

## **Watford Borough Council**

Annual Audit Letter 2009/10

November 2010

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# 1 Introduction and Key Messages

## **Purpose of this Letter**

- 1.1 The purpose of this Annual Audit Letter (letter) is to summarise the key issues arising from the work that we have carried out during the year at Watford Borough Council (the Council). Although this letter is addressed to the members of the Council, it is also intended to communicate the significant issues we have identified to key external stakeholders, including members of the public. The letter will be published on the Audit Commission's website at [www.audit-commission.gov.uk](http://www.audit-commission.gov.uk) and also on the Council's website.

## **Responsibilities of the external auditors and the Council**

- 1.2 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)).
- 1.3 We have been appointed as the Council's independent external auditor 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.
- 1.4 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 Code conclusions.
- 1.5 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.

## **What this Letter covers**

- 1.6 This Letter covers our 2009/10 Code audit, including key messages and conclusions from our work on:
- auditing the 2009/10 year end accounts (Section 2)
  - the accuracy of grant claims and returns to various government departments and other agencies (Section 2)
  - assessing the Council's arrangements for securing economy, efficiency and effectiveness in the use of its resources (Section 3).
- 1.7 A list of all the reports issued during the year is provided at Appendix A. Appendix B sets out our actual and budgeted fees for 2009/10.

### **The Economy**

- 1.8 In the current financial climate, the Government's most urgent priority is to reduce the deficit whilst ensuring the economic recovery continues. Savings of over £6 billion are planned from Government spending during this financial year, including some £1.1 billion in reduced grants to local government. At the same time, the Government aims to reduce top-down government and devolve power and greater financial autonomy to local authorities by a range of measures including:
- abolishing Comprehensive Area Assessment
  - reducing ring-fenced central government grants
  - abolishing Local Area Agreements
  - undertaking a full review of local government finance
- 1.9 The October Spending Review (SR) will have a significant impact on the Council, its plans and its finances. The SR announced a 28% cut in DCLG grants, estimated job losses within the public sector at 490,000 and £7bn of savings are required to be made to the welfare budget, mainly through benefit cuts. Cuts are being top-loaded with the greatest reductions being required in the first year of the SR period. The June Budget announced the Government's intention to work with local authorities to freeze council tax in England in 2011-12. The SR announced that local authorities who freeze their council tax in 2011-12 will have the option to increase their bills in the following three financial years, although capping of council tax in the first year will make the ability to increase bills in the following 3 years challenging. Those Councils which achieve freezing of council tax bills in year 1 will have the resultant loss to their tax base funded at a rate of 2.5% in each year of the Spending Review period.
- 1.10 This Annual Audit Letter has been written in the context of the significant change agenda in which the Council is operating.

### **Key areas for Council action**

- 1.11 The Council has achieved a number of successes in 2009/10 and the effective bedding in of the Shared Services arrangement with Three Rivers reflected well on the Council's project planning and implementation. The future is however dominated by a financial environment where the Council has already started to achieve benefits from shared services but recognises that there is more work to do. We have set out below, the key areas where action should continue to be taken by the Council to further improve its arrangements during 2010/11:
- The Council's financial position remains very challenging as it seeks to remain in financial balance whilst facing significant cost pressures impacting across local government. The Council is predicting an Income and Expenditure overspend of £300k in 2010/2011 and the budget remains under significant pressure, particularly due to a reduced level of investment interest and a fall of property income where there is a significant shortfall in the year to date.
  - The Council has already planned for significant spending cuts over the next four years. This plan will need to be subject to further review and challenge as the frontloading of grant reduction in 2011/12 is likely to have a significant impact.
  - The audit highlighted that the 2007/08 Housing Revenue Account subsidy claim has yet to be certified. The Council has made progress and the claim is to be audited

prior to the end of the calendar year. Once the claim has been certified then the balance on the housing revenue account, £1.25million, can be transferred into the General Fund.

- 1.12 The context for these key messages can be found in this Letter. Management has agreed to the implementation of these recommendations.

## 2 Audit of Accounts

### Introduction

- 2.1 We issued an unqualified opinion on the Council's 2009/10 accounts on 30 September 2010, ahead of the statutory certification deadline of 30 September 2010. Our opinion confirmed that the accounts give a true and fair view of the Council's financial affairs at 31 March 2010 and of its income and expenditure for the year.
- 2.2 Prior to giving our opinion on the accounts, we are required to report significant matters arising from the audit to those charged with governance (defined as the Audit Committee at the Council). We presented our Annual Report to those Charged with Governance to the Audit Committee on 30 September and summarise only the key messages in this Letter.

### Audit of the accounts

- 2.3 The Council performed well in producing a timely set of accounts against a tight timetable. We were presented with the draft financial statements on 25 June 2010 and, as in previous years, they were supported by good quality working papers.
- 2.4 Our audit work did not identify any adjustments that impacted on either the Income and Expenditure Account, or the balance sheet. A number of disclosure adjustments were identified as a result of the work performed.
- 2.5 Our review of the debtor balances found there were no detailed account listings to support the Council Tax and Non-Domestic Rate debtors of £3.359m and £3.778m respectively. A listing was run during the course of the audit but this contained 2010/11 balances as well as 2009/10 balances. The Council must ensure that year end debtor balances are supported by detailed account listings.

### Financial performance

- 2.6 The Council reported a deficit on the Income & Expenditure account of £6,716k (2008/09 £7,028k) mainly due a £1.9million fall in interest and investment income from the prior year. After permitted accounting entries, the Council actually overspent against the budget by £647k (2008/09 £359k surplus) and this was largely due to implementation costs associated with Shared Services and which were funded from an earmarked reserve. There was no impact to the general fund with the balance remaining at £1.7million. The balance is at the minimum recommended level but this has been as a result of the Council historically transferring amounts to reserves earmarked for specific purposes, the Council did not transfer any amounts to earmarked reserves in 2009/10. The position should be closely monitored going forward, with the level of financial risk further magnified by the impact of the October spending review.
- 2.7 The Council's financial position remains very challenging as it seeks to remain in financial balance whilst facing significant cost pressures impacting across local government, the Council are currently predicting an overspend of £300k in 2010/2011. The Council's budget remains under considerable pressure.
- 2.8 The scale of the challenge faced has been recognised by Members. The reduction in net expenditure over the 4 years is unprecedented and will require strong financial management

and hard political choices. We will continue to keep the Council's financial position under review as part of our 2010-11 audit including a risk based assessment of the robustness of the Medium Term Financial Plan.

### **Financial systems**

- 2.9 We undertake sufficient work on key financial controls for the purpose of designing our programme of work for the financial statements audit. Our evaluation of the Council's key financial control systems did identify a control issue with the payroll system, which did not present a material risk to the accuracy of the financial statements.
- 2.10 The Council's payroll is outsourced to an outside Provider (NorthgateArinso). Some of the detailed controls around this arrangement were not sufficiently robust in 2009/10. Starters and leavers are not promptly identified and processed. This should be addressed by the Council going forward.
- 2.11 We reviewed the work of internal audit and concluded that the scope and conduct of internal audit work was appropriate to support our work in auditing the Council's 2009/10 accounts. We also performed a high level review of the general IT control environment as part of the overall review of the internal control system and concluded that there were no material weaknesses within the IT arrangements that would adversely impact our audit of the accounts. Our work did, however, identify two high priority areas for development to further strengthen the Council's arrangements, which the Council is currently implementing:
- A formal change management policy and associated procedures should be developed.
  - A formal user access administration policy and related procedures should be defined.

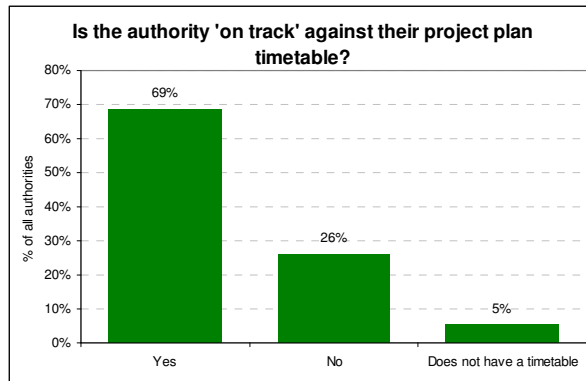
### **Annual Governance Statement**

- 2.12 We examined the Council's arrangements and process for compiling the Annual Governance Statement (AGS). In addition, we read the AGS and considered whether the statement was in accordance with our knowledge of the Council. Our work confirmed that the AGS was consistent with our knowledge of the Council and no issues arose from our work.

### **International Financial Reporting Standards**

- 2.13 The Council is required to prepare its accounts in accordance with International Financial Reporting Standards (IFRS) from 2010/11. The IFRS transition at the Council is being led by the finance team along with additional financial advisory resource and a clear project plan is in place.
- 2.14 A survey on IFRS progress was undertaken by the Audit Commission during July 2010. The survey indicated that whilst most authorities had made adequate progress against their project plans, nearly a third had not as can be seen in the Exhibit below.

**Exhibit 1: IFRS Progress all authorities (source - Audit Commission)**



2.15 We completed two surveys during 2009/10 on IFRS preparedness for the Audit Commission, the results of this survey were ranked in a traffic light format and the Council were rated as 'amber'. Our work confirms that for the Council, the overall project plan remains on track with key targets established for the opening balance sheet, the restated 2009/10 accounts and skeleton IFRS compliant statements. We will continue to review progress as part of our planned programme of work for 2010/11.

**Grant Claims and Returns**

2.16 Each year we review and certify a number of grant claims and returns in accordance with the arrangements put in place by the Audit Commission. Following the completion of the 08/09 certification work we concluded that the Council had good overall arrangements in place but there was room for improvement.

2.17 The housing and council tax benefit claim was qualified, the Department for Work and Pensions issued a letter for the clawback of £3.2million, which was subsequently reduced to £189k after further audit work was performed. We recommended regarding the implementation of a programme of independent spot checks on benefit assessments by an independent person.

2.18 The audit highlighted that the 2007/08 Housing Revenue Account subsidy claim has yet to be certified. The Council has made progress and the claim is to be audited prior to the end of the calendar year. Once the claim has been certified then the balance on the housing revenue account, £1.25million, can be transferred into the General Fund.

2.19 We are currently in the process of certifying the 09/10 grant claims and returns. Once this work is complete we will report in full on the findings of our work.



## 3 Use of Resources

### Introduction

- 3.1 We issued our annual VFM conclusion on 30 September 2010, at the same time as our accounts opinion. We concluded that, for 2009/10, the Council made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2010.
- 3.2 As part of giving our VFM conclusion, we set out the basis of this conclusion and the results of our assessment against the use of resources framework, in our report presented to the Audit Committee on 12 January 2011. In this Letter, we summarise the key messages from this work alongside relevant findings.

### 2009/10 VFM conclusion and UoR assessment

- 3.3 The Audit Commission's Code of Audit Practice requires us to assess whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. In discharging this responsibility, we are required to review and, where appropriate, examine evidence that is relevant to the Council's corporate performance management and financial management arrangements.
- 3.4 Our 2010 Value for Money conclusion has been informed by work carried out on Use of Resources up until the abolition of Comprehensive Area Assessment, and other local risk based work carried out in accordance with our 2009/10 Audit Plan.
- 3.5 The key developments in the Council's arrangements include:
  - The Council has shown a strong response to the economic downturn as evidenced through the work performed on financial planning. The MTFP has been revised significantly and a broad range of savings options were taken to the members for consideration. This will require further revision and stress testing as the full impact of the Spending Review and the grant settlement unfolds;
  - Improved financial reporting to Cabinet, scrutiny committees and all stakeholders of the Council through the strengthening of the Finance Digest, a monthly budget reporting pack, and the establishment and subsequent monitoring of a set of 28 key performance indicators assessing the Council's performance.
  - Procurement arrangements have remained an area of strength, reflected in the service reconfiguration of the Watford BC and Three Rivers DC revenues and benefits, finance, human resources, payroll and IT functions to provide services to both Councils from one centre.
- 3.6 The main areas where further action is required by the Council include:
  - The Council recently revised the data quality strategy which put in place a framework for the management and overseeing of data quality. The Council should look to further embed the strategy over 2010/11 and perform reviews of data quality to assess and demonstrate the robustness of data.

- the programme of governance reviews of partners requires further expanding to encompass all partners on a rolling programme of reviews, risk assessed to ensure coverage over a three year period.
- the Council should look to formalise the reporting lines and committees for delivering results of external energy reviews.

3.7 As the Use of Resources framework has now been abolished the areas for improvement identified will not be followed up specifically through an assessment process. The Council should look to develop action plans on those that link directly with Corporate Priorities.

3.8 On the basis of the work completed, we issued an unqualified Value for Money conclusion.

### **Approach to local value for money audit work from 2010/11**

3.9 The Audit Commission has reviewed its work programme for 2010/11 onwards given the scale of the pressures facing public bodies in the current economic climate. As part of this exercise, the Commission has been discussing possible options for a new approach to local value for money audit work with key national stakeholders.

3.10 From 2010/11 we will apply a new, more targeted and better value approach to our local VFM audit work. This will be based on a reduced number of reporting criteria specified by the Audit Commission, concentrating on:

- securing financial resilience
- prioritising resources within tighter budgets.

3.11 We will determine a local programme of VFM audit work based on our audit risk assessment, informed by these criteria and our statutory responsibilities. We will no longer make annual scored judgements relating to our local VFM audit work. Instead we will report the results of all the local VFM audit work and the key messages for the audited body in our annual report to those charged with governance and in the annual audit letter.

## 4 Closing Remarks

- 4.1 [This Letter was discussed and agreed with the Managing Director and Head of Strategic Finance and presented to the Audit Committee on 12 January 2011.]
- 4.2 We would like to take this opportunity to express our appreciation for the assistance and cooperation provided during the course of the audit.

**Grant Thornton UK LLP**  
January 2011

## A Reports Issued

<b>Report</b>	<b>Date Issued</b>
Audit Plan	December 2009
Accounts Audit Approach Memorandum	June 2010
Annual Report to those Charged with Governance	September 2010
Value for Money Conclusion (2009/10)	January 2011
Annual Audit Letter	January 2011
Grants report	To be issued on completion of grants work

## B Audit and Other Fees

<b>Audit Area</b>	<b>Budget 2009/10 £</b>	<b>Actual 2009/10 £</b>
Financial statements	77,500	77,500
VFM conclusion / Use of resources	40,000	40,000
Whole of Government Accounts	2,500	2,500
<b>Total Code of Practice fee</b>	<b>120,000</b>	<b>120,000</b>
Certification of grant claims and returns	20,000	tbc



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