



# The Audit Findings for Dacorum Borough Council

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Year ended 31 March 2020

17 September 2020



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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 for the purpose of expressing our opinion on the financial statements. 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 control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose all defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. 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.

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# Headlines

This table summarises the key findings and other matters arising from the statutory audit of Dacorum Borough Council ('the Council') and the preparation of the Council's financial statements for the year ended 31 March 2020 for those charged with governance.

<p><b>Covid-19</b></p>	<p>The outbreak of the Covid-19 coronavirus pandemic has had a significant impact on the normal operations of the Council. Front-line challenges have included administration of grants to businesses, closure of car parks and reopening services under new government guidelines.</p> <p>Authorities are still required to prepare financial statements in accordance with the relevant accounting standards and the Code of Audit Practice, albeit to an extended deadline for the preparation of the financial statements up to 31 August 2020 and the date for audited financials statements to 30 November 2020.</p>	<p>We updated our audit risk assessment to consider the impact of the pandemic on our audit and issued an audit plan addendum on 18 May 2020 which was subsequently presented at Audit Committee 24 June 2020. In that addendum we reported an additional financial statement risk in respect of Covid -19 and highlighted the impact on our VfM approach. Further detail is set out on page 6.</p> <p>Restrictions for non-essential travel has meant both Council and audit staff have had to adapt to new working arrangements which has involved remote accessing financial systems, video calling, alternative approaches to physical verification of assets and verifying completeness and accuracy of information produced by the entity remotely.</p>
<p><b>Financial Statements</b></p>	<p>Under International Standards of Audit (UK) (ISAs) and the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion, the Council's financial statements:</p> <ul style="list-style-type: none"> <li>• give a true and fair view of the financial position of the Council and its income and expenditure for the year; and</li> <li>• have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting and prepared in accordance with the Local Audit and Accountability Act 2014.</li> </ul> <p>We are also required to report whether other information published together with the audited financial statements (including the Annual Governance Statement (AGS) and Narrative Report, is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.</p>	<p>Our audit work was completed remotely during July-September . Our findings are summarised on pages 23 to 28. We have identified one adjustment to the financial statements that have resulted in an amendment to the Council's Comprehensive Income and Expenditure Statement, however this has a net nil effect on the deficit of provision of services. Audit adjustments are detailed in Appendix B. We have also raised recommendations for management as a result of our audit work in Appendix A.</p> <p>Our work is substantially complete and there are no matters of which we are aware that would require modification of our audit opinion or material changes to the financial statements, subject to the following areas where work is still ongoing:</p> <ul style="list-style-type: none"> <li>• Auditing the net pension liability;</li> <li>• Auditing the Prior Period Adjustments per Note 2;</li> <li>• Receipt of management representation letter; and</li> <li>• Review of the final set of financial statements.</li> </ul> <p>We have concluded that the other information to be published with the financial statements is consistent with our knowledge of your organisation. The financial statements we have audited is up until 31 March 2020 which was prior to the outbreak of the Covid-19 coronavirus pandemic.</p> <p>Our anticipated audit report opinion will be unqualified including an Emphasis of Matter paragraph, highlighting PPE valuation material uncertainties.</p>

# Headlines

## Value for Money arrangements

Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report if, in our opinion, the Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources ('the value for money (VfM) conclusion').

We have completed our risk based review of your value for money arrangements. We have concluded that Dacorum Borough Council has proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

We have updated our VfM risk assessment to document our understanding of your arrangements to ensure critical business continuity in the current environment. We have not identified any new VfM risks in relation to Covid-19 as the financial impact of the pandemic is covered by our work on the previously identified risk in relation to financial sustainability.

We therefore anticipate issuing an value for money conclusion. Our findings are summarised on pages 18 to 20.

## Statutory duties

The Local Audit and Accountability Act 2014 ('the Act') also requires us to:

- report to you if we have applied any of the additional powers and duties ascribed to us under the Act; and
- To certify the closure of the audit.

We have not exercised any of our additional statutory powers or duties.

We have completed the majority of work under the Code and expect to be able to certify the completion of the audit when we give our audit opinion.

## Acknowledgements

We would like to take this opportunity to record our appreciation for the assistance and timely collaboration provided by the finance team and other staff during these unprecedented times.

# Audit approach

## Overview of the scope of our audit

This Audit Findings Report presents the observations arising from the audit that are significant to the responsibility of those charged with governance to oversee the financial reporting process, as required by International Standard on Auditing (UK) 260 and the Code of Audit Practice ('the Code'). Its contents have been discussed with management prior to the Audit Committee.

As auditor we are responsible for performing the audit, in accordance with International Standards on Auditing (UK) and the Code, 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.

## Audit approach

Our audit approach was based on a thorough understanding of the Council's business and is risk based, and in particular included:

- evaluation of your internal controls environment, including its IT systems and controls; and
- Substantive testing of significant transactions and material account balances, including the procedures outlined in this report in relation to the key audit risks

We have had to alter our audit plan, as communicated to you on 24 June 2020, to reflect our response to the Covid-19 pandemic. This included adding the pandemic to our audit approach as a significant risk at the financial level due to its potential impact across the accounts and audit as a whole.

## Conclusion

We have substantially completed our audit of your financial statements and subject to outstanding queries being resolved, we anticipate issuing an unqualified audit opinion. These outstanding items include:

- Completion of the audit work in relation to experience items within the IAS19 pension liability disclosures;
- Receipt of required assurances from the auditor of the Hertfordshire County Council Pension Fund;
- Completion of the review of the prior period adjustments
- Receipt of management representation letter; and
- Review of the final set of financial statements.

## Our approach to materiality

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law.

We have revised the performance materiality to reflect the updated information available upon receipt of the draft accounts, the percentages used have remained the same to reflect that we do not believe there to be any change in the risk profile of the Council.

	Amount per Audit Plan (£)	Revised Amount (£)	Qualitative factors considered
Materiality for the financial statements	3.2 million	3.0 million	Based on 2% of your gross expenditure for the year
Performance materiality	2.4 million	2.25 million	Using 75% of materiality to reflect our assessment of risk
Trivial matters	0.2 million	0.15 million	5% of materiality
Materiality for senior officer remuneration	0.1 million	0.1 million	Potential public interest in these figures.

# Significant audit risks

## Risks identified in our Audit Plan

### Covid- 19

## Auditor commentary

We:

- worked with you to understand the implications the response to the Covid-19 pandemic had on the organisation's ability to prepare the financial statements and update financial forecasts and assessed the implications for our materiality calculations. Changes were made to materiality levels previously reported however this was due to significant change in gross expenditure between the prior year and the draft accounts rather than any additional risk as a result of the pandemic. The draft financial statements were provided on 25 June 2020;
- liaised with other audit suppliers, regulators and government departments to co-ordinate practical cross-sector responses to issues as and when they arose;
- evaluated the adequacy of the disclosures in the financial statements that arose in light of the Covid-19 pandemic;
- evaluated whether sufficient audit evidence could be obtained through remote technology;
- evaluated whether sufficient audit evidence could be obtained to corroborate significant management estimates such as assets and the pension fund liability valuations;
- evaluated the assumptions that underpin the revised financial forecasts and the impact on your going concern assessment;
- discussed with you the implications for our audit report where we have been unable to obtain sufficient audit evidence.

Our work identified that the external valuer engaged to provide the valuation of land and buildings had disclosed within their report that a material uncertainty existed in relation the valuation as a result of the Covid-19 pandemic. This was expected as RICS issued an alert regarding this uncertainty (last updated 10 July 2020). We are satisfied that the accounts have made appropriate disclosures to highlight this material uncertainty and to bring this material matter to the attention of readers of the financial statements. Therefore we will be including emphasis of this matter in relation to the valuation of land & buildings within in our audit opinion. No further issues identified in relation to the described procedures.

### The revenue cycle includes fraudulent transactions (rebutted)

Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue. This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.

Having considered the risk factors set out in ISA240 and the nature of your revenue streams during planning stage, we determined that the risk of fraud arising from revenue recognition can be rebutted, because:

- there is little incentive to manipulate revenue recognition
- opportunities to manipulate revenue recognition are very limited
- the culture and ethical frameworks of local authorities, including Dacorum Borough Council, mean that all forms of fraud are seen as unacceptable.

There has been no changes at the Council that would cause us to revisit this risk.

# Significant audit risks

## Risks identified in our Audit Plan

### Management override of controls

## Auditor commentary

We:

- evaluated the design effectiveness of management controls over journals;
- analysed the journals listing and determine the criteria for selecting high risk unusual journals;
- tested unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration;
- gained an understanding of the accounting estimates and critical judgements applied made by management and consider their reasonableness with regard to corroborative evidence;
- evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions.

Our work has identified some minor disclosure changes within accounting policies to ensure that each policy covers the material transactions and balances in the accounts. These are updates to the disclosures and no issues were identified with the application of these accounting policies, see further details in Appendix B. We have also identified some disclosure improvements in relation to critical judgements and estimation uncertainty required to ensure these areas meet the presentation requirements of IAS1 and these are also detailed in Appendix B.

### Valuation of land and buildings

We:

- evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work;
- evaluated the competence, capabilities and objectivity of the valuation expert
- wrote to the valuer to confirm the basis on which the valuation was carried out;
- challenged the information and assumptions used by the valuer to assess completeness and consistency with our understanding, the valuer's report and the assumptions that underpin the valuation;
- tested revaluations made during the year to see if they had been input correctly into your asset register;
- evaluated the assumptions made by management for those assets not revalued during the year and how management has satisfied.

Apart from the material uncertainty disclosures, already highlighted within the Covid-19 risk, we have only identified one further issue in relation to the PPE valuation. During our reconciliation of the valuation report to the fixed asset register we identified one asset which did not agree. The value of the difference was £338,000. This was due to an error in the upload between the valuation report and the Asset Manager system and has been isolated to this one asset. Management agreed to amend the accounts for this error, we note that this is not an error in the valuation estimate itself. See Appendix B for further details. Our audit work has not identified any further issues in relation to valuation of land and buildings.

# Significant audit risks

## Risks identified in our Audit Plan

### Valuation of pension fund net liability

## Auditor commentary

We:

- updated our understanding of the processes and controls put in place by management to ensure that the Authority's pension fund net liability is not materially misstated and evaluate the design of the associated controls;
- evaluated the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work;
- assessed the competence, capabilities and objectivity of the actuary who carried out the Authority's pension fund valuation;
- assessed the accuracy and completeness of the information provided by the Authority to the actuary to estimate the liability;
- 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;

Our work in this area is substantially complete however we are still to:

- Obtain assurances from the auditor 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. We have liaised with the auditor who has informed us that their work will be taking place in September 2020, upon completion of this work they will be able to provide the required assurances;
- undertake 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. This work has commenced however we are still undertaking additional required procedures to gain assurances over the reasonableness of the experience assumptions within Note 38 and the actuary report.

From the work completed to date one minor disclosure change has been identified in relation to the mortality assumptions presented in Note 38, the prior year disclosure was incorrectly included for 2019/20 in the draft accounts. This amendment has been agreed by Management and is included in Appendix B. This is a disclosure issue only and the assumptions used in the valuation by the actuary have been confirmed as appropriate subject to the resolution of the outstanding queries.



# Other audit risks

## Risks identified in our Audit Plan

### International Financial Reporting Standard (IFRS) 16 Leases – (issued but not adopted)

## Auditor commentary



In our Audit Plan dated 5 February 2020 we identified this an 'Other' risk and determined the below audit approach:

- Evaluate the processes the Council has adopted to assess the impact of IFRS16 on its 2020/21 financial statements and whether the estimated impact on assets, liabilities and reserves has been disclosed in the 2019/20 financial statements;
- Assess the completeness of the disclosures made by the Council in its 2019/20 financial statements with reference to The Code [Local Authority Leasing Briefings](#)

As a result of the Covid-19 pandemic the implementation of this standard has been deferred until 1 April 2021. Although the implementation of IFRS 16 has been delayed audited bodies still need to include disclosure in their 2019/2020 statements to comply with the requirement of IAS 8 para 31. As a minimum, we would expect audited bodies to disclose the title of the standard, the date of initial application and the nature of the changes in accounting policy for leases.

We reviewed the disclosures within Note 3 and are satisfied that they meet these expectations.


# Significant findings – key estimates and judgements

Accounting area	Summary of management's policy	Audit Comments	Assessment
<b>Provisions for NNDR appeals £5.032 million</b>	You are responsible for repaying a proportion of successful rateable value appeals. Management uses the number of appeals outstanding at 31 March 2020 and the average reduction achieved from settled appeals, to calculate the level of provision required. The provision has increased by £497k from the prior year.	<p>We reviewed:</p> <ul style="list-style-type: none"> <li>• appropriateness of the underlying information used to determine the estimate;</li> <li>• impact of any changes to valuation method;</li> <li>• reasonableness of increase in estimate;</li> <li>• adequacy of disclosure of estimate in the financial statements.</li> </ul> <p>Our work has not identified any issue in the key judgements and estimates applied.</p>	 <b>Green</b>
<b>Level 1/2 financial instruments</b>	<p>You have investments held with various financial institutions and other local authorities including short fixed term deposits and money market funds. Short term investments are valued on the balance sheet as at 31 March 2020 at £51,688k cash equivalents, which includes money market funds, are held at £17,620k respectively. In order to gain assurance over existence and accuracy of these balances, we obtain direct confirmations from the institutions.</p> <p>You also have short and long term borrowing all of which relates to loans with the Public Works Loans Board (PWLB). The fair value of these is determined via inputs which are observable but not quoted in an active market. The fair value is arrived at by calculating the present value of the cash flows that will take place over the remaining term of the instruments, using the redemption and new borrowing discount rates. In order to gain assurance over existence and accuracy of these balances, we obtain confirmation of the fair value from Link Asset Services as your Treasury Advisor.</p>	<p>We have received all confirmations except for the deposits held with BlackRock, Aberdeen City Council and Coventry Building Society. We have undertaken alternative audit procedures to gain assurance over existence and accuracy of the balance.</p> <p>Our work has not identified any issue in respect of investments held.</p> <p>We have obtained the report produced by Link Asset Services as at 31 March 2020 which confirms the fair value in the accounts as being disclosed correctly. We are satisfied that the fair value estimation method is in line with our expectations and has not changed from the prior year.</p> <p>Our work has not identified any issue in respect of borrowing.</p>	 <b>Green</b>

#### Assessment

- We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- We consider management's process is appropriate and key assumptions are neither optimistic or cautious

# Significant findings – key estimates and judgements

Accounting area	Summary of management's policy	Auditor commentary	Assessment
<b>Council Dwellings, Land and Buildings – £1.241 billion</b>	<p>Council Dwellings, Land and buildings (£1.241 billion) are not specialised in nature and are required to be valued at existing use value (EUUV) at year end. You engaged Wilks, Head &amp; Eve to complete the valuation of properties as at 31 January 2020. All Council Dwellings and high value Land &amp; Buildings are revalued annually with the remainder of Land &amp; Building revalued on a rolling basis, minimum every 5 years.</p> <p>The valuation of properties valued by the valuer has resulted in a net increase of £92 million.</p> <p>Management has considered the year end value of non-valued properties and the potential valuation change in the assets between the valuation date and year end by engaging Wilks, Head and Eve to undertake a review of these assets, applying industry average indices and rental income to determine whether there has been a material change in the total value of these properties. For Council Dwellings this assessment was considered to material by Management and so an uplift based on indices provided by the valuer was made. For the remainder of assets the movement was not considered to be material.</p> <p>The total year end impairment loss related to Council Dwelling only and was £17.841 million, a net increase of £2.626 million from 2018/19 (£15.215 million).</p>	<p>We considered and completed the following in the course of our testing:</p> <ul style="list-style-type: none"> <li>• assessment of management's expert, Wilks, Head &amp; Eve;</li> <li>• completeness and accuracy of the underlying information used to determine the estimate;</li> <li>• impact of any changes to valuation method;</li> <li>• consistency of estimate against Gerard Eve report;</li> <li>• reasonableness of increase in estimate overall;</li> <li>• adequacy of disclosure of estimate in the financial statements.</li> </ul> <p>Our work in this area is complete and we have identified no issues.</p>	 <b>Green</b>

# Significant findings – key estimates and judgements

Accounting area	Summary of management's policy	Auditor commentary	Assessment																																
<b>Net pension liability – £54.726 million</b>	<p>The Council's net pension liability at 31 March 2020 is £54.726 million (PY £80.258 million). You use Hymans Robertson to provide actuarial valuations of the Council's assets and liabilities derived from this scheme. A full actuarial valuation is required every three years.</p> <p>The latest full actuarial valuation was completed in March 2019. A roll forward approach is used in intervening periods which utilises key assumptions such as life expectancy, discount rates, salary growth and investment return. Given the significant value of the net pension fund liability, small changes in assumptions can result in significant valuation movements. There has been a £30.529 million net actuarial gain/loss during 2019/20.</p>	<p>We considered and completed the following in the course of our testing:</p> <ul style="list-style-type: none"> <li>Assessment of management's expert;</li> <li>Assessment of actuary's roll forward approach taken, detail work undertaken to confirm reasonableness of approach;</li> <li>Use of PwC as auditors expert to assess actuary and assumptions made by actuary:</li> </ul> <table border="1"> <thead> <tr> <th>Assumption</th> <th>Actuary Value</th> <th>PwC range</th> <th>Assessment</th> </tr> </thead> <tbody> <tr> <td>Discount rate</td> <td>2.3%</td> <td>2.3%</td> <td>●</td> </tr> <tr> <td>Pension increase rate</td> <td>1.9%</td> <td>1.8 - 2%</td> <td>●</td> </tr> <tr> <td>Salary growth</td> <td>2.3%</td> <td>Between RPI and CPI</td> <td>●</td> </tr> <tr> <td>Longevity at 65 for current pensioners: men</td> <td>21.9 yrs</td> <td>20.5 – 22.2 yrs</td> <td>●</td> </tr> <tr> <td>Longevity at 65 for current pensioners: women</td> <td>24.1 yrs</td> <td>22.9 – 24.3 yrs</td> <td>●</td> </tr> <tr> <td>Longevity at 45 for future pensioners: men</td> <td>22.8 yrs</td> <td>21.6 – 23.3 yrs</td> <td>●</td> </tr> <tr> <td>Longevity at 45 for future pensioners: women</td> <td>25.5 yrs</td> <td>24.6 – 26.3 yrs</td> <td>●</td> </tr> </tbody> </table> <ul style="list-style-type: none"> <li>Completeness and accuracy of the underlying information used to determine the estimate;</li> <li>Impact of any changes to valuation method;</li> <li>Assessment of the information received from pension fund auditor;</li> <li>Reasonableness of the Council's share of LPS pension assets;</li> <li>Reasonableness of increase/decrease in estimate;</li> <li>Adequacy of disclosure of estimate in the financial statements.</li> </ul> <p>The actuarial assumptions made by Hymans Robertson and accepted by you were reviewed by the audit team. Our review, to date, has concluded that the assumptions made by Hymans Robertson are reasonable.</p> <p>In respect of the assumptions, we continue to recommend that management keeps these under review for future periods in order to ensure that they remain appropriate to your circumstances.</p>	Assumption	Actuary Value	PwC range	Assessment	Discount rate	2.3%	2.3%	●	Pension increase rate	1.9%	1.8 - 2%	●	Salary growth	2.3%	Between RPI and CPI	●	Longevity at 65 for current pensioners: men	21.9 yrs	20.5 – 22.2 yrs	●	Longevity at 65 for current pensioners: women	24.1 yrs	22.9 – 24.3 yrs	●	Longevity at 45 for future pensioners: men	22.8 yrs	21.6 – 23.3 yrs	●	Longevity at 45 for future pensioners: women	25.5 yrs	24.6 – 26.3 yrs	●	<p>●</p> <p><b>Green</b></p>
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# Significant findings – going concern

## Our responsibility

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) 570).

### Going concern commentary

### Auditor commentary

#### Management’s assessment process

In arriving at the conclusion that the use of the going concern is appropriate management has:

- Considered the prescriptions of the Code and CIPFA LAAP Bulletin (dated 5 April 2020) in this area;
- Produced a cashflow forecast in line with internal reporting requirements to 31 March 21 and extended this to 1 October 21 for audit purposes;
- Produced a Covid-19 impact assessment on expenditure and loss of income and incorporated the assumptions within your cashflow forecasts.

- You have confirmed that there are no current statutory prescriptions in place which would dissolve the Council and its operations as such you are appropriately complying with paragraph 3.4.2.23 of the Code by preparing your accounts on a going concern basis.
- You have a reasonable expectation that the Council has adequate resources to continue in operational existence for the foreseeable future. For this reason, you believe that it is appropriate to continue to adopt the going concern basis in preparing the accounts.
- Management’s process for assessing going concern is a continuous process throughout the year to ensure continued adequacy of the assumption, this has been updated for the potential effects of Covid-19. Your assessment is multi faceted, focussing beyond cashflow and also incorporating liquidity, savings efficiencies and income projections. For these reasons we deem your processes in relation to going concern to be adequate.
- Your cashflow forecast is produced on internally in line with the financial year covers to 31 March 2021 however this has been extended to 1 October 2021 for the purposes of our audit which must determine that you can remain a going concern for 12 months following the expected date of our audit report. Your cashflow forecast was produced prior to the pandemic but is currently being updated monthly in order to incorporate the emerging impact of the Covid-19 pandemic. Our work below has confirmed that the Council has an sufficient level of cash resources to support it until 12 months following the intended audit report date.

#### Work performed

We assessed a variety of factors which could impact your ability to continue as a going concern to determine whether managements assessment was appropriate.

These factors included the adequacy of the cash held, your ability to meet your liabilities as they fall due, adequacy of reserves held and your ability to predict and maintain cashflow over the next 12 months with realistic assumptions.

- We are satisfied that you have strong quick ratio providing assurance that you can meet your debts as they fall due. You have £1 billion more assets than liabilities which is deemed to be significant and an increase on the prior year by £128 million and you have the ability to cover all of your current liabilities 2.3 times over with current assets as at 31 March 2020.
- We are satisfied that you have strong cash reserves with £69.1 million held at 31 March 2020 in cash, cash equivalents and short term investments which have been driven by good financial performance over several years.
- We are satisfied that you have been able to produce a cashflow forecast which demonstrates stability in these cash reserves over the next 12 months. The cashflow forecast, updated in June 2020, demonstrated that the lowest predicted cash balance was £24 million held. Our analysis identified that this was sufficient to support the Council’s net expenditure for the required timeframe in assessing going concern.
- You have predicted that the Council is likely to face a net £5 million pressure as a result of income loss and expenditure due to the Covid-19 pandemic in the 20/21 financial year. We reviewed the assumptions in relation to this pressure and determined that they were on the pessimistic side. We do note however that at this stage the Council has been unable to predict the effects on council tax and business rates income which were not included in the assumptions. The effects of this income loss would be expected in the 21/22 financial year, however and do not affect the current going concern assessment.
- You have been contributing to usable reserves as well as using them for earmarked projects over the last 5/6 years and therefore had a good level of reserves at the start of 2019/20. You have used significant reserves (£12 million) in 2019/20 to end the year with a balance of £55 million, this is still considered substantial and has offset a similar level of contribution made in 2017/18. In 2013/14 levels of reserves were £43 million, the Council is still continuing to provide services and remain viable 6 years later therefore £5 million use of reserves potentially required to meet the Covid-19 pressure would enable you to maintain an appropriate level of reserves.

#### Concluding comments

- The going concern assumption is appropriate and therefore does not impact our ability to provide an unmodified opinion.

## Other matters for communication

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	Auditor commentary
<b>Matters in relation to fraud</b>	We have previously discussed the risk of fraud with the Audit Committee. 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.
<b>Matters in relation to related parties</b>	We are not aware of any related parties or related party transactions which have not been disclosed.
<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.
<b>Written representations</b>	A letter of representation has been requested from the Council, which is included in the Audit Committee papers.
<b>Confirmation requests from third parties</b>	We obtained direct confirmations from the PWLB loans and requested from management permission to send confirmation requests to the various counterparties for bank and investment balances. This permission was granted and the requests sent. We are awaiting confirmations from BlackRock, Aberdeen City Council and Coventry Building Society. We have performed alternative audit procedures over this balance so there is no impact on the audit opinion if we do not receive the direct confirmation.
<b>Disclosures</b>	Our review found no material omissions in the financial statements, all disclosure amendments are detailed in Appendix B.
<b>Audit evidence and explanations/significant difficulties</b>	All information and explanations requested from management was provided.

## Other responsibilities under the Code

Issue	Commentary
<b>Other information</b>	<p>We are required to give an opinion on whether the other information published together with the audited financial statements (including the Annual Governance Statement and Narrative Report, is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.</p> <p>No issues were noted in relation to the Narrative Report. Minor disclosure amendments have been agreed with management to ensure that the Annual Governance Statement is compliant with CIPFA's Delivering Good Governance in Local Government Framework. These include:</p> <ul style="list-style-type: none"> <li>• adding reference to actions taken in relation to the Planning governance issue disclosed in the prior year Annual Governance Statement; and</li> <li>• Including details of the creation of the Incident Management Team in response to Covid-19 and the inclusion of the pandemic on the risk register to ensure that governance arrangements in relation to Covid-19 are disclosed in full.</li> </ul> <p>We plan to issue an unmodified opinion in this respect.</p>
<b>Matters on which we report by exception</b>	<p>We are required to report on a number of matters by exception in a numbers of 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 other information of which we are aware from our audit</li> <li>• If we have applied any of our statutory powers or duties</li> </ul> <p>We have nothing to report on these matters, in addition to the above minor disclosure amendments agreed in relation to the Annual Governance Statement.</p>
<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> <p>Further work is not required as the Council does not exceed the threshold.</p>
<b>Certification of the closure of the audit</b>	<p>We intend to certify the closure of the 2019/20 audit of Dacorum Borough Council in our final audit report.</p>

# Value for Money

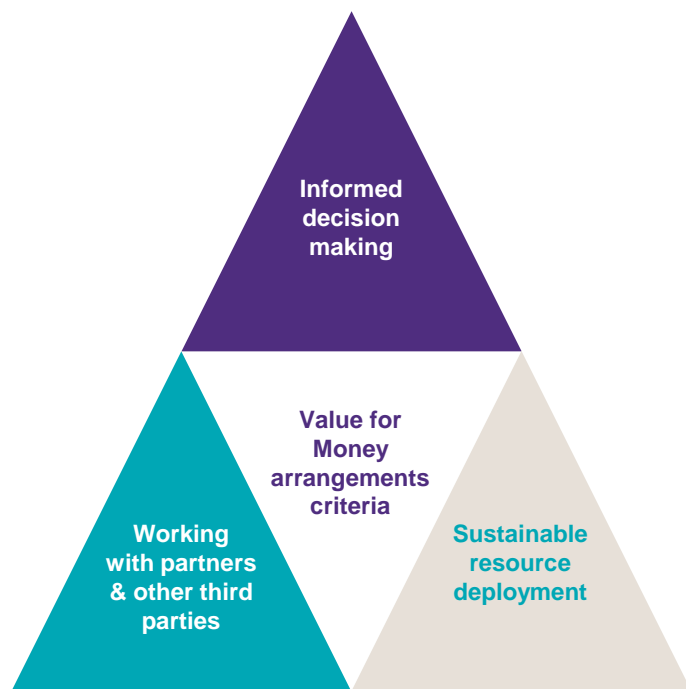
## Background to our VFM approach

We are required to satisfy ourselves that the Council has made 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 proper arrangements are in place at the Council. In carrying out this work, we are required to follow the NAO's Auditor Guidance Note 3 (AGN 03) issued in April 2020. 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."*

This is supported by three sub-criteria, as set out below:



## Risk assessment

We carried out an initial risk assessment in January 2020 and identified one significant risks 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 5 February 2020.

We have updated our VFM risk assessment to document our understanding of your arrangements to ensure critical business continuity in the current environment. We have not identified any new VFM risks in relation to the Covid-19 pandemic.

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 risk we identified from our initial and ongoing risk assessment. Our consideration of the significant risk determined that arrangements were operating effectively.



# Value for Money

## Our work

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:

- Evaluating your Medium Term Financial Strategy (MTFS) and its assumptions for reasonableness and relevance;
- Evaluating your 2020/21 budget setting process and determining the reasonableness of your plans to resolve budget gaps;
- Assessing the 2019/20 outturn position against the 2019/20 budget to determine the potential effect on medium term financial sustainability;
- Understanding your reserves policy and evaluating the actual use of reserves against planned usage;
- Understanding and reviewing the reasonableness of savings plans and the effect on the MTFS;
- Evaluating your assessment if the impact of the Covid-19 pandemic on future cashflow, budget and reserves and its assumptions for reasonableness;
- Reviewing the adequacy of your governance and business continuity arrangements in response to Covid-19 pandemic.

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 pages 18 to 20.

## Overall conclusion

Based on the work we performed to address the significant risks, we are satisfied that the Council had proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

## Recommendations for improvement

See page 20.

## 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.

# Value for Money

## 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	Findings
<b>Financial Sustainability in the Medium Term – Sustainable Resource Deployment</b>	<p><b><u>Prior to the Covid-19 pandemic:</u></b></p> <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 from member committees to ensure budgets are achievable operationally, input from a range of stakeholders to ensure the budget remains relevant, a good level of support from finance to ensure budgets are achievable from a resourcing perspective 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 2020/21 to 2023/24. We are satisfied that your financial plans are based on realistic assumptions for future years;</li> <li>• You have a robust process for identifying and monitoring savings which has resulted in you fully identifying your savings requirement of £0.643 million for 2020/21. This has since been updated (see preceding section);</li> <li>• In terms of outturn position you have demonstrated control over spending in 2019/20 and recorded a surplus outturn position on both the General Fund and Housing Revenue Account (HRA) of £153k and £1.2 million respectively. This performance was ahead of the budgeted outturn position and therefore has been added to earmarked reserves at year-end. The earmarked reserve enables you to manage any additional budget pressures in subsequent years and therefore maintains sound financial sustainability. You have performed well to achieve performance ahead of budget, particularly in the current challenging financial environment with continued funding cuts from central government;</li> <li>• You have maintained a strong level of reserves for 2019/20. Although usable reserves have decreased by 18% from the prior year to £55 million these have been used for specific purposes, namely to fund capital expenditure in relation to the HRA. You have been contributing to your earmarked reserves over the previous 5 years which saw an increase since 2013/14 of 56%. This demonstrates robust financial planning by contributing to reserves over this period and earmarking them for specific strategic purposes in the future to allow you to meet your strategic objectives over the medium term, as you have done in using them for this purpose in 2019/20.</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 2019/20 by holding a general fund reserve of £2.502 million and have plans to maintain the minimum level in the medium term, even in light of the pressures from the Covid-19 pandemic;</li> <li>• You have a good liquidity position including cash, cash equivalents and short term investments of £70 million which you can draw upon in the future whilst still maintaining the minimum levels you requires to continue providing services.</li> </ul>

# Value for Money

## Significant risk

## Findings

### Financial Sustainability in the Medium Term – Sustainable Resource Deployment

The above arrangements were made and reviewed prior to the occurrence of the Covid-19 pandemic which saw the UK enter into lockdown with restrictions of travel and social distancing measures taking effect in March 2020 prior to the year end. The pandemic has the potential to significantly affect the financial sustainability of all organisations and as such we reviewed the Council's arrangements, from a financial sustainability perspective, in response to the effects of the pandemic as well as its business as usual arrangements covered on the previous page.

#### **Covid-19:**

- You have identified that the Covid-19 pandemic is likely to cause a net budget pressure in 2020/21 to the Council of £5 million. This is comprised of a £5.6 million predicted loss of income, £1 million expenditure pressure and partially offset by £1.6 million of funding from central government.
- Your key income streams which are likely to be most negatively affected are investment property income, planning income, car parking income and garages income which accounts for 82% of the expected loss. Our review of the assumptions underlying the expected income loss identified that these assumptions were cautious in their predictions. However this has been deemed appropriate given the uncertainty and lack of data on which to make predictions, the Council has based its forecasts on available evidence at the time. Your strategies to respond to the pandemic demonstrate your ability to remain viable and these are based on these cautious assumptions and therefore do not suggest any significant issues with financial sustainability at this stage;
- Your income loss forecasts do not include the potential impact of losses in relation to council tax and business rates, which are two income streams on which the Council is reliant. Due to the way in which these income streams are administered income losses on council tax and business rates are likely to affect the 1021/22 financial year due and therefore this will need to be incorporated into the MTFs update and 21/22 budget. However at this stage we would not deem this to be an issues for the 2019/20 value for money conclusion given the flexibility the cautious assumptions in other key income streams provides;
- You have included £1.6 million of government funding within your impact assessment of the pandemic. Since then a third tranche of funding has been released which increases this to £1.8 million and further government announcements have been made for other forms of support. These are not incorporated into your current budgeting but have the potential to reduce the £5 million budget pressure further;
- You have advised that the use of earmarked reserves is likely to be required to meet these financial pressures within the 2020/21 financial year, however, this would be at the expense of the future projects the reserves were created to support. Officers have advised that the Council had planned a £5m contribution to reserves in 2020/21 from New Homes Bonus, negative RSG and Business Rates pooling which would support this pressure. In addition, as stated previously you have contributed significantly to reserves over the past 5 years which has prepared the Council well to respond to an unexpected event such as this. Our review of reserves strategy demonstrated that, prior to the pandemic, you were planning to contribute approximately £10 million to reserves over the next 3-5 years. In worst case scenario if no contributions could be made in 2020/21 and the £5 million pressure was funded from reserves the current balance of usable reserves would reduce to £50m which remains a sustainable level;

# Value for Money

## Significant risk

## Findings

### Financial Sustainability in the Medium Term – Sustainable Resource Deployment

- You have been able to produce a cashflow forecast which demonstrates stability in your cash reserves over the next 12 to 18 months. The cashflow forecast, updated in June 2020, demonstrated that the lowest predicted cash balance was £24 million held. Our analysis identified that this, alone, was sufficient to support the Council's net expenditure for until October 2021;
- Since the development of the MTFS you have increased your savings requirement for 2020/21 from £0.643 million in the MTFS to £1.7million per the savings tracker which is monitored each month by the Council Management Team. The increase is due to additional growth bids and reductions in the 2019/20 budget. Currently you have identified a risk of potentially not achieving £0.9 million of this target, a proportion of which is as a result of the Covid-1 pandemic. This would likely cause additional pressure on reserves however the levels of reserves held are deemed sufficient;
- You are yet to update your MTFS for 2020/21 onwards. Under your usual processes this would be updated and approved in July 2020 however Management is looking to defer this until September 2020 in order to incorporate greater certainty into your financial planning regarding council tax and business rates income levels to ensure that the MTFS is robust. A deferral allows less time to mobilise the plans within the MTFS however you have mitigated the potential risk by already identifying savings for 2020/21 which have been updated for the effects of the pandemic and producing a Covid-19 impact paper in the interim demonstrating the budget pressures potentially being faced;
- The pandemic saw you update your governance arrangements particularly in relation to decision making. We are satisfied that the newly established Incident Management Team is an appropriate response to the situation and has ensured that decisions can be made swiftly and with appropriate scrutiny as well as using technology to allow business as usual Council and Executive decision making to continue;
- We reviewed the updated business continuity arrangements and are satisfied that the Council have considered business continuity and appropriate levels of staffing across a wide range of operations. From a finance perspective there has been no issues as staff have been able to work remotely and segregation of duties has been upheld.

### **Recommendations:**

The pandemic will likely cause a significant pressure and use of reserves and although we are assured that you have sufficient reserves to fund the pressures we recommend that you now look to implement a strategy to contribute to reserves in the medium term in order steadily increase reserves to pre-Covid-19 levels so that you are able to respond to any future challenges.

### **Conclusion**

Accordingly, in our view, appropriate arrangements are in place to support your medium term financial position.

# 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 Financial Reporting Council's Ethical Standard and confirm that we, as a firm, and each covered person, 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 Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.

Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in May 2020 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

Details of fees charged are detailed in Appendix C

# Independence and ethics

## Audit and Non-audit services


For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council. The following non-audit services were identified, as well as the threats to our independence and safeguards that have been applied to mitigate these threats.

	Fees £	Threats identified	Safeguards
<b>Audit related</b>			
Certification of Pooling Housing Capital Receipts Return	TBC (£2,750 for 2018/19)	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £2,750 in comparison to the total fee agreed to date for the audit of £56,480 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.
		Self review (because GT provides audit services)	To mitigate against the self review threat , the timing of certification work is done after the audit has completed, materiality of the amounts involved to our opinion and unlikelihood of material errors arising and the Council has informed management who will decide whether to amend returns for our findings and agree the accuracy of our reports on grants.
Certification of Housing Benefit Claim	£17,500 (incl 40+ Testing)	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £17,500 in comparison to the total fee agreed to date for the audit of £56,480 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.
		Self review (because GT provides audit services)	To mitigate against the self review threat , the timing of certification work is done after the audit has completed, materiality of the amounts involved to our opinion and unlikelihood of material errors arising and the Council has informed management who will decide whether to amend returns for our findings and agree the accuracy of our reports on grants.




These services are consistent with the Council's policy on the allotment of non-audit work to your auditors. All services have been approved by the Audit Committee. None of the services provided are subject to contingent fees.

# Action plan

We have identified one recommendation for the Council as a result of issues identified during the course of our audit. We have agreed our recommendations with management and we will report on progress on these recommendations during the course of the 2020/21 audit. The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

Assessment	Issue and risk	Recommendation
 (Medium)	<p>During our review of the payroll control system at planning stage of the audit it was identified that there are no in-built controls within the payroll system which require approval before an individual can be added to the payroll. The functionality of the system means that this function cannot be added.</p> <p>As a detective control to mitigate the risk of a 'ghost'; employee being added to the system an exception report is run before the monthly payroll run is approved which compares pay the month with the prior month and all variances should be confirmed to be correct by payroll.</p> <p>We are satisfied that this is an appropriate mitigating control however it was identified that there was no evidence that these exception reports had been run, exceptions had been investigated and had been confirmed to be accurate prior to the payroll being processed.</p> <p>We consider this to be a control deficiency as in the absence of secondary approval there is the opportunity for a payroll employee to add a fictitious employee to the payroll. Such changes would be identified through exception reporting but there is no documented evidence that these reports are being run and that such changes are being confirmed to source documentation.</p> <p>Investigation of this was still underway at the time of the Audit Plan being issued and has therefore been reported here in our Audit Findings Report.</p>	<p>We consider this to be a control deficiency as the mitigating control of exception reports being run, checked and approved is not clearly evidenced and therefore there is no confirmation that this control is operating effectively. We would recommend that a policy is put in place to document that these reports have been run, reviewed and any significant variances investigated.</p> <p><b>Management response:</b></p> <p>Management agreed to implement a payment controls checklist, which has been in place since April 2020, to be signed by two officers to provide confirmation that checks have been carried out on the monthly exception report received from our payroll bureau.</p>

## Controls

-  High – Significant effect on control system
-  Medium – Effect on control system
-  Low – Best practice

# Audit adjustments

We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management.

## Impact of adjusted misstatements

All adjusted misstatements are set out in detail below along with the impact on the key statements and the reported net expenditure for the year ending 31 March 2020.

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000
<p><b>Note 10 Financing and Investment Income &amp; Expenditure</b></p> <p>Note 10 states that change in fair value of investment property is £3,233k whereas Note 12 and Note 29 state this is £3,633. This is due to 2 properties that were reclassified from Investment Property to Other Land &amp; Buildings in year. The £400k revaluation movement has been accounted for as an Investment Property in Note 10 in error and should be in the Net Cost of Services with the Comprehensive Income and Expenditure Statement. Management have agreed an amendment of a £400k decrease in Note 10 and £400k increase in Net Cost of Services. This has also been reflected in the Expenditure and Funding Analysis, Narrative Report and associated notes.</p>	<p>Dr Net Cost of Services £400k</p> <p>Cr Finance and Investment Income and Expenditure £400k</p>	N/A	Net nil effect in CIES
<p><b>Note 27 Property, Plant and Equipment</b></p> <p>In reconciling the Fixed Asset Register to the Valuation Report for Property, Plant and Equipment it was noted that the value of one asset (the Elms) did not reconcile between the two due to an the value incorrectly uploading from the report to Asset Manager (the fixed asset register). This is a difference of £338k and the building has a sufficient revaluation reserve to support the difference.</p>	N/A	<p>Dr Revaluation Reserve £338k</p> <p>Cr Property, Plant and Equipment £338k</p>	N/A
<b>Overall impact</b>	<b>£0</b>	<b>£0k</b>	<b>£0</b>



# Audit adjustments

## Misclassification 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.

Disclosure omission	Detail	Auditor recommendations	Adjusted?
<b>Note 1 Accounting Policies</b>	Para 3.3.2.9 of the Code requires that accounting policies are complete in all material respects. Reclassifications of Property, Plant and Equipment and HRA Rents were identified as a material transaction within the accounts however no accounting policy was disclosed within Note 1.	<p>We recommend that accounting policies are disclosed in relation to these material transaction types in order to ensure the accounts are compliant with the Code.</p> <p><b>Management response</b></p> <p>Management have agreed to include additional narrative within Note 1 Property, Plant and Equipment to cover these areas, which we deem to be an appropriate response.</p>	✓
<b>Note 4 Critical judgements in applying Accounting Policies</b>	In reviewing the completeness of the disclosures of critical judgements, under IAS1, we identified that the Council makes judgements in relation to the frequency of asset valuations and in the de-minimus level it sets for capitalising expenditure on fixed assets of £10,000. Both meet the definition of a critical judgement per IAS1 and have not been disclosed in Note 4.	<p>We recommended that these judgements be disclosed in Note 4 as each meets the definition due to the choice the Council is making in applying its accounting policies and the material nature of the transactions.</p> <p><b>Management response</b></p> <p>Management have agreed to include these critical judgements in Note 4</p>	✓
<b>Note 38 Pensions</b>	In agreeing the assumptions disclosed in Note 38 to the Actuarial Valuation Report from Hymans Robertson we identified that the mortality assumptions disclosed for 2019/20 in the accounts were inconsistent with the valuation report.	<p>Further investigation identified that this was a typo in the accounts and not an issue with the assumptions themselves. We recommend that the 2019/20 figures be updated in the accounts to match the Actuarial Report.</p> <p><b>Management response</b></p> <p>Management have agreed to update Note 38 to disclose the correct 2019/20 figures per the Actuarial Report.</p>	✓

# Audit adjustments

## Misclassification and disclosure changes (continued)

Disclosure omission	Detail	Auditor recommendations	Adjusted?
<b>Note 5</b> <b>Assumptions made about the future and other major sources of estimation uncertainty</b>	<p>IAS 1:125 requires that:</p> <p>An entity shall disclose information about the assumptions it makes about the future, and other major sources of estimation uncertainty at the end of the reporting period, that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year. In respect of those assets and liabilities, the notes shall include details of:</p> <p>(a) their nature, and</p> <p>(b) their carrying amount as at the end of the reporting period.</p>	<p>We identified that valuation of the Council's property, plant and equipment meets the definition of a source of estimation uncertainty but we noted that the disclosure in the draft accounts only covered Council Dwellings when Other Land &amp; Buildings and Investment Property are also subject to valuation estimation and are material. In addition the carrying value was not disclosed for Council Dwellings in the original disclosure.</p> <p><b>Management response</b></p> <p>Management have agreed to include the carrying value and description of the estimation methods used for each of Council Dwellings, Other Land &amp; Buildings and Investment Properties within Note 5, including a sensitivity analysis for each. This meets the disclosure requirements of IAS1.</p>	✓
<b>Note 36 Financial Instruments</b>	<p>Paragraph 7.1.2.24 of the Code confirms that trade receivables are financial instruments however the Code and IFRS9 confirm that only those which are of a contractual nature are considered to be financial instruments. Therefore, as clarified by the Code, receivables which are statutory in nature or are accounting concepts such as provisions and prepayments are not expected to be financial instruments since there is not contract entered into. We would define statutory payables and receivables, and therefore not financial instruments, as those relating to VAT, Housing Benefits, Council Tax and Business Rates. Upon reviewing the debtors disclosed in Note 36 we identified that bad debt provisions, except those relating to commercial properties, had been correctly excluded from Note 36.</p>	<p>We recommend that the short-term debtors in Note 36 be increased from £16,583k to £16,796k to ensure that all bad debt provisions, including those for commercial property, are correctly exclude from the disclosure.</p> <p><b>Management response</b></p> <p>Management have agreed to amend accordingly.</p>	✓

# Audit adjustments

## Misclassification and disclosure changes (continued)

Disclosure omission	Detail	Auditor recommendations	Adjusted?
<b>Expenditure and Funding Analysis (EFA)</b>	Paragraph 3.4.2.93 of the Code confirms that the EFA shall be included within the notes and given due prominence. The EFA in the draft accounts has been included as a main statement which is a departure from the Code.	We recommend that the EFA be included within the notes to the financial statements as opposed to within the main statements to ensure both compliance with the Code and to ensure that our opinion covers the information included within this note.  <b>Management response</b>	✓
<b>Other</b>	We agreed some minor reductions to the disclosures in Note 4 (Critical Judgements) and Note 16 (Related Parties) in order to ensure these notes were compliant with the Code	<b>Management response</b> Management have agreed the amendments and we are satisfied these notes are compliant with the Code requirements for each.	✓

# Fees

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

<b>Audit fees</b>	<b>Proposed fee</b>	<b>Final fee</b>
Council Audit (Scale Fee)	56,480	56,480
Council Audit (Fee Variation)	7,500	TBC
<b>Total audit fees (excluding VAT)</b>	<b>£63,980</b>	<b>TBC</b>

<b>Non-audit fees for other services</b>	<b>Proposed fee</b>	<b>Final fee</b>
Audit Related Services – Certification of the Housing Benefit Subsidy Claim	17,500	TBC
Audit Related Services – Certification of the Pooling Housing Capital Receipts Claim	TBC	TBC
<b>Total non- audit fees (excluding VAT)</b>	<b>TBC</b>	<b>TBC</b>



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