



# 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 2014**

10 September 2014

**Paul Dossett**  
Engagement Lead

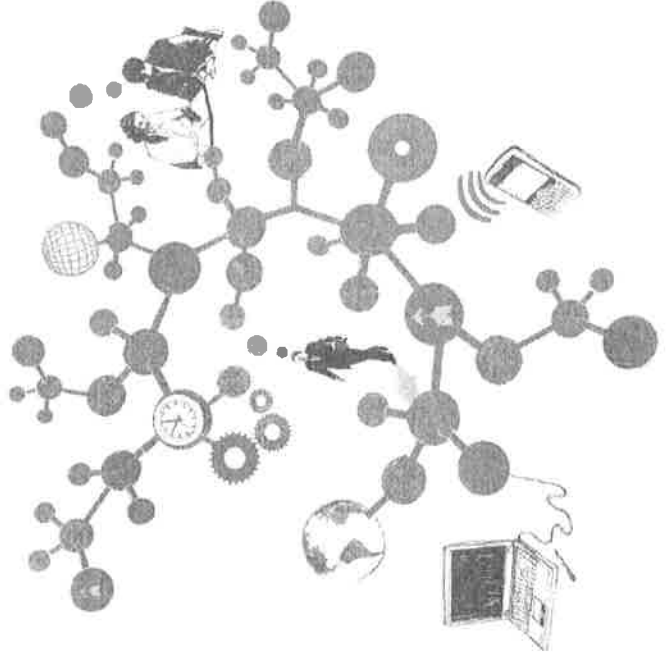
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The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed primarily for the purpose of expressing our opinion on the financial statements. Our audit is 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.

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## **Section 1: Executive summary**

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02. Audit findings

03. Value for Money

04. Fees, non audit services and independence

05. Communication of audit matters

## 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 2014. 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).

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, its 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 12 June 2014.

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

- completion of council tax testing
- completion of housing benefit case testing
- review of the final version of the financial statements

- 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**

We anticipate providing an unqualified opinion on the financial statements.

We have identified no adjustments affecting the Council's reported financial position (details are recorded in section 2 of this report). We have also identified a number of adjustments to improve the presentation of the financial statements.

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

- The Council completed and submitted for audit their year end bank reconciliation on the 15 September 2014. The year end bank reconciliation audit is pivotal to the audit being completed and we cannot provide our audit opinion until the bank reconciliation has been received and successfully audited. We would expect the bank reconciliation to be presented for audit at the commencement of the audit as is the case with the majority of councils

- The Council have correctly applied the new valuation methodology for property, plant and equipment. The Council have valued the PPE as at 31<sup>st</sup> March 2014.
- The method for accounting for the Collection Fund has changed from the prior year, the Council have set aside a provision for Business Rate appeals based on the 2010 Valuation Office rating list. The provision for appeals provides all appeals up to 31<sup>st</sup> March 2014 from the 1<sup>st</sup> April 2010 but does not include provision for future appeals. The 2010 Rating list will last 7 years, the 2005 rating list only had a life of 5 years, thus we need to perform a comparison on the level of 2005 appeals against the 2010 to gain additional assurance that the provision is sufficient. The work is underway and shall be reported to the Audit committee.
- The Council did not adjust its accounts for the prior year following the introduction of IAS19 'employee benefits' in respect of pensions accounting as the impact was deemed below triviality.

Further details are set out in section 2 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 3 of this report.

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

We will complete our work in respect of the Whole of Government Accounts in accordance with the national timetable.

### **Controls**

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.

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 2 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. The working papers were of a good quality.

## 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 findings arising from our work in respect of the audit risks we identified in our audit plan, presented to the Audit Committee on 30 June 2014. We also set out the adjustments to the financial statements arising from our audit work and our findings in respect of internal controls.

### **Audit opinion**

We anticipate that we will provide the Council with an unmodified opinion. Our 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 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
<p><b>1. Improper revenue recognition</b> Under ISA 240 there is a presumed risk that revenue may be misstated due to improper recognition</p>	<ul style="list-style-type: none"> <li>• review and testing of revenue recognition policies</li> <li>• testing of material revenue streams</li> <li>• review of unusual significant transactions</li> </ul>	<p>Our audit work has not identified any issues in respect of revenue recognition.</p>
<p><b>2. Management override of controls</b> Under ISA 240 there is a presumed risk of management over-ride of controls</p>	<ul style="list-style-type: none"> <li>• review of accounting estimates, judgements and decisions made by management</li> <li>• testing of journal entries</li> <li>• review of unusual significant transactions</li> </ul>	<p>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

### 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
<b>Operating expenses</b>	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"> <li>documented our understanding of processes and key controls over the transaction cycle</li> <li>undertaken walkthrough of the key controls to assess the whether those controls are designed effectively</li> <li>tested key controls</li> <li>tested operating expenses including a judgemental sample of 20 items for occurrence, allocation and pricing to ensure expenditure is properly recorded in the accounts.</li> </ul>	<ul style="list-style-type: none"> <li>Our audit work has not identified any significant issues in relation to the risk identified.</li> </ul>
<b>Employee remuneration</b>	Employee remuneration accrual understated	<ul style="list-style-type: none"> <li>controls testing on IT controls over starters and leavers.</li> <li>pay recorded at the correct rate.</li> <li>performed testing over a judgemental sample of 15 employees for validity and completeness.</li> </ul>	<ul style="list-style-type: none"> <li>Our audit work has not identified any significant issues in relation to the risk identified.</li> </ul>
<b>Welfare expenditure</b>	Welfare benefit expenditure improperly computed	<ul style="list-style-type: none"> <li>Currently in the process of completing the housing benefit testing modules to confirm welfare expenditure.</li> </ul>	<ul style="list-style-type: none"> <li>Our audit work has not identified any significant issues in relation to the risk identified subject to the completion of our housing benefits testing.</li> </ul>

## Audit findings against other risks (continued)

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
Property, plant & equipment	PPE activity not valid	<ul style="list-style-type: none"> <li>performance of existence testing over a sample of assets to confirm existence and completeness of the Council's fixed asset register.</li> <li>review of capitalisation policies, presentation and disclosure of property, plant &amp; equipment, including assets held for sale.</li> </ul>	<ul style="list-style-type: none"> <li>Our audit work has not identified any significant issues in relation to the risk identified.</li> </ul>
Property, plant & equipment	Revaluation measurement not correct	<ul style="list-style-type: none"> <li>Review significant revaluation movements and assess the assumptions employed by the valuer.</li> <li>Evaluate the work of an expert in determining the appropriateness of the valuation.</li> </ul>	<ul style="list-style-type: none"> <li>New CIPFA code of requirements surrounding the valuation of property, plant and equipment valuation have been introduced in 2013/14. The Council has correctly applied the new requirements regarding the revaluation of PPE.</li> <li>Our final assessment of the work of a valuation expert has not yet been completed and we will report our results to the audit committee.</li> </ul>
Annual Governance Statement		<ul style="list-style-type: none"> <li>Review of the annual governance statement against the cipfa code of audit practice guidance.</li> </ul>	<ul style="list-style-type: none"> <li>Our audit work found that the draft Annual Governance Statement did not include an update of the prior year significant governance risks highlighted in the prior year AGS.</li> <li>The AGS was subsequently updated and now conforms to the cipfa code of practice.</li> </ul>

## 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
<b>Revenue recognition</b>	<ul style="list-style-type: none"> <li>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.</li> <li>Revenue from the sale of goods is recognised when the Council transfers the significant risks and rewards or ownership to the purchaser and it is probable that economic benefits or service potential associated with the transaction will flow to the Council.</li> </ul>	<ul style="list-style-type: none"> <li>the revenue recognition policy is in line with IAS 18, Revenue recognition standard and the model policies within the CIPFA Code of Practice.</li> <li>our review of council tax, grant, national non-domestic rates and other income confirmed the council has accounted for income in line with stated policies and the Code.</li> </ul>	●
<b>Judgements and estimates</b>	<ul style="list-style-type: none"> <li>Key estimates and judgements include:                             <ul style="list-style-type: none"> <li>useful life of capital equipment</li> <li>pension fund valuations and settlements</li> <li>revaluations</li> <li>Impairments</li> <li>PPE valuations.</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>testing of the assumptions is being finalised and will be reported to the audit committee.</li> </ul>	●

### 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

## 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
<b>Judgements and estimates - PPE</b>	<ul style="list-style-type: none"> <li>The PPE assets are revalued as at 31 March 2014.</li> <li>This paragraph of the Code, which is based on IAS 16 Property, Plant and Equipment, does permit a class of assets to be revalued on a rolling basis provided that:                             <ul style="list-style-type: none"> <li>the revaluation of the class of assets is completed within a 'short period'</li> <li>the revaluations are kept up to date</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>Our review of the application of the revised accounting policy has not highlighted any issues that we wish to bring to your attention.</li> </ul>	●
<b>Other accounting policies</b>	<ul style="list-style-type: none"> <li>We have reviewed the Council's policies against the requirements of the CIPFA Code and accounting standards.</li> </ul>	<ul style="list-style-type: none"> <li>Our review of accounting policies has not highlighted any issues which we wish to bring to your attention</li> </ul>	●

### 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

## Adjusted misstatements

A number of adjustments to the draft financial statements have been identified during the audit process. We are required to report all 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 None	£0	£0	£0
<b>Overall impact</b>	<b>£0</b>	<b>£0</b>	<b>£0</b>

## 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 Disclosure	-	-	There were a number of presentational changes that arose during the course of the audit that have been made to the financial statements.

## 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. 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.

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><b>Lack of user access rights review – Network</b> 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>	<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>
2. 	<p><b>Logical Access Settings</b> 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>	<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>

### Assessment

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



## Internal controls (continued)

Assessment	Issue and risk	Recommendations
3. ●	<p><b>Year end accruals</b>                      Testing of the accruals balance. Testing of the accruals balance found the system automatically accrues items of expenditure that have been received 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>	<p>All managers should only mark items as good received where the goods or service were received before the year end but not yet invoiced. Finance has and will continue to provide the Services with training at the year end and throughout the year and will continue to send out a closing guidance before the year end to reduce the risk of error.</p>

### Assessment

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

## 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. <b>Matters in relation to fraud</b>	<ul style="list-style-type: none"> <li>We have previously discussed the risk of fraud with the Audit Committee and 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.</li> </ul>
2. <b>Matters in relation to laws and regulations</b>	<ul style="list-style-type: none"> <li>We are not aware of any significant incidences of non-compliance with relevant laws and regulations.</li> </ul>
3. <b>Written representations</b>	<ul style="list-style-type: none"> <li>A letter of representation has been requested from the Council.</li> </ul>
4. <b>Disclosures</b>	<ul style="list-style-type: none"> <li>Our review found no material omissions in the financial statements</li> </ul>
5. <b>Matters in relation to related parties</b>	<ul style="list-style-type: none"> <li>We are not aware of any related party transactions which have not been disclosed</li> </ul>
6. <b>Going concern</b>	<ul style="list-style-type: none"> <li>Our work has not identified any reason to challenge the Council's decision to prepare the financial statements on a going concern basis.</li> </ul>

## Section 3: Value for Money

- 01. Executive summary
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- 05. Communication of audit matters

## 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 considered the Council's arrangements to secure financial resilience against the following themes:

- Key financial performance indicators
- Financial governance
- Financial planning
- Financial control

Overall our work highlighted the organisation 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.

#### 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

Overall our work highlighted organisation is prioritising its resources within tighter budgets.

#### 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 2014

We 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:

<b>Green</b>	Adequate arrangements
<b>Amber</b>	Adequate arrangements, with areas for development
<b>Red</b>	Inadequate arrangements

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

Theme	Summary findings	RAG rating
<b>Key indicators of performance</b>	<p>The Council have recorded a large budget surplus in 2013/14 totalling £8.8million, the reasons for the large increase were due to one off large grants from central government including NDR funding £4.223m, additional weekly collection support grant of £2m and £1.4m new Homes bonus. Removal of the one off grants result in the Council producing small manageable deficit, which does not impact the current marking.</p> <p>The capital budget had a slight overspend of £53k, which is minimal but the Council can take the positive message that the Council is on track with the capital programme and is not carrying large balances forward due to scheme slippage.</p> <p>The Council has improved its employee sickness absence record reducing the average sickness from 8.6 to 6.4 days per employee and is now below the national average of 8.7 days per the average sickness days for 2013 from the Chartered Institute of Personal Development.</p> <p>The Councils liquidity remains high with over £33.5m in investments and over £35m in usable reserves, which can be called on to fund expenditure/ reduce deficits.</p>	<b>Green</b>
<b>Strategic financial planning</b>	<p>The Council has a good track record in managing its finances in challenging times. and has planned effectively for the first four years of reduced central government funding.</p> <p>A review of the latest Medium Term Financial Strategy has found it to be a balanced, achievable financial strategy with over £366k of savings to be made over the next 4 years. The amount of savings included in the plan is based on realistic assumptions and we have no reason to alter our view of the plan being achievable.</p>	<b>Green</b>

Theme	Summary findings	RAG rating																																
Financial governance	<p data-bbox="319 403 383 1691">There has been an improvement in the level of processing of notification regulation amendments from the Department for Work and Pensions for the 2013/14 .</p> <p data-bbox="391 403 478 1691">A benchmarking exercise has been performed that compares the Council's level of LA error overpayments, as recorded in the draft 2013/14 housing and council tax benefit claim form, against the highest and the median District Council's for Hertfordshire, Surrey and Kent. Please see the table below.</p> <p data-bbox="518 1276 550 1691">Comparison of LA Error overpayments</p> <table border="1" data-bbox="558 761 965 1680"> <thead> <tr> <th data-bbox="566 761 646 1680">LA Error overpayments</th> <th data-bbox="646 761 726 1680">2012/13 £</th> <th data-bbox="726 761 805 1680">2013/14 £</th> <th data-bbox="805 761 965 1680">Change</th> </tr> </thead> <tbody> <tr> <td data-bbox="646 761 726 907">Watford BC</td> <td data-bbox="646 907 726 1019">386,351</td> <td data-bbox="646 1019 726 1131">285,660</td> <td data-bbox="646 1131 726 1355">-26.06%</td> </tr> <tr> <td data-bbox="726 761 805 907">Hertfordshire</td> <td data-bbox="726 907 805 1019">386,351</td> <td data-bbox="726 1019 805 1131">285,660</td> <td data-bbox="726 1131 805 1355">-26.06%</td> </tr> <tr> <td data-bbox="805 761 885 907">Kent</td> <td data-bbox="805 907 885 1019">118,754</td> <td data-bbox="805 1019 885 1131">115,683</td> <td data-bbox="805 1131 885 1355">-2.59%</td> </tr> <tr> <td data-bbox="885 761 965 907">Surrey</td> <td data-bbox="885 907 965 1019">347,822</td> <td data-bbox="885 1019 965 1131">177,074</td> <td data-bbox="885 1131 965 1355">-49.09%</td> </tr> <tr> <td data-bbox="965 761 1045 907"></td> <td data-bbox="965 907 1045 1019">140,241</td> <td data-bbox="965 1019 1045 1131">59,317</td> <td data-bbox="965 1131 1045 1355">-57.70%</td> </tr> <tr> <td data-bbox="1045 761 1125 907"></td> <td data-bbox="1045 907 1125 1019">160,606</td> <td data-bbox="1045 1019 1125 1131">112,784</td> <td data-bbox="1045 1131 1125 1355">-29.78%</td> </tr> <tr> <td data-bbox="1125 761 1204 907"></td> <td data-bbox="1125 907 1204 1019">67,722</td> <td data-bbox="1125 1019 1204 1131">81,806</td> <td data-bbox="1125 1131 1204 1355">20.80%</td> </tr> </tbody> </table> <p data-bbox="997 403 1141 1691">A comparison of the Local Authority Error overpayments to the prior year, see table above, has resulted in the Council a 26% reduction to the quantum of overpayments. A review of the table below has found that Watford BC recorded the highest level of LA Error overpayments. Watford BC recording the highest level of LA error overpayments out of all the District Council's of Hertfordshire, Kent and Surrey and although this reflects an improvement further improvements have to be addressed going forward before the Council can be classed in the average banding.</p> <p data-bbox="1157 403 1268 1691">The Council controls the financial governance through the 'managing the business reporting pack', which contains 14 financial indicators and 18 non financial indicators measuring the performance of the Council is circulated to Leadership Team, portfolio holders, overview and scrutiny, budget panel and outsourced scrutiny panels. The indicators are reviewed and corrective action put in pace to address any deviations of performance.</p>	LA Error overpayments	2012/13 £	2013/14 £	Change	Watford BC	386,351	285,660	-26.06%	Hertfordshire	386,351	285,660	-26.06%	Kent	118,754	115,683	-2.59%	Surrey	347,822	177,074	-49.09%		140,241	59,317	-57.70%		160,606	112,784	-29.78%		67,722	81,806	20.80%	Amber
LA Error overpayments	2012/13 £	2013/14 £	Change																															
Watford BC	386,351	285,660	-26.06%																															
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	140,241	59,317	-57.70%																															
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	67,722	81,806	20.80%																															

Theme	Summary findings	RAG rating
<p><b>Financial control</b></p>	<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 require to be addressed.</p> <p>Members and Officers receive the finance digest, a bi-monthly, which analyses the financial performance to date by service and allows the members to increase or decrease the budget in order to provide the service.</p> <p>The Council has re-designed service delivery in 2013/14 by outsourcing of environmental services including refuse collection, street cleansing and parks which has resulted in a £650k profiled saving from the external contractor Veolia.</p> <p>The Council has reviewed the current shared service arrangement it holds with Three Rivers DC to provide Revenues &amp; Benefits, Finance, HR, ICT and Payroll. The shared service joint committee has constantly made a loss from its introduction in 1 April 2009. The 2013/14 loss is shared between the parties and has resulted in Watford taking on £565k of the loss.</p> <p>The Councils have now dissolved the shared service arrangement and replaced it with a Lead Authority model with Watford leading on ICT and Building Control. This represents and re-engineering of the service in an effort to provide the required savings and demonstrates the pro-active nature of the council.</p> <p>The Council have a very good feedback system in place and every 2 years they engage the Citizens panel, which is a panel of over 1200 people and they vote on their Council priorities and areas of Council spend. The Council takes this into account when prioritising resources for its future financial plans.</p>	<p>Green</p>
<p><b>Improving efficiency &amp; productivity</b></p>	<p>From the vfm profile provided by the Audit Commission there were 3 areas of high spend which were environmental services, sustainable economy and housing and council tax benefit administration. Of the 3 areas, two were voted on by the Citizens panel and so the Council are responding to the remaining issue of benefit spend.</p> <p>The Revenue and Benefits section has overspent from budget by £563k as a result of employing agency and additional staff in an effort to reduce the processing time of new claims and change in circumstances. The result has been that the processing time for new claims is now under budget at 17.7 days (average is 20 days) and change in circumstances is 29.80 days (average is 12 days) and the Council are now processing the Atlas updates on a timely basis.</p> <p>The ICT section overspent budget by £546k as a result of the Council outsourcing the service to Capita, as part of the agreement the contract costs were front loaded to improve service levels. In July 2014 it had been identified that further contribution of £906k to ICT is required to ensure the service complies with public services network and to ensure the ICT system is fit for purpose.</p>	<p>Green</p>

## Section 4: Fees, non audit services and independence

- 01. Executive summary
- 02. Audit findings
- 03. Value for Money
- 04. Fees, non audit services and independence**
- 05. Communication of audit matters



## Fees, non audit services and independence

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

<b>Fees</b>	<b>Per Audit plan</b>	<b>Actual fees</b>
	<b>£</b>	<b>£</b>
Council audit	68,400	69,300
Grant certification	12,600	Tbc
<b>Total audit fees</b>	<b>81,000</b>	<b>Tbc</b>

<b>Fees for other services</b>	<b>Fees £</b>
Service	
None	-

### Audit fee

There is additional fee of £900 in respect of work on material business rates balances. This additional work was necessary as auditors are no longer required to carry out work to certify NDR3 claims. The additional fee is 50% of the average fee previously charged for NDR3 certifications for a District Council and is subject to agreement by the Audit Commission.

### 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 Auditing Practices Board'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) 260, as well as other 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](http://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

### Assessment

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

Rec No.	Recommendation	Priority	Management response	Implementation date & responsibility
1	<p><b>User Access Rights Review</b>                      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>	●		
2	<p><b>Logical Access Settings</b>                      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>	●		
3	<p><b>Bank Reconciliation</b>                      Year end bank reconciliations are produced, reconciled and reviewed prior to the commencement of the audit.</p>	●	Bank reconciliations will be completed on a monthly basis and signed off by the Head of Finance.	30 <sup>th</sup> September 2014 Head of Finance

## Appendix A: Action plan (continued)

### Assessment

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

Rec No.	Recommendation	Priority	Management response	Implementation date & responsibility
4	<b>Year end accruals</b> All managers should only mark items as good received where the goods or service were received before the year end but not yet invoiced	●	Finance has and will continue to provide the Services with training at the year end and throughout the year and will continue to send out a closing guidance before the year end to reduce the risk of error. The closing guidance will also be reviewed in 2014/15.	

## 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

#### Opinion on the financial statements

We have audited the financial statements of Watford Borough Council for the year ended 31 March 2014 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 and 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 2013/14.

This report is made solely to the members of Watford Borough Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010. 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, 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 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 2014 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 2014 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 2013/14 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.

**Matters on which we report by exception**

We 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;
- we issue a report in the public interest under section 8 of the Audit Commission Act 1998;
- we designate under section 11 of the Audit Commission Act 1998 any 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.

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 audit in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission in October 2013, 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 2014.

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 2013, 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 2014.

**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, Partner  
for and on behalf of Grant Thornton UK LLP, Appointed Auditor  
Grant Thornton House  
Melton Street  
Euston  
London  
NW1 2EP

30 September 2014



DRAFT



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