

Dacorum Borough Council

Audit Committee Summary

For the year ended 31 March 2015

Audit Results Report – ISA (UK and Ireland) 260

July 2015



Building a better
working world

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Section 1

Executive summary

Executive summary – key findings

Audit results and other key matters

The Audit Commission's Code of Audit Practice (the Code) requires us to report to those charged with governance – the Audit Committee – on the work we have carried out to discharge our statutory audit responsibilities together with any governance issues identified. This report summarises the findings from the 2014/15 audit which is substantially complete. It includes the messages arising from our audit of your financial statements and the results of the work we have undertaken to assess your arrangements to secure value for money in your use of resources.

Financial statements

- ▶ As of 28 July 2015, we expect to issue an unqualified opinion on the financial statements. Our audit results demonstrate, through the few matters we have to communicate, that the Council has prepared its financial statements well.

Value for money

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

Whole of Government Accounts

- ▶ Alongside our work on the financial statements, we also review and report to the National Audit Office on your Whole of Government Accounts return. We have not yet completed our work on your Whole of Government Accounts return. We will complete this work ahead of the submission deadline of 4 October 2015.

Audit certificate

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

Section 2

Extent and purpose of our work

Extent and purpose of our work

The Council's responsibilities

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

Purpose of our work

- ▶ Our audit was designed to:
 - ▶ Express an opinion on the 2014/15 financial statements and the consistency of other information published with them
 - ▶ Report on an exception basis on the Annual Governance Statement
 - ▶ Consider and report any matters that prevent us being satisfied that the Council had put in place proper arrangements for securing economy, efficiency and effectiveness in the use of resources (the Value for Money conclusion)
 - ▶ Discharge the powers and duties set out in the Audit Commission Act 1998 and the Code of Audit Practice

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

As a component auditor, we also follow the NAO group instructions and report the results on completion of the WGA work through the Assurance Statement to the NAO and to the Council.

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

Section 3

Addressing audit risks

Addressing audit risks – significant audit risks

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

A significant audit risk in the context of the audit of the financial statements is an inherent risk with both a higher likelihood of occurrence and a higher magnitude of effect should it occur and which requires special audit consideration. For significant risks, we obtain an understanding of the entity's controls relevant to each risk and assess the design and implementation of the relevant controls.

| Audit risk identified within our Audit Plan | Audit procedures performed | Assurance gained and issues arising |
|---|---|--|
| <p>Property asset valuation and accounting</p> <p>The Council undertakes an annual exercise to revalue property assets. The valuation of these assets represents a significant accounting estimate. The accounting entries arising from changes in value are complex and will have a significant impact on the Council's financial statements.</p> <p>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, and therefore has a significant impact on the financial statements.</p> <p>Taken together, these factors present a significant risk to the financial statements, and we will undertake specific testing to address this risk.</p> | <ul style="list-style-type: none"> ▶ Assessed the reliability of management's experts (placing reliance on our own valuation specialists where necessary) ▶ Tested the accounting treatment applied to changes in the valuation of property assets. ▶ Reviewed management's judgements around the classification of property assets, and testing whether those judgments reflect guidance within the CIPFA Code of Practice. | <ul style="list-style-type: none"> ▶ We have completed our testing in this area. ▶ We found that we could place reliance on the work undertaken by management's expert, and that the accounting treatment applied to changes in the valuation of property assets was appropriate. ▶ We reviewed management's judgements around the classification of property assets, and found that these were appropriate and in line with the CIPFA Code of Practice. ▶ We have no matters to report to you as a result of our work in this area. |

Addressing audit risks – significant audit risks (cont'd)

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

| Audit risk identified within our Audit Plan | Audit procedures performed | Assurance gained and issues arising |
|---|---|---|
| Significant audit risks (including fraud risks) | | |
| <p>As identified in ISA (UK and Ireland) 240, management is in a unique position to perpetrate fraud because of their ability to directly or indirectly manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.</p> <p>Given the extent of the Council's capital programme, an area particularly susceptible to manipulation is the capitalisation of revenue expenditure on Property, Plant and Equipment.</p> | <ul style="list-style-type: none"> ▶ Tested the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements; ▶ Reviewed accounting estimates for evidence of management bias; ▶ Evaluated the business rationale for any significant unusual transactions; and ▶ Sample tested additions to Property, Plant and Equipment to ensure they are properly classified as capital expenditure | <ul style="list-style-type: none"> ▶ We have completed our testing in this area. ▶ We found that journal entries recorded in the general ledger and other adjustments made in the preparation of the accounts were appropriate. ▶ We have reviewed the accounting estimates made by management when preparing the financial statements and concluded that the basis for the estimates were appropriate. We found no evidence of management bias. ▶ We did not identify any significant unusual transactions. ▶ We tested a sample of additions to property , plant and equipment and found that the expenditure was correctly classified as capital expenditure. |

Section 4

Financial statements audit – issues and findings

Financial statements audit – issues and misstatements arising from the audit

Progress of our audit

- ▶ The following areas of our work programme remain to be completed. We will provide an update of progress at the Audit Committee meeting:
 - ▶ Completion of our testing of the Council's Payroll
 - ▶ Receipt of a Letter of Representation
 - ▶ Final Director review, closing procedures and sign off
- ▶ Subject to the satisfactory resolution of the above items, we propose to issue an unqualified audit report on the financial statements.

Uncorrected misstatements

- ▶ We have not identified any misstatements within the draft financial statements, which management has chosen not to adjust.

Corrected misstatements

- ▶ Our audit identified a limited number of minor disclosure errors which our team have highlighted to management for amendment. All of these have been adjusted during the course of our work.
- ▶ In our professional judgement, one of these disclosure errors warrant communicating to you. This error has been corrected by management within the revised financial statements.

This error related to the misclassification of '*Receipts in Advance*' within Note 37 - Financial Instruments. The effect of the correction was to:

- ▶ Reduce the value of short-term debtors disclosed within financial assets by £0.60 million.
- ▶ Reduce the value of short-term creditors within financial liabilities by £0.60 million.

Other matters

- ▶ As required by ISA (UK&I) 260 and other ISAs specifying communication requirements, we are required to communicate to you significant findings from the audit and other matters that are significant to your oversight of the Authority's financial reporting process including the following:
 - ▶ Qualitative aspects of your accounting practices; estimates and disclosures;
 - ▶ Matters specifically required by other auditing standards to be communicated to those charged with governance. For example, issues about fraud, compliance with laws and regulations, external confirmations and related party transactions;
 - ▶ Any significant difficulties encountered during the audit; and
 - ▶ Other audit matters of governance interest

We have no matters that we wish to report to you as a result of our work.

Financial statements audit – application of materiality

Our application of materiality

- ▶ When establishing our overall audit strategy, we determined a magnitude of uncorrected misstatements that we judged would be material for the financial statements as a whole.

| Item | |
|--|---|
| Planning Materiality and Tolerable error | <p>We determined planning materiality to be £2.636 million (2014: £2.775 million), which is 2% of gross expenditure reported in the accounts of £136.9 million.</p> <p>We consider gross expenditure to be one of the principal considerations for stakeholders in assessing the financial performance of the Council.</p> <p>We set a tolerable error for the audit. Tolerable error is the application of planning materiality at the individual account or balance level. It is set to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds planning materiality. The level of tolerable error drives the extent of detailed audit testing required to support our opinion.</p> <p>We have set tolerable error at the upper level of the available range as there were no corrected significant errors in the Council's 2013/2014 financial statements and no uncorrected errors.</p> |
| Reporting Threshold | We have set the threshold at which we report audit differences to the Committee at £0.137 million (2014: £0.138 million). |

We also identified the following areas where misstatement at a level lower than our overall materiality level might influence the reader. For these areas we developed an audit strategy specific to these areas. The areas identified and audit strategy applied include:

- Remuneration disclosures including any severance payments, exit packages and termination benefits: Strategy applied: substantive testing undertaken, amounts disclosed in the financial statements were agreed to payroll records.
- Related party transactions. Substantive testing undertaken, amounts disclosed in the financial statements agreed to entries in the register of interests held by the Council. We tested the completeness of disclosures by searching the general ledger for evidence of related party transactions, and company house searches on senior members and employees.

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations.

Financial statements audit – internal control, written representations and whole of government accounts

Internal control

- ▶ It is the responsibility of the Council to develop and implement systems of internal financial control and to put in place proper arrangements to monitor their adequacy and effectiveness in practice. Our responsibility as your auditor is to consider whether the Council has put adequate arrangements in place to satisfy itself that the systems of internal financial control are both adequate and effective in practice.
- ▶ We have tested the controls of the Council only to the extent necessary for us to complete our audit. We are not expressing an opinion on the overall effectiveness of internal control.
- ▶ We have reviewed the Annual Governance Statement and can confirm that:
 - ▶ It complies with the requirements of CIPFA/SOLACE Delivering Good Governance in Local Government Framework; and
 - ▶ It is consistent with other information that we are aware of from our audit of the financial statements.
- ▶ We have not identified any significant deficiencies in the design or operation of an internal control that might result in a material misstatement in your financial statements of which you are not aware.

Request for written representations

- ▶ We have requested a management representation letter to gain management's confirmation in relation to a number of matters.
- ▶ This request was for standard representations, we are not requesting any specific representations in relation to this engagement.

Whole of Government Accounts

- ▶ Alongside our work on the financial statements, we also review and report to the National Audit Office on your Whole of Government Accounts return. The extent of our review and the nature of our report are specified by the National Audit Office.
- ▶ We have not yet completed our work on your Whole of Government Accounts return. Therefore we cannot formally conclude the audit and issue an audit certificate.
- ▶ We will report any matters that arise in the completion of this work to the next meeting of the Audit Committee. This will be included within our Annual Audit Letter.

Section 5

Arrangements to secure economy, efficiency and effectiveness

Arrangements to secure economy, efficiency and effectiveness

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

Criteria 1 – arrangements for securing financial resilience

- ▶ *'Whether the Authority has robust systems and processes to manage financial risks and opportunities effectively, and to secure a stable financial position that enables it to continue to operate for the foreseeable future'*.
- ▶ After we issued our Audit Plan on the 11 February 2015, we have upgraded our assessment of the Council's Financial Standing to a significant risk. This is because there is a cumulative budget gap within the Council's medium term financial plan over the next three years.
- ▶ We have undertaken a review of the medium term financial plan and the assumptions included within it. We have also assessed the level of reserves (both general fund and earmarked) that the Council has at the 31 March 2015.
- ▶ The Council set a balanced budget for 2015/16 in February 2015. However, the Council's latest Medium Term Financial Strategy identifies a cumulative budget gap in the financial years 2016/17 and 2017/18 of £2.6 million.
- ▶ We found that the assumptions made by the Council in determining its budget are appropriate, and that the Council does not rely on as yet uncertain funding streams to balance its base budget (for example funding from the New Homes Bonus). We found that the Council has established appropriate budgetary control procedures, and that further work is planned over the summer of 2015 to address the identified budget gaps in 2016/17 and 2017/18.

We are comfortable that the level of reserves (both general fund and earmarked) held by the Council at 31 March 2015, covers the budget gap identified within the medium term financial plan to an appropriate level.

However, the Council does need to formalise the savings plans it is developing in order to address the budget gap going forward and maintain its reserve balances.

Criteria 2 – arrangements for securing economy, efficiency and effectiveness

- ▶ *'Whether the Authority is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity'*.
- ▶ We did not identify any significant risks in relation to this criteria
- ▶ We have no issues to report in relation to this criteria
- ▶ Our work did not identify any other matters relating to aspects of your corporate performance and financial management framework which are not covered by the scope of the two specified criteria above.

Section 6

Independence and audit fees

Independence and audit fees

Independence

- ▶ We confirm there are no changes in our assessment of independence since our confirmation in our Audit Plan dated 11 February 2015.
- ▶ We complied with the Auditing Practices Board's Ethical Standards for Auditors and the requirements of the Audit Commission's Code and Standing Guidance. In our professional judgement the firm is independent and the objectivity of the audit engagement partner and audit staff has not been compromised within the meaning of regulatory and professional requirements.
- ▶ We confirm that we are not aware of any relationships, that we have not already reported, that may affect the independence and objectivity of the firm that we are required by auditing and ethical standards to report to you.
- ▶ We consider that our independence in this context is a matter that should be reviewed by both you and ourselves. It is therefore important that you consider the facts of which you are aware and come to a view. If you wish to discuss any matters concerning our independence, we will be pleased to do so at the forthcoming meeting of the Audit Committee on 29 July 2015.

- ▶ We confirm that we have met the reporting requirements to the Audit Committee, as 'those charged with governance' under International Standards on Auditing (UK and Ireland) 260 – Communication with those charged with governance. Our communication plan to meet these requirements were set out in our Audit Plan of 11 February 2015.

Audit fees

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

| | Proposed final fee 2014/15 | Scale fee 2014/15 |
|--|-------------------------------|----------------------|
| | £ | £ |
| Audit Fee: Code work | 97,800 | 97,800 |
| Certification of claims and returns | 23,390* (Note 1) | 23,390 |

- ▶ Our actual fee is in line with the agreed fee at this point in time, subject to the satisfactory clearance of the outstanding audit work.
- ▶ We confirm that we have not undertaken any non-audit work outside of the Audit Commission's Audit Code requirements.
- ▶ Note 1 - Our work on the certification of claims and returns is not yet complete. We will report the final fee for this work in our Certification Report in January 2015.

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