



# The Annual Audit Letter for Dacorum Borough Council

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**Year ended 31 March 2019**

**30 August 2019**



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# Executive Summary

### Purpose

Our Annual Audit Letter (Letter) summarises the key findings arising from the work that we have carried out at Dacorum Borough Council ( the Council) for the year ended 31 March 2019.

This Letter is intended to provide a commentary on the results of our work to the Council and external stakeholders, and to highlight issues that we wish to draw to the attention of the public. In preparing this Letter, we have followed the National Audit Office (NAO)'s Code of Audit Practice and Auditor Guidance Note (AGN) 07 – 'Auditor Reporting'. We reported the detailed findings from our audit work to the Council's Audit Committee as those charged with governance in our Audit Findings Report on 18 July 2019

### Our work

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<b>Materiality</b>	We determined materiality for the audit of the Council's financial statements to be £2,856,000, which is 2% of the Council's gross revenue expenditure.
<b>Financial Statements opinion</b>	We gave an unqualified opinion on the Council's financial statements on 24 July 2019.
<b>Whole of Government Accounts (WGA)</b>	We completed work on the Council's consolidation return following guidance issued by the NAO.
<b>Use of statutory powers</b>	We did not identify any matters which required us to exercise our additional statutory powers.

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### Respective responsibilities

We have carried out our audit in accordance with the NAO's Code of Audit Practice, which reflects the requirements of the Local Audit and Accountability Act 2014 (the Act). Our key responsibilities are to:

- give an opinion on the Council financial statements (section two)
- assess the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources (the value for money conclusion) (section three).

In our audit of the Council financial statements, we comply with International Standards on Auditing (UK) (ISAs) and other guidance issued by the NAO.

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# Executive Summary

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<b>Value for Money arrangements</b>	We were satisfied that the Council put in place proper arrangements to ensure economy, efficiency and effectiveness in its use of resources. We reflected this in our audit report to the Council on 18 July 2019.
<b>Certification of Grants</b>	We also carry out work to certify the Council's Housing Benefit subsidy claim on behalf of the Department for Work and Pensions and the Pooling Housing Capital Receipts Return. Our work on these claims is not yet complete and will be finalised by 30 November 2019 for Housing Benefit subsidy claim and early 2020 for the Pooling Housing Capital Receipts return (date yet to be confirmed by Ministry of Housing, Communities and Local Government). We will report the results of this work to the Audit Committee separately.
<b>Certificate</b>	We certified that we have completed the audit of the financial statements of Dacorum Borough Council in accordance with the requirements of the Code of Audit Practice on 24 July 2019.

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## Working with the Council

During the year we have delivered a number of successful outcomes with you:

- An efficient audit – we delivered an efficient audit with you in July, delivering the financial statements by the agreed deadline.
- Understanding your operational health – through the value for money conclusion we provided you with assurance on your operational effectiveness.
- Sharing our insight – we provided regular audit committee updates covering best practice.
- Supporting development – we provided training for the finance via our chief accountants' workshops.

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

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# Audit of the Financial Statements

## Our audit approach

### Materiality

In our audit of the Council's financial statements, we use the concept of materiality to determine the nature, timing and extent of our work, and in evaluating the results of our work. We define materiality as the size of the misstatement in the financial statements that would lead a reasonably knowledgeable person to change or influence their economic decisions.

We determined materiality for the audit of the Council's financial statements to be £2,856,000, which is 2% of the Council's gross revenue expenditure. We used this benchmark as, in our view, users of the Council's financial statements are most interested in where the Council has spent its revenue in the year.

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

### The scope of our audit

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

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

We also read the remainder of the financial statements, the narrative report and annual governance statement published alongside the financial statements to check it is consistent with our understanding of the Council and with the financial statements included in the Annual Report on which we gave our opinion.

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

Our audit approach was based on a thorough understanding of the Council's business and is risk based.

We identified key risks and set out overleaf the work we performed in response to these risks and the results of this work.

# Audit of the Financial Statements

## Significant Audit Risks

These are the significant risks which had the greatest impact on our overall strategy and where we focused more of our work.

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p><b>Valuation of land and buildings</b></p> <p>You revalue your land and buildings on a rolling five-yearly basis. This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved (£1.2bn covering Council Dwellings, Land and Buildings as at 31 March 2018) and the sensitivity of this estimate to changes in key assumptions.</p> <p>Additionally, you need to ensure that the carrying value in your financial statements is not materially different from the current value or the fair value (for surplus assets) at the financial statements date, for assets which have not been revalued in any given year.</p> <p>We therefore identified valuation of council dwellings, land and buildings, particularly revaluations and impairments, as a significant risk of material misstatement.</p>	<p>As part of our audit work we have:</p> <ul style="list-style-type: none"> <li>• evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work</li> <li>• evaluated the competence, capabilities and objectivity of the valuation expert</li> <li>• wrote to the valuer to confirm the basis on which the valuation was carried out</li> <li>• challenged the information and assumptions used by the valuer to assess completeness and consistency with our understanding</li> <li>• tested revaluations made during the year to ensure that they have been input correctly into your 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 at year end.</li> </ul>	<p>No issues were identified from the work performed in this area, thus we identified nothing to report.</p>

# Audit of the Financial Statements

## Significant Audit Risks (continued)

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p><b>Valuation of net pension liability</b></p> <p>Your pension fund net liability, as reflected in the balance sheet as the net defined benefit liability, represents a significant estimate in the financial statements.</p> <p>The pension fund net liability is considered a significant estimate due to the size of the numbers involved (£80 million in the balance sheet as at 31 March 2019) and the sensitivity of the estimate to changes in key assumptions.</p> <p>We therefore identified valuation of your pension fund net liability as a significant risk of material misstatement.</p>	<p>As part of our audit work we have:</p> <ul style="list-style-type: none"> <li>gained an understanding of the processes and controls put in place by management to ensure that the pension fund net liability is not materially misstated and evaluate the design of the associated controls;</li> <li>evaluated the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work;</li> <li>assessed the competence, capabilities and objectivity of the actuary who carried out the pension fund valuation;</li> <li>assessed the accuracy and completeness of the information provided to the actuary to estimate the liability;</li> <li>tested the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial report from the actuary;</li> <li>undertook procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performing any additional procedures suggested within the report; and</li> <li>obtained assurances from auditors of Hertfordshire County Council Pension Fund as to the controls surrounding the validity and accuracy of membership data; contributions data and benefits data sent to the actuary by the pension fund and the fund assets valuation in the pension fund financial statements.</li> </ul>	<p>You sought an additional actuarial assessment of the impact on your pension liability of the McCloud judgement and the potential effect of GMP.</p> <p>The total effect on the net pension liability of this is a material increase of £668k which you amended for.</p>

# Audit of the Financial Statements

## Significant Audit Risks (continued)

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p><b>Management override of internal controls</b></p> <p>Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. You face external scrutiny of your spending and this could potentially place management under undue pressure in terms of how they report performance.</p> <p>We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>	<p>As part of our audit work we:</p> <ul style="list-style-type: none"><li>• documented the design effectiveness of management controls over journals</li><li>• analysed the journals listing and determine the criteria for selecting high risk unusual journals</li><li>• tested unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration</li><li>• gained an understanding of the accounting estimates and critical judgements applied made by management and consider their reasonableness with regard to corroborative evidence</li><li>• evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions.</li></ul>	<p>No issues were identified from the work performed in this area, thus we identified nothing to report.</p>



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# Audit of the Financial Statements

## **Audit opinion**

We gave an unqualified opinion on the Council's financial statements on 24 July 2019.

## **Preparation of the financial statements**

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

## **Issues arising from the audit of the financial statements**

We reported the key issues from our audit to the Council's Audit Committee on 18 July 2019.

## **Annual Governance Statement and Narrative Report**

We are required to review the Council's Annual Governance Statement and Narrative Report. It published them on its website in the Statement of Accounts in line with the national deadlines.

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

## **Whole of Government Accounts (WGA)**

We carried out work on the Council's Data Collection Tool in line with instructions provided by the NAO . We issued an assurance statement which confirmed the Council was below the audit threshold.

## **Certificate of closure of the audit**

We certified that we have completed the audit of the financial statements of Dacorum Council in accordance with the requirements of the Code of Audit Practice on 24 July 2019.

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# Value for Money conclusion

## Background

We carried out our review in accordance with the NAO Code of Audit Practice, following the guidance issued by the NAO in November 2017 which specified the criterion for auditors to evaluate:

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

## Key findings

Our first step in carrying out our work was to perform a risk assessment and identify the risks where we concentrated our work.

The risks we identified and the work we performed are set out overleaf.

## Overall Value for Money conclusion

We are satisfied that in all significant respects the Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2019.

# Value for Money conclusion

## Value for Money Risks

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p><b>Sustainable Resource Deployment – Financial Sustainability in the Medium Term</b></p> <p>The overall Local Government sector has been facing a challenging financial outlook in recent years, which is to continue for 18/19 and for the medium term. Further pressure is expected across the sector as a result of continued increasing demand for services and falling central government funding, factors which are also affecting Dacorum Borough Council</p> <p>We will update our understanding of your financial arrangements. Evaluating the robustness of their medium term financial plan and budgeting to ensure that resources are deployed to achieve planned and sustainable outcomes for local tax payers</p>	<p>In arriving at our conclusion, our main considerations were:</p> <ul style="list-style-type: none"> <li>Evaluating your Medium Term Financial Strategy (MTFS) and its assumptions for reasonableness and relevance;</li> <li>Evaluating your 2019/20 budget setting process and determining the reasonableness of your plans to resolve budget gaps;</li> <li>Assessing the 2018/29 outturn position against the 2018/19 budget to determine the potential effect on medium term financial sustainability;</li> <li>Understanding your reserves policy and evaluating the actual use of reserves against planned usage.</li> </ul>	<ul style="list-style-type: none"> <li>You have demonstrated that you have a well supported budget setting process. This process incorporates an appropriate level of challenge and scrutiny, input from a range of stakeholders, a good level of support from finance and that there is ongoing budget monitoring and updates for new information throughout the year to ensure budgets remain appropriate;</li> <li>You are able to successfully plan for the medium term by producing a Medium Term Financial Strategy (MTFS) for the next four years spanning 2019/20 to 2022/23. Your financial plans are based on realistic assumptions and you have also had regard for appropriate risks and opportunities;</li> <li>You have a robust process for identifying and monitoring savings which has resulted in you fully identifying your savings requirement of £1.45 million for 2019/20 and are currently on track to achieve the majority of these;</li> <li>You are able to identify and take advantage of key income generation opportunities in order to work towards medium term self sufficiency. These currently include the creation of a development company, undertaking the development of a crematorium and a multi storey car park.</li> <li>In terms of outturn position you have demonstrated control over spending in 2018/19 and recorded performance of £3.5 million on your revenue account for 2018/19 ahead of budget.</li> <li>You have maintained a strong level of reserves increasing the level of usable reserves by £11.2 million in the year to £67.6 million overall. Furthermore an additional £4.5 million of contributions to reserves is planned for 2019/20 to enable you to continue to invest in specific projects.</li> <li>You have set yourself a minimum general fund balance of £2.5 million which you wish to hold to ensure a minimum level of funds is available for non-specific expenditure should it be required. You have demonstrated that you have maintained this minimum threshold for 2018/19 by holding a general fund reserve of £2.502 million and have plans to maintain the minimum level in the medium term</li> <li>You have a good liquidity position including cash, cash equivalents and short term investments of £93m which you can draw upon in the future whilst still maintaining the minimum levels you requires to continue providing services.</li> </ul> <p><b>Conclusion</b></p> <ul style="list-style-type: none"> <li>Accordingly, in our view, appropriate arrangements are in place to support your medium term financial position.</li> </ul>

# A. Reports issued and fees

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

## Reports issued

Report	Date issued
Audit Plan	6 February 2019
Audit Findings Report	18 July 2019
Annual Audit Letter	30 August 2019

## Fees

	Planned £	Actual fees £	2017/18 fees £
Statutory audit	56,480	TBC	73,350
Pooling Housing Capital Receipts Return	TBC	TBC	2,500
Housing Benefit Grant Certification	10,500	TBC	20,000
<b>Total fees</b>	<b>TBC</b>	<b>TBC</b>	<b>95,850</b>

## Audit fee variation

As outlined in our audit plan, the 2018-19 scale fee published by PSAA of £56,480 assumes that the scope of the audit does not significantly change. There are a number of areas where the scope of the audit has changed, which has led to additional work. These are set out in the following table.

Area	Reason	Fee proposed
<b>Assessing the impact of the McCloud ruling</b>	The Government's transitional arrangements for pensions were ruled discriminatory by the Court of Appeal last December. The Supreme Court refused the Government's application for permission to appeal this ruling. As part of our audit we have reviewed the revised actuarial assessment of the impact on the financial statements along with any audit reporting requirements.	1,600
<b>Pensions – IAS 19</b>	The Financial Reporting Council has highlighted that the quality of work by audit firms in respect of IAS 19 needs to improve across local government audits. Accordingly, we have increased the level of scope and coverage in respect of IAS 19 this year to reflect this.	1,200
<b>PPE Valuation – work of experts</b>	As above, the Financial Reporting Council has highlighted that auditors need to improve the quality of work on PPE valuations across the sector. We have increased the volume and scope of our audit work to reflect this.	1,200
<b>Total</b>		<b>4,000</b>

Fee variations are subject to PSAA approval.



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