



Grant Thornton

Watford Borough Council

Annual Audit Letter - 2008/09

December 2009

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# 1 Executive Summary

## **1.1 Purpose of this Letter**

This Annual Audit Letter ('Letter') summarises the key issues arising from the work that we have carried out at Watford Borough Council ('the Council') during our 2008/09 audit. The Letter is designed to communicate our key messages to the Council and external stakeholders, including members of the public. The Letter will be published on the Council's website.

## **1.2 Responsibilities of the External Auditors and the Council**

This Letter 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 financial 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.

In addition to our responsibilities under the Code of Audit Practice, we also act as agents for the Audit Commission to review and provide a certificate on the accuracy of grant claims and returns to various government departments and other agencies.

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.

## **1.3 What this Letter Covers**

This Letter covers the audit work we have carried out in 2008/09, including key messages and conclusions from our work in:

- Auditing the 2008/09 year end accounts (Section 2)
- Assessing the Council's arrangements for securing economy, efficiency and effectiveness in the use of its resources (Section 3)
- Certifying claims and returns (Section 4).

We have not repeated recommendations agreed with the Council during the year in this Letter. A list of the reports issued can be found at Appendix A. Our actual and budgeted fees for 2008/09 are set out in Appendix B.

The findings of our work in 2008/09 contribute towards the Audit Commission's Organisational Assessment of the Council and the Comprehensive Area Assessment for Watford. The results of this work will be reported separately to the Council by the Audit Commission.

Note: An audit opinion is deemed to be 'un-qualified' when the auditor does not have any significant reservations about the validity of the figures presented in the accounts. A 'qualified' opinion may arise where such reservations exist, for example, if significant values presented in the accounts are not thought to be accurate or cannot be verified.

#### 1.4 Overall Conclusions

The Council performed well in respect of the key aspects of our 2008/09 audit:

- The Council continues to prepare good quality accounts that are free from material misstatement. We provided an 'unqualified' opinion on the Council's Statement of Accounts, by the statutory deadline of 30 September 2009.
- We provided an unqualified conclusion on the adequacy of the Council's arrangements for ensuring economy, efficiency and effectiveness in its use of resources.
- In the Use of Resources assessment for 2008/09, the Council achieved an overall level 2. This reflected our view that satisfactory arrangements for securing value for money are in place, providing a sound platform for further improvement. This score was in line other local authorities both in Hertfordshire and nationally. We note that the Council was awarded an overall level 3 for the Comprehensive Area Assessment (CAA), of which the UoR assessment forms a key part, due to the Council's record of providing good quality services in a challenging local context.

#### 1.5 Key Areas for Council Consideration

We highlight the following key areas for consideration by the Council in 2009/10.

- The Council should continue its preparations for the introduction of accounting under International Financial Reporting Standards (IFRS), including ensuring that asset valuation procedures are sufficiently robust and accounting for fixed assets is further strengthened.
- There are a number of areas which require attention arising from the Use of Resources Assessment, which will help the Council to maintain or improve performance in future years (see section 3).
- The Council should review the arrangements for the processing of housing benefit to minimise the potential impact of Housing and Council Tax Benefit claim grant clawback.

#### 1.6 Concluding Statement

*This Letter was agreed with the Head of Strategic Finance in December 2009 and will be presented to Audit Committee on 13 January 2010.*

We would like to take this opportunity to express our appreciation for the assistance and cooperation provided during the course of the audit. Our aim is to deliver a high standard of audit, which makes a positive and practical contribution that supports the Council's own agenda. We recognise the value of your co-operation and support.

**Grant Thornton UK LLP**  
**December 2009**

## 2 Statement of Accounts

### 2.1 Introduction

We issued an unqualified opinion on the Council's 2008/09 accounts on 30 September 2009 in line with the statutory certification deadline. Our opinion confirms that the accounts 'present fairly' the financial position of the Council.

We reported significant matters arising from the audit to 'those charged with governance' (for the purposes of accounts approval this is the Audit Committee). Our report was considered by the Audit Committee on 30 September and only summarise the key messages in this Letter.

### 2.2 Quality of the Accounts

Our audit work and opinion confirmed:

- the financial statements 'present fairly' the financial position of the Council
- the Annual Governance Statement was consistent with our knowledge of the Council
- no control issues were identified that presented a material risk to the accuracy of the financial statements
- the scope and conduct of internal audit work was appropriate to support our audit work
- the working papers provided were of a good standard and this helped the audit progress smoothly
- appropriate controls are in place in the high profile areas of Members' allowances and treasury management

Our audit identified a small number of misstatements to the financial statements which were processed by the Council. The largest amendment processed related to a late change in the actuary's net estimate of pension fund assets within the Hertfordshire County Council pension scheme which resulted in £1.5million being credited to pension fund assets and the pension reserve at a late stage in the audit process. The Fund is managed by Hertfordshire County Council and we recognise that the changes were therefore outside the control of Watford Borough Council.

### 2.3 Looking Ahead

We would like to draw your attention to significant changes that will happen to the statement of accounts in future years, and specifically, the implementation of International Financial Reporting Standards (IFRS) as the basis for preparing the 2010/11 accounts. IFRS will replace the existing set of accounting rules and presentational conventions that have been used for the 2008/09 accounts.

The Council has already carried out a lot of work in starting to address IFRS and is therefore well placed to address successful implementation, although there are some significant challenges relating to fixed asset accounting and valuation.

We will be issuing a 2009-10 accounts audit plan to the Audit Committee on 13 January 2010 and will continue to work closely with the Council to support the transition to IFRS.

## 3 Use of Resources

### 3.1 Introduction

We issued our annual VFM conclusion on 30 September 2009, at the same time as our accounts opinion. We concluded that the Council made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2009.

Prior to giving our VFM conclusion, we summarised the basis of this conclusion in our *Annual Report to those Charged with Governance (ISA 260)*, which we presented to the Audit Committee on 30 September 2009. We provided further detail and set out the results of our assessment of the Council against the use of resources framework in our Use of Resources 2009 report, issued in October 2009. In this Letter we summarise the key messages from this work alongside relevant findings, and look forward to forthcoming challenges for the Council.

### 3.2 The VFM Conclusion for 2008/09

Our VFM conclusion was informed by our use of resources work which, in councils, is based on the Audit Commission's new use of resources (UoR) assessment. The new framework emphasises outcomes over processes, and brings new areas into the assessment such as environmental management. It presents a more robust challenge than the old framework, based on different scoring criteria. It should be noted, therefore, that changes from prior year scores do not necessarily reflect an objective change in performance.

In order for us to provide an unqualified conclusion, the Council needed to achieve an 'adequate' assessment (score of at least 2) for each component of the UoR assessment. Our UoR assessment concluded that the Council had at least adequate arrangements in all areas and our VFM conclusion was unqualified.

### 3.3 The Use of Resources Assessment

In concluding this assessment we came to a rounded judgement based on the detailed criteria set by the Audit Commission. Although the Council was assessed at level 2 in each theme, we acknowledge that there is a broad range of performance among councils scoring level 2 on a national basis. Councils at level 2 range from those which meet the minimum requirements to those which are performing well with some scope for development. 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.

During our review, we noted areas of good practice, notably in regard to commissioning and procurement and good governance within theme 2 which the Council should look to build on. The Council's UoR scores in the three themes are summarised in the table below.

**Table 1: UoR Theme Scores by Key Line of Enquiry 2008/09**

Scoring scale:  
 1 - Below minimum requirements - inadequate performance  
 2 - Only at minimum requirements – adequate performance  
 3 - Consistently above minimum requirements – performing well  
 4 - Well above minimum requirements – performing strongly

Theme / KLoE		Score
<b>Theme 1 - Managing finances</b>		<b>2</b>
1.1	Financial planning	2
1.2	Understanding costs	2
1.3	Financial reporting	2
<b>Theme 2 - Governing the business</b>		<b>2</b>
2.1	Commissioning and procurement	3
2.2	Use of data	2
2.3	Good governance	3
2.4	Internal control	2
<b>Theme 3 - Managing resources</b>		<b>2</b>
3.1	Managing natural resources	N/A
3.2	Asset management	N/A
3.3	Workforce management	2

### 3.4 Areas for Council Consideration

Key recommended actions for the Council arising from our assessment were discussed in our Use of Resources Report, together with an action plan for implementation. These recommendations were focused on specific areas of improvement which would move the Council towards level 3 performance in the 2009-10 UoR assessment.

In summary, the key recommendations were:

- the Council should ensure that it can demonstrate that:
  - integrated financial and performance information is presented to members;
  - that this information is subject to effective scrutiny; and that
  - the results of this scrutiny process is that resources are effectively deployed to secure improved outcomes in line with the Council's priorities
- Strengthen procedures which safeguard the quality of data used to monitor and report operational performance.
- In preparation for the assessment of the use of natural resources in 2009/10, the Council will need to demonstrate that a broad strategy for environmental sustainability, with supporting policies and procedures, are in place, together with demonstrable evidence of strong outcomes (for example, the achievement of strategic targets in this area).
- Demonstrating strong outcomes for the community and VfM improvements across the scope of the KLOE.
- Enhance the service analysis and monitoring systems to demonstrate strong performance and value for money compared with others.



### **3.5 National Fraud Initiative**

The Audit Commission have implemented an annual assessment of the national fraud initiative arrangements that the Council has in place to prevent and detect fraud, which was assessed using a traffic light format. We assessed the Council as achieving an 'Amber' rating.

### **3.6 Challenge Issues**

Under the Audit Commission Act 1998 - section 15(2), at the request of a local government elector, the auditor shall give the elector, or any representative of his, an opportunity to question the auditor about the accounts. The role of the auditor is set out in the Audit Commission Act 1998. During the year 2008/09, we were not asked to assist with any challenge issues and no issues were outstanding at the date of this report.

### **3.7 Looking Ahead**

We agreed our indicative 2009/10 audit fee with the Council in April 2009. The letter set out our initial assessment of the local issues which may require specific work to support our Value for Money Conclusion and Use of Resources work.

The key consideration for 2009/10 is that the Council is implementing a shared services arrangement with Three Rivers District Council for the provision of corporate services, including the finance function. There is some audit risk attached to the re-configuration of systems, processes and staff that will arise (e.g. the adequacy of finance team resources or data quality in regard to merged accounting systems). We agreed to monitor the progress of shared services implementation through discussion with Council officers and review of committee minutes in order to identify and plan for emerging issues.

We confirm that we will build this into the risk assessment for our 2009/10 plan, along with specific follow up of our 2008/09 recommendations, and any new risks emerging, when we agree our full plan for the year.

## 4 Certification of Claims & Returns

### 4.1 Introduction

In addition to our responsibilities under the Code of Audit Practice, we also act as agents for the Audit Commission to review and provide certificates on the accuracy of grant claims and returns to various government departments and other agencies.

### 4.2 Key Messages

Our certification programme for 2008/09 has yet to be completed. From the work undertaken to date, we can report that the Council's performance has been satisfactory overall, but with some scope for development.

In 2008-09 we reviewed 4 claims and returns. Overall:

- the timeliness of receipt of claims was satisfactory
- the value of audit amendments to claims reduced
- the quality of working papers to support claim forms has improved and are generally of a good quality.

The exception to the above is the Housing and Council Tax Benefit subsidy claim. This is the most significant claim we certify in terms of value and complexity, representing annual income to the Council of around £28m. The housing benefit claim was qualified again this year, we found 3 cases of council tax benefit awards that were calculated using the incorrect earned income amounts. When the error was extrapolated across the total council tax benefit expenditure, in accordance with the Audit Commission's approach, it could potentially result in the Department for Work and Pensions clawing back £478,512 from the 2009/10 payments on account.

In addition, the Council are required to reconcile the amount of benefits awarded with the amount of benefit granted for the 4 major types of benefit expenditure (rent allowance, council tax, HRA rent rebate, non HRA rent rebate). The Council were unable to produce reconciliations for Non HRA rent rebate and HRA rent rebate and the remaining two reconciliations of rent allowance and council tax could not be reconciled.

We produced a detailed report for management in January 2009 which included a number of recommendations in order to prevent similar issues arising in 2008-09. The Council has taken some action to address issues, such as eradicating the systemic error of the 2007/08 national non domestic rates grant claim by the performance of increased IT checks on the system. There is a major recommendation that still remains outstanding, the 2006/07 Housing Revenue Account subsidy claim has not yet been certified by the previous auditors, which results in the 2007/08 claim not being able to be certified. The impact is that the Council are not able to close their Housing Revenue Account until this claim and the 2007/08 claim has been certified.

## A Reports Issued

<b>Audit Report</b>	<b>Date</b>
Audit Plan 2008-09	June 2008
Use of Resources 2008	January 2009
Data Quality 2008	February 2009
Annual Report to those Charged with Governance	September 2009
Use of Resources 2009	December 2009
Annual Audit Letter 2008-09	December 2009
Grants Report 2008-09	due January 2010

## B Appendix: Audit Fees

<b>Audit Area</b>	<b>Plan 2008-09</b>	<b>Actual 2008-09</b>
Financial statements, including WGA	87,800	87,800
Use of Resources & VFM conclusion	40,000	40,000
<b>Total Code Fee</b>	<b>127,800</b>	<b>127,800</b>
Certification of grant claims and returns*	60,000	*
<b>Total Audit Fee</b>	<b>187,800</b>	<b>*</b>

\* The planned fee for certification of grant claims and returns was based on an estimated number of claims and agreed with the Council in April 2009. Actual fees are billed on a cost incurred basis and vary according to the number, complexity and quality of claims presented for audit.

Actual fees will be in excess of the original budget due to additional time spent auditing the Housing Benefit claim and unplanned receipt of project based claims, referred to earlier in this letter.

The actual grant fee will be confirmed in the Grants Report 2008-09 due to be presented to the Audit Committee in March 2010.



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