts in line with the Audit Commission's Code of Audit Practice, International Standards on Auditing (UK and Ireland) and other guidance issued by the Audit Commission and issued an unqualified audit report on 31 July 2015.

Our detailed findings were reported to the 29 July 2015 meeting of the Audit Committee.

In our view, the quality of the process for producing the accounts, including the supporting working papers was generally good.

The main issues identified as part of our audit were:

#### **Significant risk 1: Risk of management override**

As identified in ISA (UK and Ireland) 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. We identify and respond to this fraud risk on every audit engagement.

For local authorities, the potential for the incorrect classification of revenue spend as capital is a particular area where there is a risk of management override.

#### **Findings:**

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- ▶ We did not identify any material misstatements, evidence of management bias, or significant or unusual transactions in our testing of journals and estimates.
  - ▶ We did not identify any instances of expenditure being incorrectly classified between revenue and capital.
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#### **Significant risk 2: Property asset valuation and accounting**

The Council holds a significant number of property assets. The valuation of these assets represents a significant accounting estimate. The accounting entries arising from changes in value are complex and have a significant impact on the Council's financial statements.

The Council is also working to regenerate an area of Hemel Hempstead town centre. It has acquired a number of property assets to facilitate this development. The classification of these properties represents a significant judgment that will determine the basis on which those properties are valued,

Taken together, these factors present a significant risk to the financial statements,

#### **Findings:**

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- ▶ We assessed the reliability of the work management's experts, validating their work against information provided to us by our own valuation specialists. We concluded we could place reliance on the work undertaken by management's expert.
- ▶ We found that changes in the value of those assets were correctly reflected in the Council's accounting systems and financial statements.
- ▶ We reviewed management's judgements around the classification of property assets, and found that these were appropriate and in line with the Code of Practice on Local Authority Accounting in the United Kingdom.

We had no other matters to report.

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## 2.2 Value for money conclusion

As part of our work we must also conclude whether the Council has proper arrangements to secure economy, efficiency and effectiveness in the use of resources. This is known as our value for money conclusion.

In accordance with guidance issued by the Audit Commission, our 2014/15 value for money conclusion was based on two criteria. We consider whether the Council had proper arrangements in place for:

- ▶ securing financial resilience, and
- ▶ challenging how it secures economy, efficiency and effectiveness.

We issued an unqualified value for money conclusion on 31 July 2015.

### Arrangements to secure financial resilience: significant risk

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***Identified risk - Along with many other Council's, Dacorum Borough Council is facing significant financial challenges over the next three to four years. The Council's external funding sources are reducing and are likely to be subject to change and uncertainty in future years.***

We have undertaken a review of the Council's Medium Term Financial Strategy (MTFS). We consider that the Council's strategy is robust. It is based on assumptions and scenario planning that is appropriate. The Council updates its strategy on a regular basis to reflect changing assumptions.

The strategy identifies a cumulative budget gap over the period 2016/17 - 2018/19 of £2.8 million, including a budget gap of £1.4 million in 2016/17. Further work is planned over the remainder of 2015 to close this budget gap. The Council has no plans to make significant use of reserves or uncertain funding streams (for example the New Homes Bonus) to close this gap.

We have also assessed the level of general fund reserves (both general and earmarked) that the Council has at the 31 March 2015. We are comfortable that the level of reserves held by the Council (£12.5 million) covers the budget gap identified within the MTFS.

The Council does, however, need to formalise the savings plans it is currently developing in order to address the budget gap going forward and maintain its reserve balances at an appropriate level.

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We have no other matters to report.

## 2.3 Whole of Government Accounts

We performed the procedures required by the National Audit Office on the accuracy of the consolidation pack prepared by the Council for Whole of Government Accounts purposes. We submitted our assurance statement to the National Audit Office on 1 October 2015.

We had no issues to report.

## 2.4 Annual Governance Statement

We are required to consider the completeness of disclosures in the Council's AGS, identify any inconsistencies with the other information which we know about from our work, and consider whether it complies with relevant guidance.

We completed this work and did not identify any areas of concern.

## 2.5 Objections received

We did not receive any objections to the 2014/15 financial statements from members of the public.

## 2.6 Other powers and duties

We did not identify any issues during our audit that required us to use our powers under the Audit Commission Act 1998, including reporting in the public interest.

## 2.7 Independence

We communicated our assessment of independence to the Audit Committee on 29 July 2015. In our professional judgement the firm is independent and the objectivity of the audit engagement director and audit staff has not been compromised within the meaning of regulatory and professional requirements.

## 2.8 Certification of grant claims and returns

We have not yet completed our work on the certification of the claims and returns. We will issue our Annual Certification report for 2014/15 in December 2015.

### 3. Control themes and observations

As part of our work, we obtained enough understanding of internal control to plan our audit and determine the nature, timing and extent of testing performed. We have not tested the individual system controls of the Council as we have adopted a fully substantive approach to our audit.

Although our audit was not designed to express an opinion on the effectiveness of internal control, we are required to tell the Council about any significant deficiencies in internal control we find during our audit.

We did not identify any significant deficiencies in the design of an internal control that might result in a material misstatement in the Council's financial statements.

## 4 Looking ahead

There are a number of changes in accounting and auditing requirements that could have a significant impact on the Council's arrangements for the production of its financial statements. We have outlined what we think are two of the main challenges below.

Description	Impact
<p><b>Highways Network Asset (formerly Transport Infrastructure Assets):</b></p> <p>The Invitation to Comment on the Code of Accounting Practice for 2016/17 sets out the requirements to account for Highways Network Assets under Depreciated Replacement Cost. This is a change from the existing requirement to account for these assets under Depreciated Historic Cost. This change is to be effective from 1 April 2016.</p> <p>This requirement is not only applicable to highways authorities, but to any local government bodies that have assets which fall into the definition. This could include, for example, footways and cycle ways, housing revenue accounts (HRA) infrastructure, unadopted roads on industrial or HRA estates, and street furniture.</p> <p>This may be a material change of accounting policy for the Council. It could also require changes to existing asset management systems and valuation procedures.</p>	<p>The Authority should consider whether it holds any assets that would be classified as highways network assets and, if so, whether they have the necessary information to implement the changes in accounting for these assets from 1 April 2016.</p> <p>Even though it is not a highways authority, the requirements may still impact if it is responsible for assets such as:</p> <ul style="list-style-type: none"> <li>• Footways</li> <li>• Housing revenue account (HRA) infrastructure</li> <li>• Unadopted roads in industrial or HRA estates</li> <li>• Cycleways</li> <li>• Street Furniture</li> </ul> <p>If the impact of this change in accounting policy is material, the Authority would also need to restate the balances for these assets as at 1 April 2015.</p>
<p><b>Earlier deadline for production and audit of the financial statements from 2017/18</b></p> <p>The Accounts and Audit Regulations Accounts and Audit Regulations 2015 were laid before Parliament in February 2015. A key change in the regulations is that from the 2017/18 financial year the timetable for the preparation and approval of accounts will be brought forward.</p> <p>As a result, the Council will need to produce draft accounts by 31 May and these accounts will need to be audited by 31 July in 2018.</p>	<p>These changes provide challenges for both the preparers and the auditors of the financial statements.</p> <p>The Council is aware of this challenge and has been working towards and achieving an earlier accounts production and facilitating earlier audit completion in recent years, as demonstrated by the audit opinions being issued by the end of July in each of the last two years.</p> <p>Therefore, the Council is very well placed to achieve this earlier accounts production timetable.</p>

## Contents

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