

Annual Audit Letter

Dacorum Borough Council

13 October 2014



Building a better
working world

The Members
Dacorum Borough Council
Civic Centre
The Marlowes
Hemel Hempstead
HP1 1HH.

13 October 2014

Dear Members,

Annual Audit Letter

The purpose of this Annual Audit Letter is to communicate to the Members of Dacorum Borough Council and external stakeholders, including members of the public, the key issues arising from our work, which we consider should be brought to their attention.

We have already reported the detailed findings from our audit work to those charged with governance of Dacorum Borough Council in the following reports:

**2013/14 Audit Results Report for Dacorum
Borough Council**

Issued on 30 July 2014

The matters reported here are the most significant for the Council.

I would like to take this opportunity to thank the officers of Dacorum Borough Council for their assistance during the course of our work.

Yours faithfully

Mark Hodgson
Audit Director
For and behalf of Ernst & Young LLP
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Executive summary

Our 2013/14 audit work has been undertaken in accordance with the Audit Plan we issued on 17 March 2014 and is conducted in accordance with the Audit Commission's Code of Audit Practice, International Standards on Auditing (UK and Ireland) and other guidance issued by the Audit Commission.

The Council is responsible for preparing and publishing its Statement of Accounts, accompanied by the Annual Governance Statement. In the Annual Governance Statement, the Council reports publicly on an annual basis on the extent to which they comply with their own code of governance, including how they have monitored and evaluated the effectiveness of their 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.

As auditors we are responsible for:

- ▶ forming an opinion on the financial statements;
- ▶ reviewing the Annual Governance Statement;
- ▶ forming a conclusion on the arrangements that the Council has in place to secure economy, efficiency and effectiveness in its use of resources; and
- ▶ undertaking any other work specified by the Audit Commission.

Summarised below are the conclusions from all elements of our work:

Area of work	Outcome
Audit the financial statements of Dacorum Borough Council for the financial year ended 31 March 2014 in accordance with International Standards on Auditing (UK & Ireland)	On 30 July 2014 we issued an unqualified audit opinion in respect of the Council.
Form a conclusion on the arrangements the Council has made for securing economy, efficiency and effectiveness in its use of resources.	On 30 July 2014 we issued an unqualified value for money conclusion.
Issue a report to those charged with governance of the Council (the Audit Committee) communicating significant findings resulting from our audit.	On 30 July 2014 we issued our report in respect of the Council.
Report to the National Audit Office on the accuracy of the consolidation pack the Council is required to prepare for the Whole of Government Accounts.	We reported our findings to the National Audit Office on 2 October 2014.
Consider the completeness of disclosures in the Council's Annual Governance Statement, identify any inconsistencies with the other information of which we are aware from our work and consider whether it complies with CIPFA / SOLACE guidance.	No issues to report.

Area of work	Outcome
Consider whether, in the public interest, we should make a report on any matter coming to our notice in the course of the audit.	No issues to report.
Determine whether any other action should be taken in relation to our responsibilities under the Audit Commission Act.	No issues to report.
Issue a certificate that we have completed the audit in accordance with the requirements of the Audit Commission Act 1998 and the Code of Practice issued by the Audit Commission.	On 2 October 2014 we issued our audit completion certificate.
Issue a report to those charged with governance of the Council summarising the certification (of grant claims and returns) work that we have undertaken.	We plan to issue our annual certification report to those charged with governance with respect to the 2013/14 financial year by 31 January 2015.

Audit fees

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

	Planned fee	Scale fee	Final
Code audit work	£96,900	£96,900	£96,900
Certification of claims and returns	£38,100	£33,584*	see note below**
Non-Code work	Nil	N/A	Nil

Our actual fee is in line with the agreed fee for the Code audit work.

* Since we issued our Audit Plan, the Audit Commission have reduced the scale fees for certification work by £4,516. The revised scale fee reflects the removal of Council Tax Benefit from the benefit subsidy system.

** Work on the certification of claims and returns is not yet complete. We will report our final fee for the certification work in our report to be issued by 31 January 2015.

We confirm that we have not undertaken any non-audit work.

Key findings

Financial statement audit

We audited the Council's Statement of Accounts in line with the Audit Commission's Code of Audit Practice, International Standards on Auditing (UK and Ireland) and other guidance issued by the Audit Commission. We issued an unqualified audit report on 30 July 2014.

In our view, the process for producing the draft accounts, including the supporting working papers was excellent.

The main issues identified as part of our audit were:

Significant risk 1: Consideration of the risk of fraud

ISA (UK&I) 240 requires that we plan our audit work to consider the risk of fraud. This includes consideration of the risk that management may override controls in order to manipulate the financial statements.

Our audit procedures and testing did not identify any instances of misstatement due to fraud and error.

Significant risk 2: Localisation of Business Rates

There have been significant changes in the arrangements for business rate arrangements from April 2013. The detailed accounting arrangements for the new arrangement are not yet clear and this therefore presents a risk in terms of the financial statements.

The Council had estimated the Business Rate Appeals provision based on known appeals as at 31 March 2014. It had not initially considered the impact of appeals not yet made in line with IAS 37. The Council therefore carried out a further analysis and estimated the financial impact of future appeals. The estimate for this element was not significant and the Collection Fund account did not require an adjustment to reflect this amount.

Significant risk 3: Property Asset Valuation

The valuation of property assets and capital expenditure are significant accounting estimates that have a material impact on the financial statements. We identified the following risks in relation to the valuation of property assets:

- The application of an incorrect accounting treatment to information supplied by the Council's valuer; and
- The incorrect classification of properties acquired by the Council to facilitate the regeneration of Hemel Hempstead town centre, resulting in an incorrect valuation basis for these properties.

Our audit procedures and testing did not identify any misstatements within the financial statements.

Value for money conclusion

We are required to carry out sufficient work to conclude on whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

In accordance with guidance issued by the Audit Commission, in 2013/14 our conclusion was based on two criteria:

- ▶ The organisation has proper arrangements in place for securing financial resilience; and
- ▶ The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness.

We issued an unqualified value for money conclusion on 30 July 2014.

Key findings:

1. Financial resilience

The Council has robust arrangements in place to ensure its financial resilience. The Council has a history of good financial management and a strong record in the delivery of budgets.

At 31 March 2014, the Council's General Fund balance which is available to meet unforeseen circumstances stood at £2.7 million, while Earmarked general fund reserves were £14.3 million. Although these are earmarked for specific purposes, they do provide the Council with enhanced flexibility to manage its financial position in the current economic environment.

In 2013/14 the Council incurred a deficit of £0.373 million on the General Fund. The Council then transferred £0.079 million from Earmarked reserves into the General Fund. These were reflected within the Council's year end General Fund balance, as set out above.

The Council has set a balanced budget for 2014/15 with no planned drawdown of general reserves. Recurring efficiency savings of £1.271 million have been identified to achieve this budget, and council tax will increase by 1.75%.

A further savings requirement has been identified for 2015/16 of £2.7 million, of which proposals for savings totalling £1.8 million have been identified. Total savings required over the period 2014/15 to 2018/19 are £7.8 million.

Whilst the reserve balance position (above) provides assurance over the financial resilience of the Council over the medium term, the Council does need to work hard to achieve the level of savings identified to protect the General Fund reserve balance going forward.

Members need to continue to be aware of the future financial pressures faced by the Council and consider carefully the impact of any decisions they make on the resilience of the Council's current financial position. It is likely that a number of difficult decisions will need to be made in key service delivery areas to achieve this level of savings.

2. Securing economy efficiency and effectiveness

The Council has demonstrated that it has effective arrangements in place for securing economy, efficiency and effectiveness.

The Council continues to use cost and performance information to make decisions, including the use of comparative and benchmarking data to challenge economy, efficiency and effectiveness of services.

The Council continues to challenge its costs in order to reduce these without adversely affecting the quality of its services.

Objections received

We did not received any correspondence or formal objection to the 2013/14 accounts from any members of the public.

Whole of government accounts

We reported to the National Audit Office on 2 October 2014 the results of our work performed in relation the accuracy of the consolidation pack the Council is required to prepare for the whole of government accounts. The Council was above the threshold at which a full audit of the submission is required.

We completed this work and had no matters to report to the National Audit Office.

Annual governance statement

We are required to consider the completeness of disclosures in the Council's Annual Governance Statement, identify any inconsistencies with the other information of which we are aware from our work, and consider whether it complies with CIPFA / SOLACE guidance. We completed this work and did not identify any areas of concern.

Certification of grants claims and returns

We have not yet completed our work on the certification of grants and claims.

We will issue the Annual Certification Report for 2013/14 in January 2015.

Control themes and observations

As part of our audit of the financial statements, we obtained an understanding of internal control sufficient to plan our audit and determine the nature, timing and extent of testing performed. Although our audit was not designed to express an opinion on the effectiveness of internal control we communicated to those charged with governance at the Council, as required, significant deficiencies in internal control.

We had no matters to report.

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