



The Audit Findings for Watford Borough Council

DRAFT

This version of the report is a draft. Its contents and subject matter remain under review and its contents may change and be expanded as part of the finalisation of the report.

Year ended 31 March 2015

23 September 2015

Paul Dossett

Engagement Lead

T 020 7728 3180
E paul.dossett@uk.gt.com

Richard Lawson

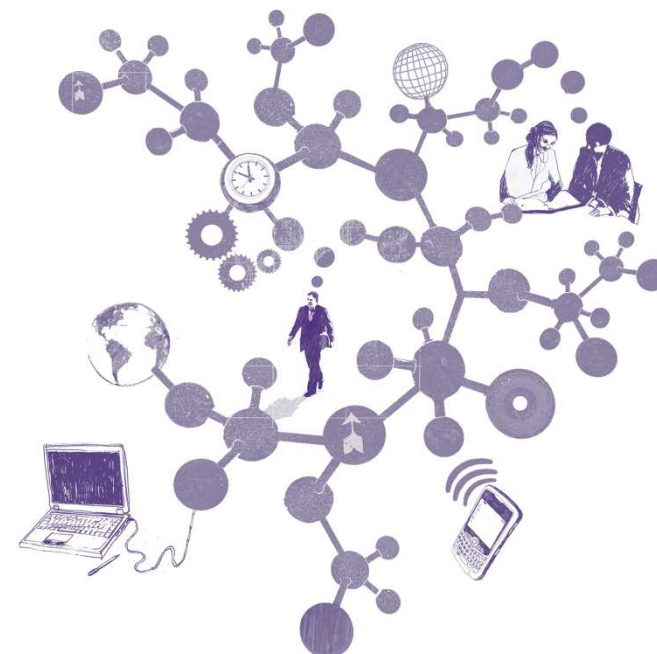
Audit Manager

T 07766 442 038
E richard.lawson@uk.gt.com

Ellen Millington

Audit Associate

T 020 7728 3379
E ellen.millington@uk.gt.com





Watford Borough Council
Town Hall
Hempstead Road
Watford
WD17 3EX

23 September 2015

Dear Audit Committee Member

Grant Thornton UK LLP
Grant Thornton House
Melton Street
London
NW1 2EP

T +44 (0)20 7383 5100
www.grant-thornton.co.uk

Audit Findings for Watford Borough Council for the year ending 31 March 2015

This Audit Findings report highlights the significant findings arising from the audit for the benefit of those charged with governance (in the case of Watford Borough Council, the Audit Committee), as required by International Standard on Auditing (UK & Ireland) 260. Its contents have been discussed with management.

As auditors we are responsible for performing the audit, in accordance with International Standards on Auditing (UK & Ireland), 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.

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 primarily 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 any control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify. 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.

We would like to take this opportunity to record our appreciation for the kind assistance provided by the finance team and other staff during our audit.

Yours sincerely

Paul Dossett

Engagement Lead

Chartered Accountants

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Section 1: Executive summary

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Executive summary

Purpose of this report

This report highlights the key matters arising from our audit of Watford Borough Council's (the Council) financial statements for the year ended 31 March 2015. It is also used to report our audit findings to management and those charged with governance in accordance with the requirements of International Standard on Auditing 260 (ISA UK&I).

Under the Audit Commission's Code of Audit Practice we are required to report whether, in our opinion, the Council's financial statements present a true and fair view of the financial position and expenditure and income for the year and whether they have been properly prepared in accordance with the CIPFA Code of Practice on Local Authority Accounting. We are also required to reach a formal conclusion on whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources (the Value for Money conclusion).

Introduction

In the conduct of our audit we have not had to alter or change our planned audit approach, which we communicated to you in our Audit Plan dated June 2015.

Our audit is substantially complete although we are finalising our work in the following areas:

- substantive testing of short-term creditors and debtors
- substantive testing of Collection Fund balances
- Housing Benefit case testing
- review of the final version of the financial statements for mathematical accuracy, disclosures and internal consistency

- obtaining and reviewing the final management letter of representation
- review of final version of the Annual Governance Statement and
- updating our post balance sheet events review, to the date of signing the opinion
- Whole of Government Accounts

We received draft financial statements and accompanying working papers at the start of our audit, in accordance with the agreed timetable.

Key issues arising from our audit

Financial statements opinion

Subject to no material unresolved issues arising from the completion of our work, we anticipate providing an unqualified opinion in respect of the financial statements.

We have identified 3 adjustment affecting the Council's reported financial position (details are recorded in section 2 of this report). The draft financial statements for the year ended 31 March 2015 recorded net surplus of £1,586k ; the audited financial statements show net expenditure of £1,305k. This change relates to an unprocessed reversal of a 2013/14 accrual regarding VAT shelter income. There were a further 2 adjustments to the balance sheet regarding understatement of the upward revaluation of property, plant and equipment, these adjustments affect the Balance Sheet only and have no impact on General Fund balances.

Executive summary

The key messages arising from our audit of the Watford Borough Council's financial statements are:

- We were informed at the start of the audit that the Council's final position with regard to short-term creditors and debtors had moved significantly from that recognised in the draft financial statements issued on 30 June 2015, due to amendments made to opening balances on Collection Fund account codes. We received the Council's final position on the 24th September relating to short-term creditors and debtors, we are currently working through the revised position and we will update the committee with our findings at the Audit Committee meeting on September 28th. The revised position has resulted in material adjustments being processed to the financial statements.

- One other material adjustment has been made to the draft financial statements as a result of our audit procedures, relating to the upward revaluation of Investment Properties. This had initially been understated by £8m due to the Council having initially updated their Fixed Asset Register based upon an outdated draft of the valuer's report.

- We received the draft financial statements in line with the national deadline of 30 June 2015. In line with our arrangements letter sent in advance of the audit, accompanying working papers were collated into a central file and made available to us at the start of our audit fieldwork. However, the Council must continue to identify efficiencies in the process to meet the 31 July audit deadline which will apply from 2017/18. Examples of potential efficiencies would be:
- ensuring that any known adjustments were made prior to the issue of the draft financial statements such that the Council believes that the first draft represents their final position,
- improved support from other departments in relation to information requests (although this has for the most part improved significantly from 2013/14)
- less reliance on specific individuals for audit queries relating to certain areas of the financial statements.

Further details are set out in section two of this report.

Value for Money conclusion

We are pleased to report that, based on our review of the Council's arrangements to secure economy, efficiency and effectiveness in its use of resources, we propose to give an unqualified VfM conclusion.

Further detail of our work on Value for Money is set out in section three of this report.

Whole of Government Accounts (WGA)

We have yet to complete our work on the Whole of Government Accounts and will provide the certificate in due course.

Controls

Roles and responsibilities

The Council's management is responsible for the identification, assessment, management and monitoring of risk, and for developing, operating and monitoring the system of internal control.

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 any control weaknesses, we report these to the Council.

Findings

We draw your attention in particular to control issues identified in relation to:

- User access rights review and logical access settings

Further details are provided within section two of this report.

The way forward

Matters arising from the financial statements audit and review of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources have been discussed with the Director of Finance.

We have made a number of recommendations, which are set out in the action plan in Appendix A. Recommendations have been discussed and agreed with the Director of Finance and the finance team.

Acknowledgment

We would like to take this opportunity to record our appreciation for the assistance provided by the finance team and other staff during our audit.

Grant Thornton UK LLP
September 2015

Section 2: Audit findings

01. Executive summary

02. Audit findings

03. Value for Money

04. Fees, non-audit services and independence

05. Communication of audit matters

Audit findings

In this section we present our findings in respect of matters and risks identified at the planning stage of the audit and additional matters that arose during the course of our work. We set out on the following pages the work we have performed and the findings arising from our work in respect of the audit risks we identified in our audit plan, presented to the Audit Committee on 28 September 2015. We also set out the adjustments to the financial statements arising from our audit work and our findings in respect of internal controls.

Changes to Audit Plan

Subject to no material unresolved issues arising from the completion of our work, we anticipate that we will provide the Council with an unmodified opinion. We have not made any changes to our Audit Plan as previously communicated to you in June 2015.

Audit opinion

Our proposed audit opinion is set out in Appendix B.

Audit findings against significant risks

"Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, either due to size or nature, and that therefore occur infrequently. Judgmental matters may include the development of accounting estimates for which there is significant measurement uncertainty" (ISA (UK&I) 315).

In this section we detail our response to the significant risks of material misstatement which we identified in the Audit Plan. As we noted in our plan, there are two presumed significant risks which are applicable to all audits under auditing standards.

	Risks identified in our audit plan	Work completed	Assurance gained and issues arising
1.	Improper revenue recognition Under ISA (UK&I) 240 there is a presumed risk that revenue may be misstated due to improper recognition	<p>Having considered the factors set out in ISA240 and the nature of the revenue streams at Watford Borough Council, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:</p> <ul style="list-style-type: none"> •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 Watford Borough Council, mean that all forms of fraud are seen as unacceptable 	<p>At the time of writing, our audit work has not identified any issues in respect of revenue recognition. The Council has adopted appropriate accounting policies regarding revenue recognition and our testing supports compliance with the policies.</p>
2.	Management override of controls Under ISA (UK&I) 240 there is a presumed risk of management over-ride of controls	<p>Throughout the course of the audit we have performed the following:</p> <ul style="list-style-type: none"> •review of accounting estimates, judgements and decisions made by management •testing of journal entries •review of unusual significant transactions 	<p>At the time of writing, our audit work has not identified any evidence of management override of controls. In particular the findings of our review of journal controls and testing of journal entries has not identified any significant issues.</p> <p>We set out later in this section of the report our work and findings on key accounting estimates and judgments.</p>



Audit findings against other risks

In this section we detail our response to the other risks of material misstatement which we identified in the Audit Plan. Recommendations, together with management responses, are attached at Appendix A.



Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
Operating expenses	Creditors understated or not recorded in the correct period	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> •documented our understanding of processes and key controls over the transaction cycle •undertaken a walkthrough of the key controls to assess whether those controls were in line with our documented understanding •performed testing to search for unrecorded liabilities •undertaken testing on a sample of expenditure transactions throughout the year to gain assurance that expenditure has occurred and has been correctly classified •reviewed and tested a sample of items included within the year-end creditors balance 	We were informed at the start of the audit that the Council wished to restate its short-term creditors figures to reallocate opening balances on Collection Fund account codes. . We received the Council's final position on the 24th September relating to short-term creditors and debtors, we are currently working through the revised position and we will update the committee with our findings at the Audit Committee meeting on September 28th. The revised position has resulted in material adjustments being processed to the financial statements.
Employee remuneration	Employee remuneration accrual understated	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> •documented our understanding of processes and key controls over the transaction cycle •undertaken walkthrough of the key controls to assess whether those controls were in line with our documented understanding •reviewed the reconciliation of the payroll subsidiary system to the general ledger •completed a trend analysis over monthly payroll payments •undertaken testing on a sample of payments made to individuals throughout the year, including the agreement of pay data to individual pay slips and contracts of employment to determine whether the amounts paid were appropriate •reviewed senior management remuneration and disclosures •agreed the pensions liability to the third party actuarial valuation report 	Our audit work in this area is now complete and has not identified any significant issues in relation to the risk identified

Accounting policies, estimates & judgements

In this section we report on our consideration of accounting policies, in particular revenue recognition policies, and key estimates and judgements made and included with the Council's financial statements.




Accounting area	Summary of policy	Comments	Assessment
Revenue recognition	<ul style="list-style-type: none"> Revenue from the sale of goods is recognised when the Council transfers the significant risks and rewards of ownership to the purchaser and it is probable that economic benefits or service potential associated with the transaction will flow to the Council Revenue from the provision of services is recognised when the Council can measure reliably the percentage of completion of the transaction and it is probable that economic benefits or service potential associated with the transaction will flow to the Council Government grants and third party contributions and donations are recognised as due to the Council where there is reasonable assurance that the Council will comply with the conditions of the payment and the grants or contributions will be received. 	<ul style="list-style-type: none"> The revenue recognition policy is in line with the requirements of the CIPFA Code and accounting standards Testing performed on revenue balances has confirmed that, for the sample selected, the Council has accounted for income in line with the policy 	
Estimates and judgements (PPE)	<ul style="list-style-type: none"> Key estimates and judgements include: asset valuations useful life of depreciable capital assets 	<ul style="list-style-type: none"> We have reviewed the work completed by the in-house valuations team. At the time of writing, this testing has not identified any issues with the individual valuations performed, all of which were found to be in line with appropriate professional standards. From the testing performed, all assets within the 'Land and Buildings' classification were found to have been revalued as at 31 March 2015, in line with the Council's policy. We completed a review of useful lives of depreciable assets and found these to be reasonable. However, updated disclosures in the Notes to the financial statements were required since the stated methodology did not reflect that actually applied. 	

Assessment

-  Marginal accounting policy which could potentially attract attention from regulators
-  Accounting policy appropriate and disclosures sufficient

-  Accounting policy appropriate but scope for improved disclosure

Accounting policies, estimates & judgements continued

Accounting area	Summary of policy	Comments	Assessment
Estimates and judgements (other)	<ul style="list-style-type: none"> Key estimates and judgements include: Pension Fund valuation 	As part of our review of pensions, we used the work of an expert (PwC), commissioned by the Audit Commission, to assess the work of the Council's actuary (Hymans Robertson). No issues were noted from the work performed	
Going concern	The Directors have a reasonable expectation that the services provided by the Council will continue for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.	We have reviewed the Directors' assessment and are satisfied with managements' assessment that the going concern basis is appropriate for the 2014/15 financial statements.	
Other accounting policies	We have reviewed the Council's policies against the requirements of the CIPFA Code and accounting standards.	Our review of accounting policies has not highlighted any issues which we wish to bring to your attention	

Assessment

 Marginal accounting policy which could potentially attract attention from regulators

 Accounting policy appropriate but scope for improved disclosure

 Accounting policy appropriate and disclosures sufficient

Other communication requirements

We set out below details of other matters which we are required by auditing standards to communicate to those charged with governance.



	Issue	Commentary
1.	Matters in relation to fraud	<ul style="list-style-type: none"> We have previously discussed the risk of fraud with the Council's management and 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
2.	Matters in relation to laws and regulations	<ul style="list-style-type: none"> We are not aware of any significant incidences of non-compliance with relevant laws and regulations.
3.	Written representations	<ul style="list-style-type: none"> We have requested a standard letter of representation from management, a draft of which is included at Appendix C to this report for information. We have requested representations from management in respect of the adequacy of the judgements and significant estimates made by management in preparing the financial statements, the completeness of information provided to audit by management, the completeness of the financial statements themselves and management's awareness of fraud, control weaknesses or other irregularities that could materially affect the position reported in the Council's financial statements We request these representations for all our local government audits and have not identified any specific risks from our audit testing requiring additional representations specific to this Council
4.	Disclosures	<ul style="list-style-type: none"> Our review found no non-trivial omissions in the financial statements
5.	Matters in relation to related parties	<ul style="list-style-type: none"> We are not aware of any related party transactions which have not been disclosed
6.	Confirmation requests from third parties	<ul style="list-style-type: none"> We requested from management permission to send confirmation requests to all providers for bank and investment balances. This permission was granted and the requests were sent. All of these requests were returned with positive confirmation. The Council acquired no new external debt in the year hence no additional confirmations were required in this area. We send requests to those solicitors who worked with the Council during the year. The only solicitors used were the Council's in-house legal team. The response was received during the interim audit in April 2015 and no issues were noted.

Internal controls



The purpose of an audit is to express an opinion on the financial statements.

Our audit included consideration of internal controls relevant to the preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control. We considered and walked through the internal controls for Employee Remuneration and Operating Expenses as set out on page 11 above.

The matters that we identified during the course of our audit are set out in the table below. These and other recommendations, together with management responses, are included in the action plan attached at Appendix A.

	Assessment	Issue and risk	Recommendations
1.		<p>Lack of user access rights review – Network</p> <p>A review of user management processes identified that user accounts and associated permissions within network and network folders were not being routinely reviewed for appropriateness.</p> <p>In the absence of formalised users access rights reviews, access to information resources and system functionality may not be restricted on the basis of legitimate business need. Users access rights may become disproportionate to their responsibilities.</p>	We recommend that formal reviews be undertaken of user access permissions (including the network folders) to help identify anomalies and ensure that access is granted on the basis of a user's level of responsibility. This will ensure that access rights are proportionate to users responsibilities and protect systems and information from unauthorised access.
2.		<p>Logical Access Settings</p> <p>Active Directory parameters are not configure to log out the system if it is inactive for certain period, hence, there is an increased risk of unauthorised access to systems which could affect the privacy and integrity of financial data.</p>	Management should configure the Active Directory to automatically log out after a specified period of inactivity. This would reduce the risk of privacy of data being compromised and unauthorised manipulation of financial data.

Assessment

-  Significant deficiency – risk of significant misstatement
-  Deficiency – risk of inconsequential misstatement

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.

Internal controls – review of issues raised in prior year

	Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
1.	X	<p>Lack of user access rights review – Network A review of user management processes identified that user accounts and associated permissions within network and network folders were not being routinely reviewed for appropriateness.</p> <p>In the absence of formalised users access rights reviews, access to information resources and system functionality may not be restricted on the basis of legitimate business need. Users access rights may become disproportionate to their responsibilities.</p>	This recommendation has not been implemented and has been re-issued.
2.	X	<p>Logical Access Settings Active Directory parameters are not configured to log out the system if it is inactive for certain period, hence, there is an increased risk of unauthorised access to systems which could affect the privacy and integrity of financial data.</p>	This recommendation has not been implemented and has been re-issued.
3.	✓	<p>Year end accruals Testing of the accruals balance. Testing of the accruals balance found the system automatically accrues items of expenditure that have been receipted but not invoiced. We found 2 items of 2014/15 expenditure totalling £46,413 contained within the 2013/14 accruals balance.</p> <p>The year end accruals balance is overstated and, although not material to this years statement of accounts, it may be material to the following years accounts.</p>	We are still completing the final parts of our audit work on automated accruals but as at the time of writing, have not identified any issues in this area, suggesting that managers have followed the guidance issued.

Assessment

✓ Action completed
X Not yet addressed

Internal controls – review of issues raised in prior year (continued)

	Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
4.	✓	Bank reconciliation The year end bank reconciliation was not provided for audit until September 2014.	The bank reconciliation was produced and provided for audit at the commencement of the audit. Recommendation implemented.

Adjusted misstatements

A number of adjustments to the draft financial statements have been identified during the audit process. We are required to report all non-trivial misstatements to those charged with governance, whether or not the financial statements have been adjusted by management. The table below summarises the adjustments arising from the audit which have been processed by management.

Impact of adjusted misstatements

All adjusted misstatements are set out below along with the impact on the primary statements and the reported financial position.

Detail		Comprehensive Income and Expenditure Account £'000	Balance Sheet £'000	Impact on total net expenditure £'000
1	Understatement of upward revaluation of Property, Plant and Equipment	-	569	-
2	Understatement of upward revaluation of Investment Properties	-	8,123	-
3	Unprocessed reversal of 2013/14 accrual for Q4 VAT shelter income	(281)	(281)	(281)
Overall impact		(281)	8,411	(281)

Misclassifications & 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.

	Adjustment type	Value £'000	Account balance	Impact on the financial statements
1	Misclassification	9,000	Assets Held for Sale	£9,000k classified as 'Assets Held for Sale' in the draft financial statements to be reclassified to 'Investment Properties' in the final set, since upon review, these assets did not meet the CIPFA Code/IFRS 5 definition of 'Held for Sale'
2	Disclosure	4	Termination Benefits (Note 14)	Due to an error found during testing, the '£20,001 - £40,000' and 'Total' lines will increase by £4,491 in the final set of financial statements.
3	Disclosure	2	Members' Allowances (Note 12)	Due to an error found during testing, the Member's Allowances disclosed in the draft financial statements will increase by £2k in the final set.
4	Disclosure	14	Leases (Note 22(a)i)	The £14k disclosed under 'Vehicles, Plant and Equipment' as being due 'Later than one year and not later than five years' will be amended from £14k to nil in the final set of financial statements. This will also impact upon the 'Total' column.
5	Disclosure	-	Depreciation Accounting Policy (Notes 1.17 and 18)	Testing identified that the stated depreciation methodologies in Note 1.17 and 18 to the draft financial statements were not consistent with those actually applied. The narrative of the note has been amended accordingly.
6	Disclosure	-	Financial Statements	There were a number of other minor presentational issues that were identified during the course of our audit. These are to be amended in the final set of financial statements.

Section 3: Value for Money

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Value for Money

Value for money conclusion

The Code of Audit Practice 2010 (the Code) describes the Council's responsibilities to put in place proper arrangements to:

- secure economy, efficiency and effectiveness in its use of resources;
- ensure proper stewardship and governance; and
- review regularly the adequacy and effectiveness of these arrangements.

We are required to give our VfM conclusion based on two criteria specified by the Audit Commission which support our reporting responsibilities under the Code.

These criteria are:

The Council has proper arrangements in place for securing financial resilience - the Council has robust systems and processes to manage effectively financial risks and opportunities, and to secure a stable financial position that enables it to continue to operate for the foreseeable future.

The Council has proper arrangements for challenging how it secures economy, efficiency and effectiveness - the Council is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.

Key findings

Securing financial resilience

We have undertaken a review which considered the Council's arrangements against the three expected characteristics of proper arrangements as defined by the Audit Commission:

- Financial governance;
- Financial planning; and
- Financial control.

Overall our work highlighted that you have robust financial management arrangements in place, and your Medium Term Financial Plan is updated on an annual basis. We have noted that you have been successful this year in reducing the time taken to process new claims and changes in circumstances to housing benefit claims and as a result the Council has achieved a marking of adequate arrangements in all aspects of financial resilience.

Challenging economy, efficiency and effectiveness

We have considered the Council's arrangements to challenge economy, efficiency and effectiveness against the following themes:

- Prioritising resources
- Improving efficiency & productivity

Further details are included in the following pages, which discuss each of the specific themes under the Audit Commission guidance.

Overall VfM conclusion

On the basis of our work, and having regard to the guidance on the specified criteria published by the Audit Commission, we are satisfied that in all significant respects the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2015. We are therefore proposing an unqualified vfm conclusion.

As set out below our detailed findings against six risk areas which have been used to assess the Council's performance against the Audit Commission's criteria. We summarise our assessment of each risk area using a red, amber or green (RAG) rating, based on the following definitions:

Green	Adequate arrangements
Amber	Adequate arrangements, with areas for development
Red	Inadequate arrangements

The table below and overleaf summarises our overall rating for each of the themes reviewed:

Theme	Summary findings	RAG rating
Key indicators of performance	<p>The Council has dissolved the shared service agreement it held with Three Rivers DC to provide Revenues & Benefits, Finance, HR, ICT and Payroll. The Council reviewed the shared service arrangement after constantly exceeding budget for providing the service and has moved to a Lead Authority model.</p> <p>The cost of providing the ICT service has fallen from £1.957million from the prior year to £1.033 million, which represents a 47% year on year reduction.</p>	Green
Strategic financial planning	<p>The Council are addressing the issues impacting the efficiency of Council operations. The Council has addressed the spiralling ICT cost from the prior year and have recorded a reduction in the cost of the service. Furthermore, together with Three Rivers DC, the Council has been addressing the issue of processing housing benefits, which for the first time the Council has processed new claim and changes in circumstances of housing benefits within national timescales.</p>	Green

Value for Money

Theme	Summary findings	RAG rating																					
Financial governance	<p>There has been an improvement in the level of processing of housing benefit payments, for the first time the Council has managed to process the following within national time limits:</p> <table><tr><th>Claim type</th><th></th><th>National Limit</th><th></th><th>WBC</th><th></th><th>Achieved</th></tr><tr><td>New claims</td><td></td><td>22 days</td><td></td><td>18.64 days</td><td></td><td>✓</td></tr><tr><td>Change in circumstances</td><td></td><td>15 days</td><td></td><td>13.66 days</td><td></td><td>✓</td></tr></table> <p>The Council have achieved the above measure without increasing the staffing budget. The annual accounts show the actual staffing spend for housing benefits for both Councils has decreased from £1.883million in 2013/14 to £1.646million in 2014/15.</p>	Claim type		National Limit		WBC		Achieved	New claims		22 days		18.64 days		✓	Change in circumstances		15 days		13.66 days		✓	Green
Claim type		National Limit		WBC		Achieved																	
New claims		22 days		18.64 days		✓																	
Change in circumstances		15 days		13.66 days		✓																	
Financial control	<p>The Council has a robust process in place for the approval, monitoring and controlling of budgets. The Council utilise performance indicators encapsulated within the managing the business pack to highlight areas of concern that may require additional resources.</p> <p>Evidence of greater financial control is supported by the costs expended by the Council for partnership working. In the prior year the combined spend on ICT and HR was £2.392million, which has fallen to £1.589million in 2014/15 even though there has been greater pressure on the budget to resolve the issues with Capita over the provision of ICT services.</p>	Green																					

Value for Money

Theme	Summary findings	RAG rating
Prioritising resources	<p>The Council has dissolved the shared service agreement it held with Three Rivers DC to provide Revenues & Benefits, Finance, HR, ICT and Payroll. The Council reviewed the shared service arrangement after constantly exceeding budget for providing the service.</p> <p>The cost of providing the ICT and HR services has fallen from £2.392million from the prior year to £1.589 million, which represents a 47% year on year reduction.</p>	Green
Improving efficiency & productivity	<p>The Council are addressing the issues impacting the efficiency of Council operations. The Council has addressed the spiralling Revenue & Benefits cost from the prior year and have recorded a reduction in the cost of the service whilst addressing the issue of processing housing benefits, which for the first time have processed new claim and changes in circumstances of housing benefits within national timescales.</p>	Green

Section 4: Fees, non-audit services and independence

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Fees, non-audit services and independence

We confirm below our final fees charged for the audit and confirm there were no fees for the provision of non audit services.

Fees

	Per Audit plan £	Actual fees £
Council audit	68,400	TBC
Grant certification on behalf of Audit Commission (i)	12,600	TBC
Total audit fees	81,000	TBC

(i) certification of the Housing Benefits claim is not due until later in the year so this remains a work in progress at the date of this report. Confirmation of the final fee will be included within the separate Certification Report later in the year.

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 Standards and therefore we confirm that we 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 Auditing Practices Board's Ethical Standards.

Section 5: Communication of audit matters

01. Executive summary

02. Audit findings

03. Value for Money

04. Fees, non-audit services and independence

05. Communication of audit matters

Communication of audit matters to those charged with governance

International Standard on Auditing ISA (UK&) 260, as well as other (UK&I) ISAs, prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table opposite.

The Audit Plan outlined our audit strategy and plan to deliver the audit, while this Audit Findings report presents the key issues and other matters arising from the audit, together with an explanation as to how these have been resolved.

Respective responsibilities

The Audit Findings Report has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission (www.audit-commission.gov.uk).

We have been appointed as the Council's independent external auditors by the Audit Commission, the body responsible for appointing external auditors to local public bodies in England. As external auditors, we have a broad remit covering finance and governance matters.

Our annual work programme is set in accordance with the Code of Audit Practice (the Code) issued by the Audit Commission and includes nationally prescribed and locally determined work. Our work considers the Council's key risks when reaching our conclusions under the Code.

It is the responsibility of the Council to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Council is fulfilling these responsibilities.

Our communication plan	Audit Plan	Audit Findings
Respective responsibilities of auditor and management/those charged with governance	✓	
Overview of the planned scope and timing of the audit. Form, timing and expected general content of communications	✓	
Views about the qualitative aspects of the entity's accounting and financial reporting practices, significant matters and issues arising during the audit and written representations that have been sought		✓
Confirmation of independence and objectivity	✓	✓
A statement that we have complied with relevant ethical requirements regarding independence, relationships and other matters which might be thought to bear on independence. Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged Details of safeguards applied to threats to independence	✓	✓
Material weaknesses in internal control identified during the audit		✓
Identification or suspicion of fraud involving management and/or others which results in material misstatement of the financial statements		✓
Compliance with laws and regulations		✓
Expected auditor's report		✓
Uncorrected misstatements		✓
Significant matters arising in connection with related parties		✓
Significant matters in relation to going concern		✓

Appendices

Appendix A: Action plan

Rec No.	Recommendation	Priority	Management response	Implementation date & responsibility
1.	<p>Lack of user access rights review – Network</p> <p>We recommend that formal reviews be undertaken of user access permissions (including the network folders) to help identify anomalies and ensure that access is granted on the basis of a user's level of responsibility. This will ensure that access rights are proportionate to users responsibilities and protect systems and information from unauthorised access.</p> <p>We recommend that formal reviews be undertaken of user access permissions (including the network folders) to help identify anomalies and ensure that access is granted on the basis of a user's level of responsibility. This will ensure that access rights are proportionate to users responsibilities and protect systems and information from unauthorised access.</p>	Low	This will be included in our future programme for ICT.	<p>TBC once future proposals on the delivery of ICT have been agreed.</p> <p>Director of Finance.</p>
2.	<p>Logical Access Settings</p> <p>Management should configure the Active Directory to automatically log out after a specified period of inactivity. This would reduce the risk of privacy of data being compromised and unauthorised manipulation of financial data.</p>	Low	This will be included in our future programme for ICT.	<p>TBC once future proposals on the delivery of ICT have been agreed.</p> <p>Director of Finance.</p>

Priority

High, Medium or Low

Appendix A: Action plan

Rec No.	Recommendation	Priority	Management response	Implementation date & responsibility
3	Asset valuation Management should use the most up to date version of the valuers report in order to update their investment asset values s at 31 st March 2015.	Low	This will be considered during 2015/16.	March 2016. Director of Finance

Priority
High, Medium or Low

Appendix B: Audit opinion

We anticipate we will provide the Council with an unmodified audit report

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF WATFORD BOROUGH COUNCIL

We have audited the financial statements of Watford Borough Council for the year ended 31 March 2015 under the Audit Commission Act 1998. The financial statements comprise the Movement in Reserves Statement, the Group Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Group Comprehensive Income and Expenditure Statement, the Balance Sheet, the Group Balance Sheet, the Cash Flow Statement, the Group Cash Flow Statement, the Collection Fund and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2014/15.

This report is made solely to the members of Watford Borough Council, as a body, in accordance with Part II of the Audit Commission Act 1998 and as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010. Our audit work has been undertaken so that we might state to the members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the Director of Finance and auditor

As explained more fully in the Statement of the Director of Finance Responsibilities, the Director of Finance is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2014/15, and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards also require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Authority and Group's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Director of Finance; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the explanatory foreword to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the financial position of Watford Borough Council as at 31 March 2015 and of its expenditure and income for the year then ended;
- give a true and fair view of the financial position of the Group as at 31 March 2015 and of its expenditure and income for the year then ended; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2014/15 and applicable law.

Opinion on other matters

In our opinion, the information given in the explanatory foreword for the financial year for which the financial statements are prepared is consistent with the financial statements.

Appendix B: Audit opinion (continued)

Matters on which we report by exception

We are required to report to you if:

- in our opinion the annual governance statement does not reflect compliance with 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007; or
- we issue a report in the public interest under section 8 of the Audit Commission Act 1998; or
- we designate under section 11 of the Audit Commission Act 1998 a recommendation as one that requires the Authority to consider it at a public meeting and to decide what action to take in response; or
- we exercise any other special powers of the auditor under the Audit Commission Act 1998.

We have nothing to report in these respects.

Conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in the use of resources

Respective responsibilities of the Authority and the auditor

The Authority is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

We are required under Section 5 of the Audit Commission Act 1998 to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires us to report to you our conclusion relating to proper arrangements, having regard to relevant criteria specified by the Audit Commission in October 2014.

We report if significant matters have come to our attention which prevent us from concluding that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Scope of the review of arrangements for securing economy, efficiency and effectiveness in the use of resources

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission in October 2014, as to whether the Authority has proper arrangements for:

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

The Audit Commission has determined these two criteria as those necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2015.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to form a view on whether, in all significant respects, the Authority had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Conclusion

On the basis of our work, having regard to the guidance on the specified criteria published by the Audit Commission in October 2014, we are satisfied that, in all significant respects, Watford Borough Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2015.

Delay in certification of completion of the audit

We cannot formally conclude the audit and issue an audit certificate until we have completed the work necessary to issue our assurance statement in respect of the authority's Whole of Government Accounts consolidation pack. We are satisfied that this work does not have a material effect on the financial statements or on our value for money conclusion.

Paul Dossett
for and on behalf of Grant Thornton UK LLP, Appointed Auditor

Grant Thornton House, Melton Street, Euston Square, London, NW1 2EP

Date:

DRAFT



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