

Report to: Audit Committee
Date of meeting: 13th January 2010
Report of: Head of Strategic Finance
Title: Annual Audit Letter 2008/2009

1.0 **SUMMARY**

1.1 This report provides the formal report from Grant Thornton regarding the Annual Audit letter for 2008/2009. Representatives of Grant Thornton will be in attendance at the Audit Committee to provide any further information.

2.0 **RECOMMENDATIONS**

2.1 To consider and approve the Annual Audit Letter for 2008/2009.

3.0 **DETAILED RESPONSE**

3.1 The overall conclusion within the report at Paragraph 1.4 is largely positive and key areas for consideration will be addressed as a matter of urgency.

Detailed comments include:

- Paragraph 3.2 VFM Conclusion. A rating of Level 2 is considered 'adequate' in this report but classified as 'satisfactory' within the Use of Resources report which is also on the agenda of this committee.
- Paragraph 3.3 Use of Resources Assessment. Grant Thornton state..."In our view, Watford Borough Council should be considered as a strong level 2 with significant potential to move towards Level 3 performance in future years, providing that issues highlighted in this assessment are addressed."
- Paragraph 3.5 National Fraud Initiative. The Council has been assessed as 'amber'. The following clarification has been received from Grant Thornton..."this is a new requirement by the Audit Commission ...and

involves 3 days testing at a council. Most of our clients came out amber and only if you are red should it have any impact.”

3.2 The main area of concern relates to Section 4 of the Annual Report which relates to the certification of grant claims and in particular the Housing and Benefit Subsidy claim. This has been a perennial issue for Watford and the following comments should be made:

- Grant Thornton found 3 cases from a sample of 20 cases tested that were calculated using incorrect earned income amounts. Grant Thornton followed this up by testing another 40 cases and found no errors in those cases. Nevertheless the requirement of the Department of Works and Pensions is that an ‘extrapolation’ geared to the original 20 cases is carried out and that ‘percentage’ error rate is applied to the total value of the benefit payments for that cell. This has occurred in the past where the Council has appealed against this methodology and the DWP has asked for an additional sample of 40 cases to be carried out. In this instance Grant Thornton has already carried out a further sample of 40 cases. Watford will again be registering an appeal and, on past evidence, it is unlikely that a full claw back will occur.
- Grant Thornton also draw attention to 4 reconciliations within the benefits system where discrepancies were found when comparing the Civica (revenues and benefits system) with the Aptos (financial system). The total of the discrepancies is £46k on total payments of circa £28.5m and has been attributed to the timing of closedown procedures between the Civica and Aptos systems. This problem has occurred in past years where the differences were £39k (2006/2007) and £15k in 2007/2008. This situation is unsatisfactory and the Internal Audit division has been asked to investigate.

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4.0 **IMPLICATIONS**

4.1 **Financial**

4.1.1 The Head of Strategic Finance comments that the Annual Audit Letter includes at Appendix B the cost of Audit Fees for 2008/2009 for which budgetary provision has been made. Benefit Subsidy Grant claims have in past years highlighted potential for 'claw back' of subsidy payments received from the Department of Works and Pensions. A substantial general provision (£700k at 31st March 2009) has been provided within the Council's statutory accounts to meet any such repayments.

4.2 **Legal Issues** (Monitoring Officer)

4.2.1 The Head of Legal and Property Services comments that there are no direct legal implications arising out of this report.

4.3 **Potential Risks**

| 4.3.1 | Potential Risk | Likelihood | Impact | Overall Score |
|-------|---|-------------------|---------------|----------------------|
| | <i>Failure to reconcile Civica and Aptos ICT systems score for 2009/2010.</i> | 3 | 2 | 6 |
| | <i>Substantial claw back of benefits Subsidy from DWP</i> | 2 | 3 | 6 |

Background Papers: None

File Reference: None