



**Grant Thornton**

**Watford Borough Council**

**Accounts Audit Plan 2009-10**

**22 December 2009**

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# 1 Introduction

- 1.1 This is our accounts audit plan which sets out the work that we will carry out in giving an opinion on the Council's 2009-10 financial statements.
- 1.2 Section two of this plan sets out some of the key audit risks identified from our initial planning and discussions with the finance team. The identified risks cover the financial reporting implications arising from:
- the 2009 Statement of Recommended Practice (the SoRP) which applies to the 2009-10 accounts
  - future challenges resulting from introduction of International Financial Reporting Standards (IFRS) from 2010-11 onwards.
- 1.3 Section three of the plan covers administrative arrangements, details of the audit team and confirmation of the accounts audit fee.
- 1.4 Planned outputs arising from the accounts audit are summarised in section four, including an outline of the work to be performed, timing of fieldwork and reporting deadlines.
- 1.5 Key accounting matters for the Council to action have been discussed and agreed with the Head of Strategic Finance and his team and are summarised in the action plan at Appendices A.

## 2 Approach and audit risks

### Introduction and approach

- 2.1 This section of the plan sets out the work we propose to undertake based on our risk-based approach to audit planning. It reflects:
- our responsibilities under the Audit Commission's Code of Audit Practice for financial statements
  - current national risks affecting local government which are relevant to Watford
  - local risks, based on the outcome of our recent audit of the Council's 2008-09 financial statements.
- 2.2 In preparing the financial statements it is the responsibility of the Council to:
- ensure the regularity of transactions by putting in place systems of internal control to ensure that financial transactions are in accordance with the appropriate authority
  - maintain proper accounting records
  - prepare financial statements which present fairly the financial position of the Council and its expenditure and income in accordance with the SoRP.
- 2.3 We are required to audit the financial statements and to give an opinion as to:
- whether they present fairly the financial position of the Council and its expenditure and income for the year
  - whether they have been prepared properly in accordance with relevant legislation, applicable accounting standards and other reporting requirements
  - whether the Annual Governance Statement (AGS) has been presented in accordance with relevant requirements and is consistent with our knowledge.
- 2.4 In order to gain sufficient assurance to support our opinion on the financial statements, we will carry out a review of:
- the key risks relevant to the preparation and audit of the financial statements
  - the Council's arrangements for the preparation of its financial statements, the AGS and the Whole of Government Accounts (WGA) consolidation pack
  - internal audit, to determine the extent of reliance we can place on it for the purposes of our audit
  - the internal control framework for key financial systems
  - the materiality of balances and transactions impacting on the financial statements.

**Identified high risk areas and audit response**

2.5 We have set out below in Table One our risk assessment for the 2009-10 audit. We have also noted some key issues to highlight in relation to the introduction of IFRS. Local authorities will be reporting under the IFRS Code from 1 April 2010 but it is important to note that the Council will need to restate the 2009-10 accounts under IFRS for comparative purposes.

**Table One: 2009-10 Accounting risks and audit response**

Key risks identified	Planned work to address the risk
<b>Building Control Account</b>	
<p>The Building control account has recorded a deficit for the 2008/09 financial year. Building control accounts are set up to administer the charges of the building control function for the Council. The Building control regulations require building control accounts to break even.</p>	<p>We will review the plans that are to be put in place to return the building control account to a surplus position.</p>
<b>Arrangements for the processing of housing benefit</b>	
<p>The housing benefit claim was qualified in 2008-09, 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.</p>	<p>We will review the arrangements for the processing of housing benefit to minimise the potential impact of Housing and Council Tax Benefit claim grant clawback.</p>
<b>Implementation of Financial Management system</b>	
<p>The Council are in the process of implementing a new financial management system. If the necessary controls and procedures are not in place, including journal authorisation, then incorrect financial information may be reported.</p>	<p>We will review the financial management system as part of our interim audit visit.</p>

<b>Shared service arrangements</b>	
The Council is entering into a shared service arrangement with neighbouring Council, Three Rivers District Council, to administer joint functions including Finance. There is the potential for incorrect financial information to be reported if the necessary controls and apportionment of costs between Council's are not in place.	We will review the shared service arrangements as part of our interim audit visit.
<b>Certification of the 2006/07 Housing Revenue Account Subsidy grant claim</b>	
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.	We will monitor the progress on the processing of this claim and offer assistance to the resolution of the issue.

2.6 We will report the findings and conclusions in respect of each of the risks identified above in our Interim and Annual Accounts Reports. We will present our Annual Accounts Report to the Council's Audit Committee on 30 September 2010 when members will formally approve the audited accounts.

**Use of the work of Internal Audit**

2.7 We review internal audit's overall arrangements against the CIPFA Code of Practice for Internal Audit. We undertake a comprehensive review of internal audit every three years, unless there is an indication that a more frequent review is required.

2.9 As the internal audit service has been significantly restructured under the shared service arrangement, for 2009-10, our work will involve completing a full review of internal audit compliance against all 11 Standards within the CIPFA Code.

2.10 We will also review the work of internal audit on the core financial systems that are relevant to our accounts audit as detailed below in Table Two. Providing the coverage and quality of internal audit's work is maintained at the level experienced previously, we plan to rely on internal audit work where it will reduce the level of our detailed final accounts testing.

**Table Two: Internal audit systems work to be reviewed at our interim visit**

Payroll	Housing Benefits
Fixed Assets	Sundry Debtors
General Ledger	Cash
National Non-Domestic Rates	Loans and Investments
Council Tax	Creditors

**Internal controls**

- 2.11 We are required to evaluate the design of the Council's internal controls over risks which could lead to material misstatement in the financial statements, and determine whether they have been implemented effectively. Our emphasis will be on identifying and obtaining an understanding of control activities that address the areas of highest risk, where we consider material misstatements are more likely to occur.
- 2.12 We plan to carry out this work as part of our interim audit. Our audit is not designed to test all internal controls or identify all areas of control weakness. However where, as part of our audit, we identify any control weaknesses, we will report these to the Council.
- 2.13 In consequence, our work cannot necessarily be relied upon to disclose deficiencies or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify.

**Audit of IT systems**

- 2.14 Our audit approach requires a review of the Council's IT controls which is carried out by our IT specialists.
- 2.15 We plan to update our review of general IT controls and specifically follow up action in relation to:
- implementing the previous audit recommendations relating to the Council's payroll system including documenting the process of importing the payroll file into the finance system
  - the updating by Human Resources of the finance department, as well as the IT department of leavers each month, so that their access rights can be removed from the finance system
  - update its data protection policy to inform staff of the need to comply with principles of the Data Protection Act when dealing with sensitive data

### **Materiality**

- 2.16 We consider an item to be material to the financial statements if, through its omission or non-disclosure, the financial statements would no longer present fairly the activities of the Council.
- 2.17 Materiality is set at the planning stage of the audit to ensure that an appropriate level of work is carried out. It is then used throughout the audit process in order to assess the impact of any item on the financial statements. Any identified errors or differences greater than 2% of materiality will be recorded on a schedule of potential misstatements.
- 2.18 These potential misstatements are assessed both individually and in aggregate, discussed with the Audit Committee and, if you decide not to adjust the financial statements, we will request that you confirm in your letter of representation to us your view that they are not material to the financial statements.
- 2.19 Even if an item or balance is of low value, below the level of materiality, it might be judged material because of its nature, for example any item that affects the general fund balance. Equally, an item of higher value may be judged not material if it does not distort the fair presentation of the financial statements.

### **Preparation for 2010 IFRS Code**

- 2.20 The Council is required to produce 2010-11 accounts under the IFRS Code, and restate the 2009-10 SoRP based accounts in order to provide comparatives. The most significant issues to note in relation to the transition to IFRS accounting are:
- quantifying any potential impact on the general fund
  - the capacity within the Council to deliver the IFRS project plan within the proposed timescales
  - calculating the employee benefits 'holiday pay' accrual
  - identifying embedded leases and contractual arrangements
  - accounting for property, plant and equipment.
- 2.21 We have already engaged with the Council on a number of IFRS related issues and will hold an IFRS based accounts workshop early in the new year. We will continue to liaise on a regular basis with officers and monitor the Council's progress against the project plan and our queries, and review the implications of developments in IFRS guidance and the finalised IFRS Code due for release on 16 December 2009.
- 2.22 We performed a high level review of the Council's IFRS preparedness in November 2009, following a mandated national IFRS survey requested by the Audit



Commission, and highlight the most significant IFRS areas for the Council to action at Appendix A.

### 3 Administration

#### Engagement team

3.1 The key members and contact details of the accounts audit team are as follows:

**Table Three: Audit Team**

Core Engagement Team		
Name	Contact Details	Responsibility
<b>Martin Grundy</b> Engagement Lead	<a href="mailto:martin.grundy@gtuk.com">martin.grundy@gtuk.com</a> 0207 865 2302 07802 181213	Responsible for the overall delivery of the audit including the quality of outputs, signing the opinion and conclusion, and liaison with senior officers and the Audit Committee.
<b>Richard Lawson</b> Engagement Manager	<a href="mailto:richard.lawson@gtuk.com">richard.lawson@gtuk.com</a> 0207 728 2084 07766 442038	Responsible for managing and coordinating the different elements of audit work, evaluating findings and drafting the accounts report. Key point of contact for the Chief Finance Officer and Council's finance team.
<b>Matilda Davies</b> Audit Senior	<a href="mailto:matilda.davies@gtuk.com">matilda.davies@gtuk.com</a> 0207 728 3175	Responsible for running the fieldwork visits for interim audit and the final accounts audit.
Specialist Advice		
Name	Contact Details	Responsibility
<b>Paul Spinks</b> Senior Technical Manager	<a href="mailto:paul.spinks@gtuk.com">paul.spinks@gtuk.com</a> 0113 200 2554 07798 831962	Responsible for provision of specialist technical support to the audit team, particularly relating to PFI accounting, IFRS implementation, and other complex accounting issues.
<b>Negat Sultan</b> IT Audit Manager	<a href="mailto:negat.sultan@gtuk.com">negat.sultan@gtuk.com</a> 0116 257 5590	Responsible for review of the IT systems in place that complement the financial accounts process. Also will carry out ad hoc reviews if our risk assessment warrants it.

#### Fees

3.2 We proposed a fee for the 2009-10 accounts audit of £80,000 in a separate fee letter to the Council dated 2 March 2009, which was agreed by the Audit Committee in June 2009.

- 3.3 In setting the fee, we have assumed that:
- the level of risk in relation to the audit of the financial statements is not significantly different from that identified for 2008-09
  - internal audit will continue to meet appropriate professional standards and undertake work on all material systems that provide figures in the financial statements, sufficient that we can place reliance for the purposes of our audit
  - the Council will inform us of significant developments impacting on our audit and prompt responses will be provided to draft reports
  - good quality working papers and records will again be provided to support the financial statements.
- 3.4 We do not anticipate there will be a need to review our proposed fee unless the nature and scope of our work significantly changes, for example, due to Audit Commission requirements. If such circumstances arise we will discuss and agree any fee proposals with the Head of Strategic Finance and Audit Committee.

### **Independence**

- 3.5 We comply with the Audit Commission's requirements in respect of independence and objectivity as summarised at Appendix B. We are not aware of any relationships that may affect the independence and objectivity of the audit team, which we are required by auditing and ethical standards to communicate to you.
- 3.6 For your information, we draw your attention to our appointment as the external auditors to Watford Community Housing Trust, and also to the fact that Grant Thornton UK LLP provides services to the Watford Health partnership through "Team Nabarro". These assignments are serviced by separate assignment teams and we do not consider that they affect the independence and objectivity of the audit team.

### **Quality of service**

- 3.7 We are committed to providing you with a high quality service. If you are in any way dissatisfied, or would like to discuss how we can improve our service, please contact Martin Grundy, on [martin.grundy@gtuk.com](mailto:martin.grundy@gtuk.com).

### **Meetings**

- 3.8 We will arrange a schedule of meetings with you as part of accounts audit planning, prior to submission of the Council's 2009-10 draft accounts in June 2009, and regular interaction as the Council continues its preparation for the introduction of IFRS. We are, of course, always available to meet members of the finance team as required throughout the year to deal with emerging issues.

## 4 Planned outputs

### Planned audit outputs

- 4.1 Reports will be discussed and agreed with the appropriate officers before being issued to the Audit Committee. Reports are addressed to the Audit Committee and management and are prepared for the sole use of the Council, and no responsibility is taken by auditors to any member or officer in their individual capacity, or to any third party.
- 4.2 Table Four below summarises the audit reports and outputs we plan to issue in respect of the Accounts Audit Plan 2009-10.

**Table Four: Planned outputs**

Planned output	Fieldwork	Audit Committee
2009-10 Audit fee letter	March 2009	June 2009
2009-10 Accounts Audit Plan	December 2009	13 January 2010
IFRS Accounts workshop	TBC	N/A
Interim Accounts Report which will cover the following: <ul style="list-style-type: none"> <li>• updated review of the Council's control environment</li> <li>• findings from our review of the Council's information and communication technology systems</li> <li>• review of internal audit work on core financial systems</li> <li>• updated review of arrangements to compile Annual Governance Statement</li> <li>• progress on prior year recommendations and IFRS actions</li> <li>• early work on accounting issues.</li> </ul>	Ongoing liaison: January - June 2010  Team visit commencing: March 2010	30 June 2010
Annual Accounts Report which will cover the following: <ul style="list-style-type: none"> <li>• findings from the final accounts audit</li> <li>• proposed opinion on the Council's accounts</li> <li>• proposed conclusion on the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources.</li> </ul>	Ongoing liaison: July - September 2010  Team visit commencing: July 2010	30 September 2010

## Action plan - IFRS implementation

Rec. No.	Issue	Recommendation	Priority	Council response	Implementation and responsibility
<b>IFRS: Valuation of Property, Plant and Equipment (IAS16)</b>					
1	Non-property assets should be valued under IFRS at fair value unless the asset is of low value and/or short life.	The Council should ensure that an appropriate valuation of non-property assets is obtained for any assets that are not of low value (above £250k) and/or short life (over five years).	Medium		
<b>IFRS: Employee Benefits (IAS19) - Holiday pay accrual</b>					
2	Under IFRS the Council is required to include an accrual for staff annual leave not taken at the year end.	We have discussed the Council's initial work in this area and recommend: <ul style="list-style-type: none"> <li>▪ ensuring that the sample is representative of the Council's workforce as a whole</li> <li>▪ ensuring the HR/payroll system is utilised in order to produce this accrual electronically going forward.</li> </ul>	Medium		

## Appendix A

Rec. No.	Issue	Recommendation	Priority	Council response	Implementation and responsibility
<b>IFRS: Embedded leases</b>					
3	The Council will need to identify any embedded leases it may have. We do not expect the requirement to apply retrospectively.	We recommend the Council performs a review for embedded leases checking whether arrangements: <ul style="list-style-type: none"> <li>▪ are dependent on the use of a specific asset; and</li> <li>▪ convey the right to use assets.</li> </ul> Any embedded leases identified should then be reviewed against the leasing standard (IAS17) to check whether the lease is finance or operating in nature.	Medium		
<b>IFRS: Provisions</b>					
4	Currently the Council accounts for all its provisions as long term liabilities. Under IAS37 provisions should be split between current and non-current.	We recommend that the Council splits provisions between current and non-current for the restated 1 April 2009 IFRS balance sheet and going forward.	Medium		
<b>IFRS: Adoption of IFRS Code Accounting Policies</b>					
5	From 1 April 2010, the Council will be accounting under the IFRS Code.	In order to strengthen the governance arrangements of the Council, we recommend that tailored IFRS Code accounting policies are subject to formal approval and adoption by the Audit Committee.	Medium		

Appendix A

Rec. No.	Issue	Recommendation	Priority	Council response	Implementation and responsibility
<b>IFRS: Quantification of the impact on the general fund</b>					
6	As a result of the transition to IFRS there may be elements of accounting under the new Code that could impact on general fund balances, for example, the holiday pay accrual.	We recommend the Council quantifies the expected impact on the general fund and, if necessary, revises its medium term financial strategy accordingly.	High		
<b>IFRS: Capacity to deliver the IFRS project plan to timetable</b>					
7	The Council has produced an IFRS project plan which is subject to monitoring by the Audit Committee.	We recommend the Council's Corporate Management Team enforces the need for all directorates to support the Council's Financial Team in order to deliver the requirements of the project plan.	Medium		

## The Audit Commission's requirements in respect of independence and objectivity

Auditors appointed by the Audit Commission operate in accordance with the Code of Audit Practice (the Code) which includes the requirement to comply with International Auditing Standards (ISAs) when auditing the financial statements. Professional standards require auditors to communicate to those charged with governance, at least annually, all relationships that may bear on the firm's independence and the objectivity of the audit engagement partner and audit staff. Standards also place requirements on auditors in relation to integrity, objectivity and independence.

The standard defines 'those charged with governance' as 'those persons entrusted with the supervision, control and direction of an entity'. In your case, the appropriate addressee of communications from the auditor to those charged with governance is the Audit Committee. The auditor reserves the right, however, to communicate directly with the Council matters which are considered to be of sufficient importance.

Auditors are required by the Code to:

- carry out their work with independence and objectivity
- exercise their professional judgement and act independently of both the Commission and the audited body
- maintain an objective attitude at all times and not act in any way that might give rise to, or be perceived to give rise to, a conflict of interest
- resist any improper attempt to influence their judgement in the conduct of the audit.

In addition, the Code specifies that auditors should not carry out work for an audited body that does not relate directly to the discharge of the auditor's functions under the Code. If the Council invites us to carry out risk-based work in a particular area, which cannot otherwise be justified to support our audit conclusions, it will be clearly differentiated as non Code work in the plan.

The Code also states that the Commission issues guidance under its powers to appoint auditors and to determine their terms of appointment. The Standing Guidance for Auditors includes several references to arrangements designed to support and reinforce the requirements relating to independence, which auditors must comply with. These are as follows:

- any staff involved on Commission work who wish to engage in political activity should obtain prior approval from the Partner
- audit staff are expected not to accept appointments as lay school inspectors
- firms are expected not to risk damaging working relationships by bidding for work within an audited body's area in direct competition with the body's own staff without having discussed and agreed a local protocol with the body concerned



- auditors are expected to comply with the Commission's statements on firms not providing personal financial or tax advice to certain senior individuals at their audited bodies, auditors' conflicts of interest in relation to PFI procurement at audited bodies, and disposal of consultancy practices and auditors' independence
- auditors appointed by the Commission should not accept engagements which involve commenting on the performance of other Commission auditors on Commission work without first consulting the Commission
- auditors are expected to comply with the Commission's policy for both the Partner and the second in command (Manager) to be changed on each audit at least once every five years with effect from 1 April 2003 (subject to agreed transitional arrangements)
- audit suppliers are required to obtain the Commission's written approval prior to changing any Audit Partner in respect of each audited body
- the Commission must be notified of any change of second in command within one month of making the change. Where a new Partner or second in command has not previously undertaken audits under the Audit Commission Act 1998 or has not previously worked for the audit supplier, the audit supplier is required to provide brief details of the individual's relevant qualifications, skills and experience.



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