



AUDIT COMMITTEE

Wednesday, 26 June 2013

7.00 pm

Town Hall, Watford

Publication date: 18 June 2013

CONTACT

If you require further information or you would like a copy of this agenda in another format, e.g. large print, please contact Sandra Hancock in Legal and Property Services on 01923 278377 or by email to legalanddemocratic@watford.gov.uk .

Welcome to this meeting. We hope you find these notes useful.

ACCESS

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COMMITTEE MEMBERSHIP

Councillor I Brown (Chair)
Councillor P Taylor (Vice-Chair)
Councillors I Brandon, A Khan and T Williams

AGENDA

PART A - OPEN TO THE PUBLIC

1. APOLOGIES FOR ABSENCE/COMMITTEE MEMBERSHIP

2. DISCLOSURE OF INTERESTS (IF ANY)

3. MINUTES (Pages 5 - 10)

The minutes of the meeting held on 13 March 2013 to be submitted and signed.

4. REQUESTS MADE UNDER THE FREEDOM OF INFORMATION ACT 2000
(Pages 11 - 13)

This is a half year report of requests made under the Freedom of Information Act 2000, covering the period from 1 October 2012 to 31 March 2013.

5. GRANT THORNTON - AUDIT PLAN 2012/2013 AND AUDIT UPDATE (Pages 14 - 50)

The Council's external Auditors, Grant Thornton, have provided the following reports for consideration by the Committee –

- The Audit Plan for Watford Borough Council
- Audit Committee Update for Watford Borough Council

6. FRAUD ANNUAL REPORT 2012/13 (Pages 51 - 62)

This report informs the Committee of the work of the Fraud Section for the financial year 2012/2013.

7. INTERNAL AUDIT ANNUAL REPORT 2012/2013 (Pages 63 - 73)

This report introduces the Annual Report on the work of the Internal Audit Service for 2012/2013.

8. INTERNAL AUDIT PROGRESS REPORT (Pages 74 - 129)

This report presents Internal Audit's progress for the period to 31 May 2013.

9. PUBLIC SECTOR INTERNAL AUDIT STANDARDS (Pages 130 - 153)

The Committee is asked to review the report and adopt the Public Sector Internal Audit Standards with effect from 1 April 2013.

10. ANNUAL GOVERNANCE STATEMENT 2012/13 (Pages 154 - 170)

This report sets out for approval the Annual Governance Statement that the Council is required to produce for inclusion in the Statement of Accounts.

11. TREASURY MANAGEMENT UPDATE (Pages 171 - 180)

This report provides the regular review of the Council's Treasury Management Strategy and investment performance.

12. PRE AUDIT STATEMENT OF ACCOUNTS (Pages 181 - 286)

This report includes the draft Statement of Accounts for 2012/2013.

AUDIT COMMITTEE

13 MARCH 2013

Present: Councillor I Brown (Chair)
Councillors I Brandon, A Khan and P Taylor

Also present: Councillor Mark Watkin, Portfolio Holder for Finance and
Shared Services
Richard Lawson (Grant Thornton)
Helen Maneuf (Hertfordshire County Council)

Officers: Head of Strategic Finance and Shared Services
Senior Auditor (CG)
Senior Auditor (SA)
Committee and Scrutiny Support Officer (JK)

36 APOLOGIES FOR ABSENCE/COMMITTEE MEMBERSHIP

There were no apologies for absence.

The Committee and Scrutiny Support Officer advised that following the resignation of Councillor Burtenshaw there was now a vacancy on Audit Committee.

37 DISCLOSURE OF INTERESTS (IF ANY)

There were no disclosures of interest.

38 MINUTES

The minutes of the meeting held 10 January 2013 were submitted and signed.

39 GRANT THORNTON UPDATE

The Committee received a report of the Head of Strategic Finance and Shared Services which provided a response to the update report from Grant Thornton.

Richard Lawson introduced the report and noted that everything was in place at this stage and there were no causes for concern. The audit was still at a very early stage and there would be more detail at the next meeting.

Following a question from Councillor Khan about the current situation with the Revenues and Benefits service, Richard Lawson advised that the interim audit

had not yet commenced. He would be meeting the Managing Director and the Head of Finance and Shared Services later that week for an update.

Councillor Brandon referred to the potential to change the lease agreement with Capital Shopping Centres (CSC) and asked for more information. The Head of Finance and Shared Services referred to whether under the new accounting rules it could still be considered an operating lease. He highlighted that with the level of top-ups there was still an element of risk. He would be meeting Grant Thornton to discuss the issue further.

Following a further question from Councillor Brandon, the Head of Finance and Shared Services responded that there was more confidence about the Growing Places funding. The Council would receive the funds in the next financial year and the financial models showed that the money would be generated to repay the loan within five years.

Councillor Brandon asked the Head of Finance and Shared Services to comment on the potential effects of a freeze in business rates in the forthcoming budget. The Head of Finance and Shared Services noted that if there was a freeze, bills would need to be resent. There could be funding from Government for councils if there was a freeze, but there was the possibility of a shortfall.

ACTION – The Head of Finance and Shared Services to circulate any further information about the CSC lease and business rates to the Audit Committee as it is available.

The Portfolio Holder noted that Watford could be a net loser with the retention of business rates.

RESOLVED –

that the reports and the Council's response be noted.

40

TREASURY MANAGEMENT UPDATE REPORT

The Committee received a report of the Head of Strategic Finance and Shared Services which provided the regular update of the Council's Treasury Management Strategy and investment performance.

Councillor Khan referred to an article he had read about negative interest rates and asked what their effect would be. The Head of Finance and Shared Services replied that it was likely that smaller investors were likely to be protected in this scenario but the Council would probably see a further depression in its interest rates.

Councillor Brandon referred to the £2 million that the Council planned to reinvest in Barclays and asked why these funds were not being invested elsewhere at a higher rate. The Head of Finance and Shared Services responded that the Council needed to spread its investments and other banks already had

significant amounts invested in them. Building societies were not as highly credit rated as Barclays which was a strong institution. The security of the investment was the top priority.

Councillor Khan asked officers to comment on the effects of the loss of the UK's Triple A credit rating and the devaluation of the pound in recent years. The Head of Finance and Shared Services responded that if the loss of the credit rating meant that government had to pay more, it could pass on the cost by increasing the rate of the Public Works Loan Board. However, the cost of borrowing for the government had not yet increased. With regard to the devaluation of the pound, the Head of Finance and Shared Services noted that fuel prices had increased and very few energy companies were British. Pension funds had suffered and although equities were up, gilt levels were very low.

RESOLVED –

that the report be noted.

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TREASURY POLICY STATEMENT

The Committee received a report of the Head of Finance and Shared Services informing Members of the Treasury Management Annual Report and Prudential Indicators for 2011/12. The report also included a mid-year review of the Treasury Management function in 2012/13 and the Treasury Management Strategy for 2013/14 – 2015/16.

The Head of Finance and Shared Services introduced the report. He highlighted that the Council was still debt-free and the investments had out-performed the investment return benchmark. There had been no external borrowing but the report recommended the ability to borrow up to £10 million. Appendix 3 to the report set the parameters for borrowing and investments in the next financial year. The recommendation was to continue to allow the Council to borrow for long-term regeneration projects.

The Chair advised the Committee that this report was also due to go to Council for approval.

Councillor Khan advised that given the short time the Committee had had to read the report, he would prefer not to recommend appendix 3 to Council until he had had more time to consider the detail.

The Portfolio Holder commented that the Council was looking at going into debt in a controlled way. The risks to the Council had been minimised.

The Head of Finance and Shared Services suggested that the Committee may wish to refer the appendix to Council rather than approve it.

RESOLVED –

1. that the Committee notes the Treasury Management Annual Report 2011/12; the Mid Year Treasury Management Monitoring Report 2012/2013, the Treasury Management Strategy Statement 2013/14 – 2015/16 and the Treasury Management Practice guidance.
2. that the Committee refers Appendix 3 to Council for approval.

42

IMPLEMENTATION OF INTERNAL AUDIT RECOMMENDATIONS

The Committee received a report of the Senior Auditor providing Internal Audit's regular report on progress of the implementation of Internal Audit's recommendations. The Senior Auditor (CG) reported that there had been extensions to 19 of the recommendations; 14 of these were for ICT.

Councillor Brandon emphasised the importance of ensuring that any incomplete recommendations went over to the Shared Internal Audit Service (SIAS) in April. He noted that a number of the recommendations were dated for completion in May 2013 and asked whether these would be deliverable. The Senior Auditor (CG) replied that recommendations needed to be finalised on a number of reports and that capacity would increase with the introduction of the SIAS. The Head of Finance and Shared Services added that there was a plan with Capita to taken on the ICT recommendations but many of them had already been addressed.

The Portfolio Holder noted that security was the key issue in the changeover to Capita. It may be sensible in the short term to defer some of the recommendations if there were higher priorities for the service.

Councillor Khan asked if the Council could be sure that the ICT systems had not been hacked. The Head of Finance and Shared Services assured the Committee that the financial systems were secure and daily reconciliations were carried out. The Senior Auditor (CG) advised that the Head of ICT could give further information about the security of the systems.

Councillor Khan noted that this was an urgent issue. He asked if processes were in place to address vulnerabilities. The Portfolio Holder said that this was an appropriate issue for consideration by the Shared Services Joint Committee. The Head of Finance and Shared Services suggested that the Head of ICT be asked to circulate a response to the Committee and to the Shared Services Joint Committee.

ACTION – Head of ICT

Councillor Khan informed the Committee that he had concerns about the current lack of capacity within the Internal Audit team. Helen Maneuf, the Head of the Shared Internal Audit Service, responded that work had had to be prioritised since the departure of the Audit Manager. From 1 April Watford would be part of

the SIAS and the new service would take on the risk. This was a key benefit for the Council of joining the partnership.

RESOLVED –

that the contents of the report be noted.

43 **INTERNAL AUDIT PROGRESS REPORT**

The Committee received a report of the Senior Auditor updating Members on the work undertaken by Internal Audit.

Councillor Brandon noted that some work had been allocated to Deloitte and asked what the budgetary implications of this were. The Senior Auditor (CG) noted that some ICT audits had not been required this year and this had freed up some resources. The Head of Finance and Shared Services added that there was currently contingency in the budget for this but in the next financial year this would not be required as the SIAS had access to the expertise needed.

RESOLVED –

that the contents of the report be noted.

44 **INTERNAL AUDIT PLAN 2013/2014**

The Committee received a report of the Head of Finance and Shared Services introducing the Audit Plan for 2013/14. The Head of the Shared Internal Audit Service, introduced the plan to the Committee. She advised that the key point was that this would be a year of transition where the SIAS was picking up responsibility for internal audit. Discussions with officers had already begun but the plan may need further refinement as these discussions continued.

The Head of Finance and Shared Services asked whether there had been a dialogue with Grant Thornton. The Head of the Shared Internal Audit Service responded that there was a good working relationship with them as Grant Thornton were the External Auditors for a number of the district councils in the service. A formal meeting to discuss Watford would be arranged.

In response to a question from Councillor Khan about the scale used in risk assessments, the Head of the Shared Internal Audit Service explained that the A-D scale was used for simplicity. She explained how the risk assessment determined whether an audit was included in the plan.

The Chair asked whether the assessment of the risks could be considered subjective. The Head of the Shared Internal Audit Service replied that this was the case whether the assessment was made by the auditor alone or by the auditor in consultation with the relevant manager. She added that the auditors also considered how an audit might add value to a service.

Councillor Brandon highlighted three areas where the audits had been deferred and he questioned whether they should be a higher priority. These were housing lettings, the expenditure of the parking reserve and the new commissioning framework. The Head of the Shared Internal Audit Service responded that these were good reasons to re-evaluate the plan although the areas included for 2013/14 were also considered to be important. She would discuss these areas with the Head of Finance and Shared Services. Some areas could be audited through a self-assessment in future years.

Councillor Taylor referred to the audit of cyber risk timetabled for quarter 4 and asked if this could be brought forward. The Head of the Shared Internal Audit Service advised that ICT vulnerabilities would be audited in quarter 2 and this would inform later work. The Head of Finance and Shared Services added that auditors were kept updated with progress and if necessary the audit could be brought forward.

The Portfolio Holder commented that he was pleased that SIAS were proactive and he hoped that they would train people before problems were encountered. The Head of the Shared Internal Audit Service affirmed that this was part of the partnership. She added that planned audit work could be re-prioritised, for example, if the Audit Committee wished to have extra assurance about emerging risks. Also there was the possibility of drawing down added days from SIAS if the need ever arose. Following a question from the Head of Finance and Shared Services the Head of the Shared Internal Audit Service confirmed that training for Audit Committee members was planned for June. She would advise members of the details.

RESOLVED –

that the Internal Audit Plan be approved.

Chair

The Meeting started at 7.00 pm
and finished at 8.00 pm

PART A

Report to: Audit Committee
Date of Meeting 26 June 2013
Report of: Head of Legal and Property Services
Title: Requests made under the Freedom of Information Act 2000

1. SUMMARY

This is a half year report of requests made under the Freedom of Information Act 2000.

From 1 October 2012 until 31 March 2013 the Council received 196 requests all but 49 of which were replied to in the required time. A list of the requests is attached at appendices 1 and 2 for information

2. RECOMMENDATIONS

To note the contents of this report.

Contact Officer:

For further information on this report please contact: Carol Chen
telephone extension: 8350 e-mail: carol.chen@watford.gov.uk

Report approved by Managing Director

3.0 DETAILED PROPOSAL

3.1 The Freedom of Information Act 2000 came fully into force on 1st January 2005. As a public authority we are obliged to answer written requests for information under the Act within 20 working days

3.2 This report covers the periods 1 October 2012 until 31 March 2013.

- 3.3 In this period the Council recorded receiving 196 requests for information under the Act all but 49 were replied to within the statutory 20 working days.
- 3.4 The requests have been varied. Appendices 1 and 2 give a brief summary of each request. Particularly during the January to March period 2013 the council received a number of requests relating to Farm Terrace Allotments and also to the changes to benefits.
- 3.5 There has been a large number of requests responded to within the ambit of Revenues and Benefits since the last report which has cleared a back log that have been out standing for some months. There are still 6 requests outstanding, as at the time of writing but it is hoped they too will have been answered by the date of the Committee. There are also a number of requests that have not been replied to that are IT related.
- 3.6 The Customer Service Improvement Officer continues to emphasise to departments the need to respond to requests within the statutory time frame. Human Resources are developing an E-Learning module on Freedom of Information which is hoped will be available for staff shortly.
- 3.7 The Mayor and Managing Director continue to receive a weekly list of all new FOI requests that are received.
- 3.8 Officers have still not received any benchmarking data as requested by the Committee last June.

4.0 **IMPLICATIONS**

4.1 Financial

The Head of Strategic Finance comments that this report indicates that information is found using existing staff resources. If, in the future, the requests increase in number and/or complexity then it may become necessary to review this situation.

4.2 Legal Issues (Monitoring Officer)

The Head of Legal & Property Services comments that ongoing training continues to be provided across the council to ensure officers are aware of the Council's responsibilities under the Act

4.3 Staffing

Requests are currently being managed within existing resources

4.4 Accommodation

No implications

4.5 Equalities

No implications

4.6 Community Safety

No implications

4.7 Sustainability

No implications

4.8

Potential Risks

Potential Risk	Likelihood	Impact	Overall score
Request not replied to within statutory time limit	2	2	4

Those risks scoring 9 or above are considered significant and will need specific attention in project management. They will also be added to the service's Risk Register.

Appendix 1
Summary of FOI requests October to December 2012

Appendix 2
Summary of FOI requests January to March 2013

Background papers:

None

Agenda Item 5

PART A

Report to: Audit Committee
Date of meeting: 26 June 2013
Report of: Head of Strategic Finance
Title: Grant Thornton Audit Plan 2012/2013 & Audit Update

1.0 **SUMMARY**

1.1 Attached are two reports from Grant Thornton detailing how they intend to audit the council's financial accounts and statements for 2012/2013 and also a checklist of issues that district councils should be taking on board.

2.0 **RECOMMENDATIONS**

2.1 That the Committee notes the two reports. With regard to the checklist, due to the fact it was only received on 14th June, a position statement will be circulated at the meeting detailing those issues resolved/ still to be resolved.

Contact Officer:

For further information on this report please contact: Bernard Clarke, Head of Strategic Finance
telephone extension: 8189 email: bernard.clarke@watford.gov.uk

3.0 **IMPLICATIONS**

3.1 **Financial Issues**

The Head of Strategic Finance comments that there are no financial implications arising directly out of this report.

3.2 **Legal Issues (Monitoring Officer)**

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

3.3 **Potential Risks**

Potential Risk	Likelihood	Impact	Overall score
That the accounts are not statutorily finalised by 30 th June 2013	1	4	4
That the Accounts are found to be materially misstated when audited by Grant Thornton.	1	4	4

3.4 **Staffing**

None Directly

3.5 **Accommodation**

None Directly

The Audit Plan for Watford Borough Council

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.

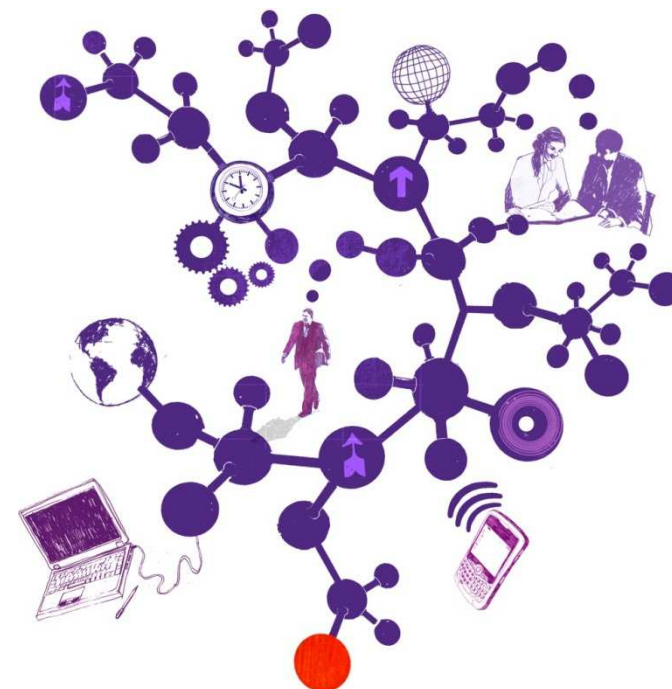
Year ended 31 March 2013

5 June 2013

Paul Dossett
Engagement Lead
T 0207 728
E paul.dossett@uk.gt.com

Richard Lawson
Audit Manager
T 0207 728 2084
E richard.lawson@uk.gt.com

Dan Bird
Audit Executive
T 0207 728 3132
E daniel.bird@uk.gt.com



The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the Council or any weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. 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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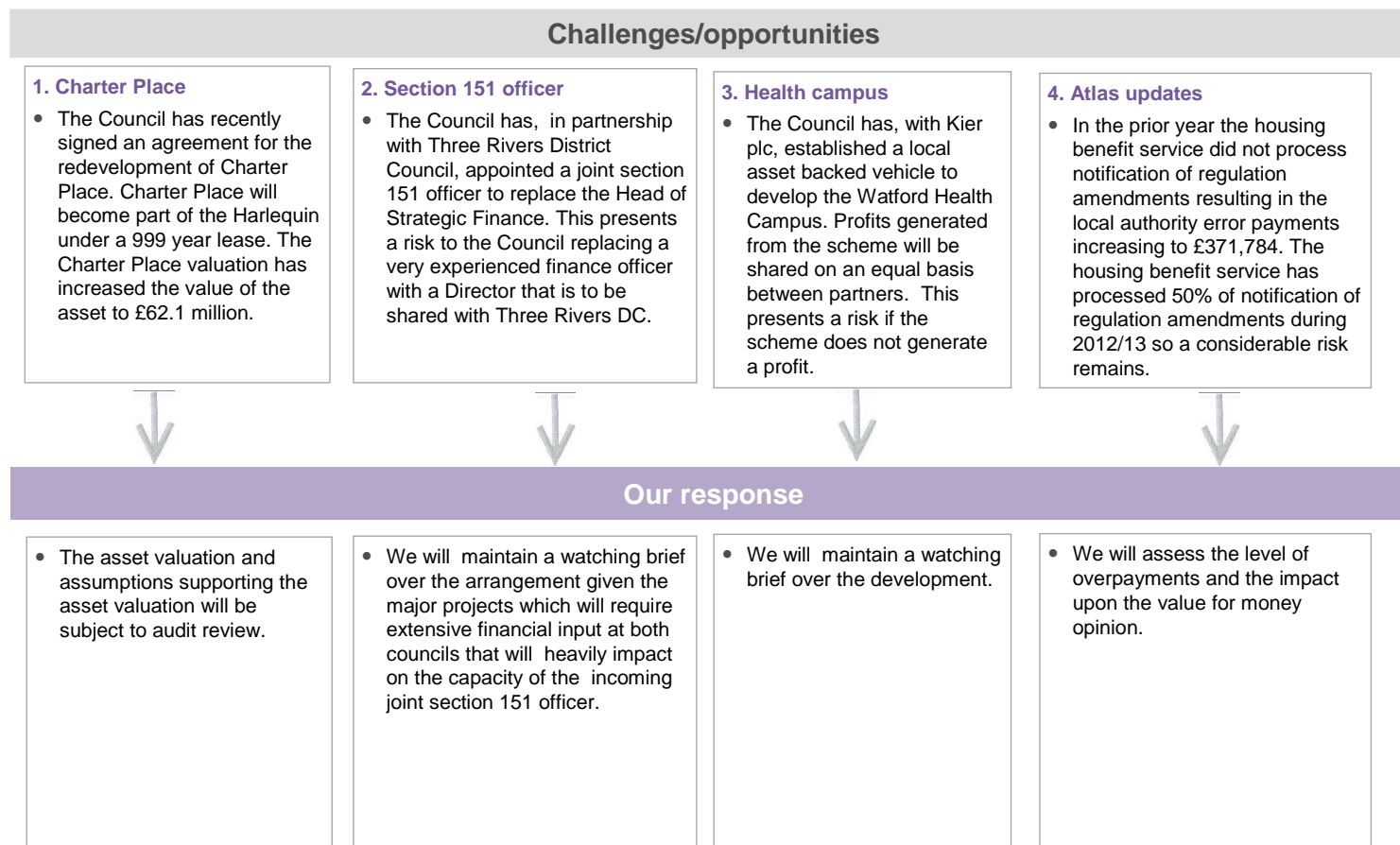
1. Understanding your business
2. Developments relevant to your business and the audit
3. Our audit approach
4. An audit focused on risks
5. Significant risks identified
6. Other risks
7. Group scope and risk assessment
8. Results of interim work
9. Value for Money
10. Logistics and our team
11. Fees and independence
12. Communication of audit matters with those charged with governance

Appendices

- A. Action plan

Understanding your business

In planning our audit we need to understand the challenges and opportunities the Council is facing. We set out a summary of our understanding below.



Developments relevant to your business and the audit

In planning our audit we also consider the impact of key developments in the sector and take account of national audit requirements as set out in the Code of Audit Practice and associated guidance.

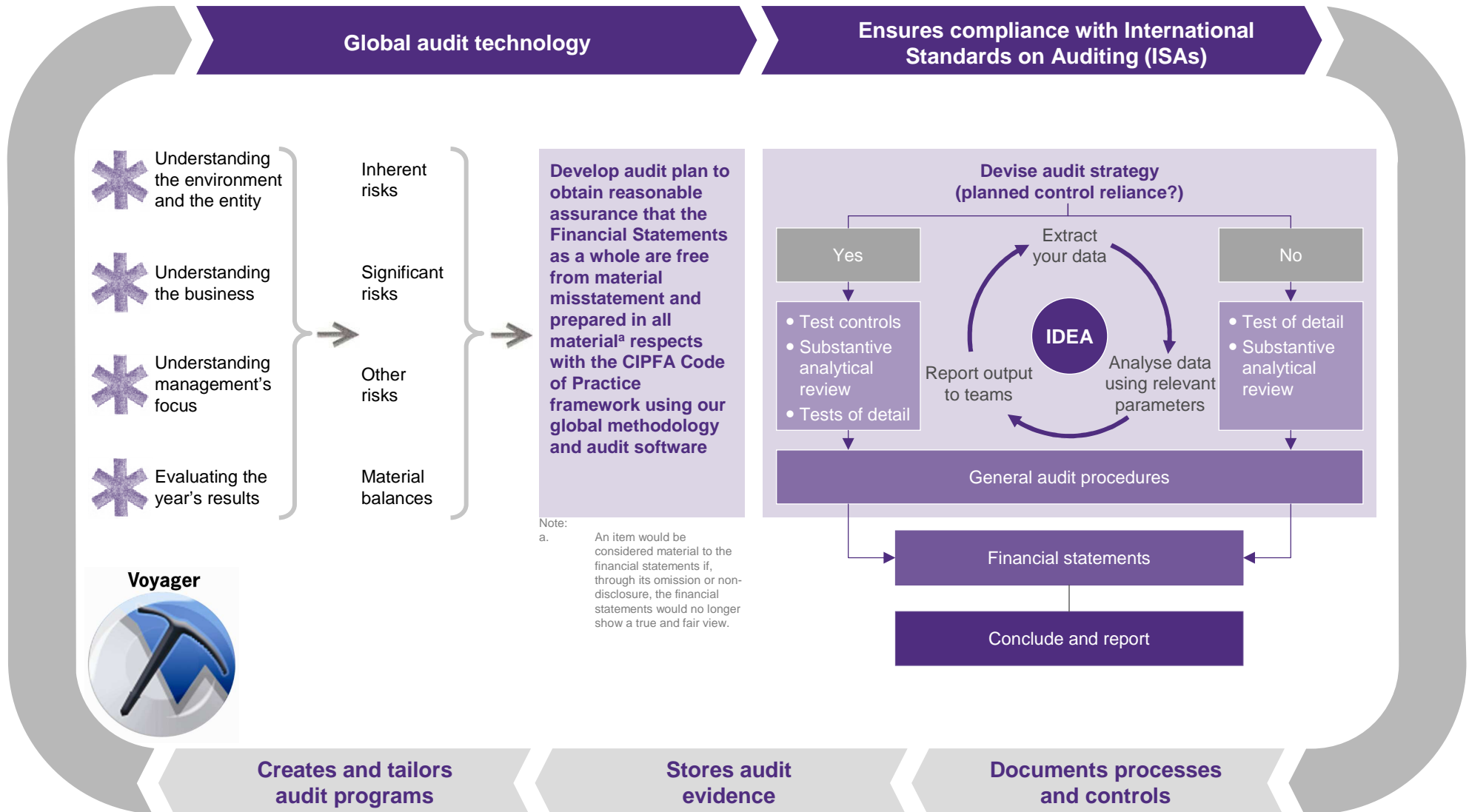
Developments and other requirements

<p>1. Financial reporting</p> <ul style="list-style-type: none"> • Changes to the CIPFA Code of Practice • Recognition of grant conditions and income. 	<p>2. Legislation</p> <ul style="list-style-type: none"> • Local Government Finance settlement 2012/13 • Welfare reform Act 2012 	<p>3. Corporate governance</p> <ul style="list-style-type: none"> • Annual Governance Statement (AGS) • Explanatory foreword 	<p>4. Pensions</p> <ul style="list-style-type: none"> • Planning for the impact of 2013/14 changes to the Local Government pension Scheme (LGPS) 	<p>5. Financial Pressures</p> <ul style="list-style-type: none"> • Managing service provision with less resource • Progress against savings plans 	<p>6. Other requirements</p> <ul style="list-style-type: none"> • The Council is required to submit a Whole of Government accounts pack on which we provide an audit opinion • The Council completes grant claims and returns on which audit certification is required
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Our response

<p>We will ensure that</p> <ul style="list-style-type: none"> •the Council complies with the requirements of the CIPFA Code of Practice through our substantive testing •grant income is recognised in line with the correct accounting standard 	<ul style="list-style-type: none"> • We will discuss the impact of the legislative changes with the Council through our regular meetings with senior management and those charged with governance, providing a view where appropriate 	<ul style="list-style-type: none"> • We will review the arrangements the Council has in place for the production of the AGS • We will review the AGS and the explanatory foreword to consider whether they are consistent with our knowledge 	<ul style="list-style-type: none"> • We will discuss how the Council is planning to deal with the impact of the 2013/14 changes through our meetings with senior management 	<ul style="list-style-type: none"> • We will review the Council's performance against the 2012/13 budget, including consideration of performance against the savings plan • We will undertake a review of Financial Resilience as part of our VFM conclusion 	<ul style="list-style-type: none"> • We will carry out work on the WGA pack in accordance with requirements • We will certify grant claims and returns in accordance with Audit Commission requirements
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Our audit approach



An audit focused on risks

We undertake a risk based audit whereby we focus audit effort on those areas where we have identified a risk of material misstatement in the accounts. The table below shows how our audit approach focuses on the risks we have identified through our planning and review of the national risks affecting the sector. Definitions of the level of risk and associated work are given below:

Significant – Significant risks are typically non-routine transactions, areas of material judgement or those areas where there is a high underlying (inherent) risk of misstatement. We will undertake an assessment of controls (if applicable) around the risks and carry out detailed substantive testing.

Other – Other risks of material misstatement are typically those transaction cycles and balances where there are high values, large numbers of transactions and risks arising from, for example, system changes and issues identified from previous years audits. We will assess controls and undertake substantive testing, the level of which will be reduced where we can rely on controls.

None – Our risk assessment has not identified a risk of misstatement. We will undertake substantive testing of material balances. Where an item in the accounts is not material we do not carry out detailed substantive testing.

Account	Material (or potentially material) balance?	Transaction Cycle	Inherent risk	Material misstatement risk?	Description of Risk	Substantive testing?
Cost of services - operating expenses	Yes	Operating expenses	Medium	Other	Operating expenses understated	✓
Cost of services – employee remuneration	Yes	Employee remuneration	Medium	Other	Remuneration expenses not correct	✓
Costs of services – Housing & council tax benefit	Yes	Welfare expenditure	Medium	Other	Welfare benefits improperly computed	✓
Cost of services – other revenues (fees & charges)	Yes	Other revenues	Low	None		✓
(Gains)/ Loss on disposal of non current assets	Yes	Property, Plant and Equipment	Low	None		✓
Precepts and Levies	No	Council Tax	Low	None		×

An audit focused on risks (continued)

Account	Material (or potentially material) balance?	Transaction Cycle	Inherent risk	Material misstatement risk?	Description of Risk	Substantive testing?
Interest payable and similar charges	Yes	Borrowings	Low	None		✓
Pension Interest cost	Yes	Employee remuneration	Low	None		✓
Interest & investment income	No	Investments	Low	None		×
Return on Pension assets	Yes	Employee remuneration	Low	None		✓
Impairment of investments	No	Investments	Low	None		×
Investment properties: Income expenditure, valuation, changes & gain on disposal	No	Property, Plant & Equipment	Low	None		×
Income from council tax	Yes	Council Tax	Low	None		✓
NNDR Distribution	Yes	NNDR	Low	None		✓
Revenue support grant & other Government grants	Yes	Grant Income	Low	None		✓
Capital grants & Contributions (including those received in advance)	Yes	Property, Plant & Equipment	Low	None		✓

An audit focused on risks (continued)

Account	Material (or potentially material) balance?	Transaction Cycle	Inherent risk	Material misstatement risk?	Description of Risk	Substantive testing?
(Surplus)/ Deficit on revaluation of non current assets	Yes	Property, Plant & Equipment	Low	None		✓
Actuarial (gains)/ Losses on pension fund assets & liabilities	Yes	Employee remuneration	Low	None		✓
Other comprehensive (gains)/ Losses	No	Revenue/ Operating expenses	Low	None		×
Property, Plant & Equipment	Yes	Property, Plant & Equipment	Medium	Other	PPE activity not valid	✓
Property, Plant & Equipment	Yes	Property, Plant & Equipment	Medium	Other	Revaluation measurements not correct	✓
Heritage assets & Investment property	Yes	Property, Plant & Equipment	Low	None		✓
Intangible assets	No	Intangible assets	Low	None		×
Investments (long & short term)	No	Investments	Low	None		×
Debtors (long & short term)	Yes	Revenue	Low	None		✓
Assets held for sale	No	Property, Plant & Equipment	Low	None		×
Inventories	No	Inventories	Low	None		×
Cash & cash Equivalents	Yes	Bank & Cash	Low	None		✓

An audit focused on risks (continued)

Account	Material (or potentially material) balance?	Transaction Cycle	Inherent risk	Material misstatement risk?	Description of Risk	Substantive testing?
Borrowing (long & short term)	Yes	Debt	Low	None		✓
Creditors (long & Short term)	Yes	Operating Expenses	Medium	Other	Creditors understated or not recorded in the correct period	✓
Provisions (long & short term)	Yes	Provision	Low	None		✓
Pension liability	Yes	Employee remuneration	Low	None		✓
Reserves	Yes	Equity	Low	None		✓

Significant risks identified

'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 outline the significant risks of material misstatement which we have identified. There are two presumed significant risks which are applicable to all audits under auditing standards (International Standards on Auditing – ISAs) which are listed below:

Significant risk	Description	Substantive audit procedures
The revenue cycle includes fraudulent transactions	Under ISA 240 there is a presumed risk that revenue may be misstated due to the improper recognition of revenue.	<p>Work completed to date:</p> <ul style="list-style-type: none"> • Review and testing of revenue recognition policies • Performance of attribute testing on material revenue streams <p>Further work planned:</p> <ul style="list-style-type: none"> • Review and testing of revenue recognition policies • Performance of attribute testing on material revenue streams
Management over-ride of controls	Under ISA 240 there is a presumed risk that the risk of management over-ride of controls is present in all entities.	<p>Work completed to date:</p> <ul style="list-style-type: none"> • Review of accounting estimates, judgments and decisions made by management • Testing of journal entries • Review of unusual significant transactions <p>Further work planned:</p> <ul style="list-style-type: none"> • Review of accounting estimates, judgments and decisions made by management • Testing of journal entries • Review of unusual significant transactions

Other risks

The auditor should evaluate the design and determine the implementation of the entity's controls, including relevant control activities, over those risks for which, in the auditor's judgment, it is not possible or practicable to reduce the risks of material misstatement at the assertion level to an acceptably low level with audit evidence obtained only from substantive procedures (ISA 315).

Other reasonably possible risks	Description	Work completed to date	Further work planned
Operating expenses	Operating expenses understated	<ul style="list-style-type: none"> A walkthrough of the system has been performed with no issues 	<ul style="list-style-type: none"> Completion of testing a sample of 60 items for occurrence, allocation and pricing. The sample was selected from book of prime entry to ensure expenditure is properly recorded in the accounts.
Operating expenses	Creditors understated or not recorded in the correct period	<ul style="list-style-type: none"> A walkthrough of the system has been performed with no issues 	<ul style="list-style-type: none"> Completion of testing a sample of 60 items for occurrence, allocation and pricing. The sample was selected from book of prime entry to ensure expenditure is properly recorded in the accounts.
Employee remuneration	Remuneration expenses not correct	<ul style="list-style-type: none"> A walkthrough of the system has been performed with no issues 	<ul style="list-style-type: none"> Controls testing on IT controls over starters and leavers Pay recorded at the correct rate Completion of attribute sample testing of 25 employees from the HMRC return to staff records for validity and completeness
Welfare Expenditure	Welfare benefits improperly computed	<ul style="list-style-type: none"> No work has been performed at the interim stage of the audit. 	<ul style="list-style-type: none"> Carry out analytics based on trend analysis. Analysis of predictive analytical review tool based on Department for Work and Pensions ['DWP'] statistics. Performance of the annual up rating of system parameters. Completion of the housing benefit testing modules.
Property, Plant & Equipment	Revaluation measurement not correct	<ul style="list-style-type: none"> A walkthrough of the system has been performed with no issues 	<ul style="list-style-type: none"> Review significant revaluation movements and assess the assumptions employed by the valuer. Evaluate the work of an expert in determining the appropriateness of the valuation.

Results of interim audit work

Scope

As part of the interim audit work and in advance of our final accounts audit fieldwork, we have considered:

- internal audit's work on the Council's key financial systems
- walkthrough testing to confirm whether controls are implemented as per our understanding in areas where we have identified a risk of material misstatement
- commenced year end attribute testing

	Work performed	Conclusion/ Summary
Internal audit	<p>We reviewed internal audit's overall arrangements against the CIPFA Code of Practice in the prior year. Where the arrangements are deemed to be adequate, we can gain assurance from the overall work undertaken by internal audit and can conclude that the service itself is contributing positively to the internal control environment and overall governance arrangements within the Council.</p> <p>The internal audit function has been transferred to Shared Internal Audit Service ['SIAS'] from 1st April 2013 and the internal audit service will be subject to the new public sector internal audit standards, which come into effect for the 2013/14 financial year.</p>	<p>Overall, we have concluded that the Internal Audit service continues to provide an independent and satisfactory service to the Council and that we can take assurance from their work in contributing to an effective internal control environment at the Council.</p>
Walkthrough testing	<p>Walkthrough tests were completed in relation to the specific accounts assertion risks which we consider to present a risk of material misstatement to the financial statements.</p>	<p>No significant issues were noted and in-year internal controls were observed to have been implemented in accordance with our documented understanding.</p>

Results of interim audit work (continued)

	Work performed	Conclusion/ Summary
Review of information technology (IT) controls	<p>Our information systems specialist will perform a high level review of the general IT control environment, as part of the overall review of the internal controls system. We have also performed a follow up of the issues that have been raised in the previous year. This work has been programmed to take place from the 13 May 2013.</p>	To be completed
Journal entry controls	<p>We will review the Council's journal entry policies and procedures as part of determining our journal entry testing strategy, which we have planned to perform during our final accounts visit.</p> <p>We will be completing a high level review of the transfer of IT services to Capita to provide assurance over the journal entry controls.</p>	To be completed

Value for Money

Introduction

The Code of Audit Practice requires us to issue a conclusion on whether the Council has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the Value for Money (VfM) conclusion.

2012/13 VfM conclusion

Our Value for Money conclusion will be based on two reporting criteria specified by the Audit Commission.

We will tailor our VfM work to ensure that as well as addressing high risk areas it is, wherever possible, focused on the Council's priority areas and can be used as a source of assurance for members. Where we plan to undertake specific reviews to support our VfM conclusion, we will issue a Terms of Reference for each review outlining the scope, methodology and timing of the review. These will be agreed in advance and presented to Audit Committee.

The results of all our local VfM audit work and key messages will be reported in our Audit Findings report and in the Annual Audit Letter. We will agree any additional reporting to the Council on a review-by-review basis.

Code criteria

The Council has proper arrangements in place for:

- securing financial resilience
- challenging how it secures economy, efficiency and effectiveness in its use of resources

We will consider whether the Council is prioritising its resources with tighter budget

Work to be undertaken

Risk-based work focusing on arrangements relating to financial governance, strategic financial planning and financial control.

Specifically we will:

- Undertake a follow up against the recommendations from the 2011/12 report.
- complete a risk assessment of the Council's arrangements agreeing a specific pieces of work to address any high risk areas identified.

Logistics and our team



Date	Activity
February 2013	Planning meeting
February 2013	Interim site work
June 2013	The audit plan presented to Audit Committee
July 2013	Year end fieldwork commences
August 2013	Audit findings clearance meeting
September 2013	Audit Committee meeting to report our findings
September 2013	Sign financial statements and VfM conclusion
September 2013	Issue Annual Audit Letter

Our team

Paul Dossett
Engagement Lead
 T 0207 728 3180
 M 07919 025 198
 E paul.dossett@uk.gt.com

Richard Lawson
Audit Manager
 T 0207 728 2084
 M 07766 442038
 E richard.lawson@uk.gt.com

Daniel Bird
Audit Executive
 T 0207 728 3132
 E daniel.bird@uk.gt.com

RL6 THIS CAN'T BE CORRECT

done

Richard Lawson, 05/06/2013

Fees and independence

Fees

	2012/13 £	2011/12 £
Council audit	68,400	114,000
Grant certification	16,368	25,534
Total	82,368	139,534

Our fee assumptions include:

- Our fees are exclusive of VAT
- Supporting schedules to all figures in the accounts are supplied by the agreed dates and in accordance with the agreed upon information request list
- The scope of the audit, and the Council and its activities have not changed significantly
- The Council will make available management and accounting staff to help us locate information and to provide explanations

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.

Full details of all fees charged for audit and non-audit services will be included in our Audit Findings report at the conclusion of the audit.

We confirm that we have implemented policies and procedures to meet the requirement of the Auditing Practices Board's Ethical Standards.

PD11

please put in comparator and can you check fees as they seem to be the same for both bodies

Paul Dossett, 29/05/2013

Communication of audit matters with those charged with governance

International Standards 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.

This document, The Audit Plan, outlines our audit strategy and plan to deliver the audit, while The Audit Findings will be issued prior to approval of the financial statements and will present key issues and other matters arising from the audit, together with an explanation as to how these have been resolved.

We will communicate any adverse or unexpected findings affecting the audit on a timely basis, either informally or via a report to the Council.

Respective responsibilities

This plan 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).

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 issue 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		✓
Non compliance with laws and regulations		✓
Expected modifications to the auditor's report, or emphasis of matter		✓
Uncorrected misstatements		✓
Significant matters arising in connection with related parties		✓
Significant matters in relation to going concern		✓

Appendices

Action plan

Priority

High - Significant effect on control system

Medium - Effect on control system

Low - Best practice

Rec No.	Recommendation	Priority	Management response	Implementation date & responsibility
			To be updated for the TRS results	



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Audit Committee Update for Watford Borough Council

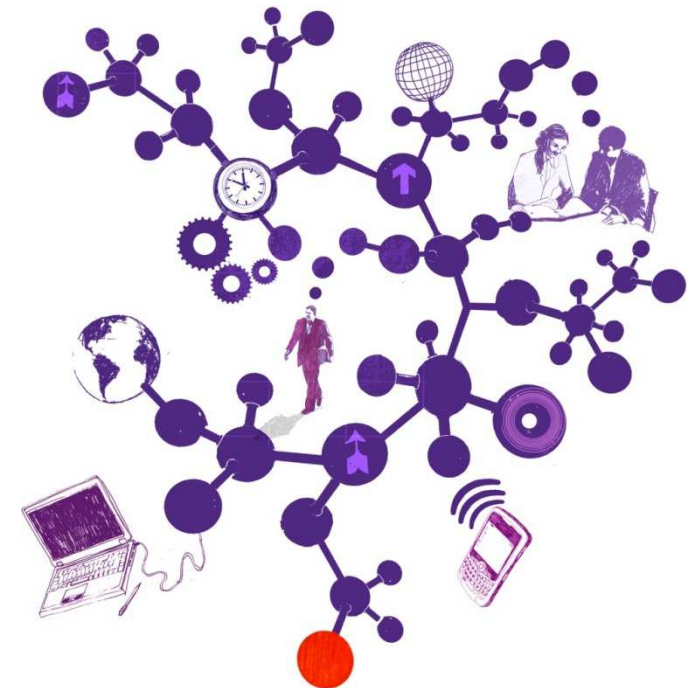
13 June 2013

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Paul Dossett
Engagement Lead
T 0207 728 3180
E paul.dossett@uk.gt.com

Richard Lawson
Audit Manager
T 0207 728 2084
E richard.lawson@uk.gt.com

Dan Bird
Audit Executive
T 0207 728 3132
E daniel.bird@uk.gt.com



The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect your business or any weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. 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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Introduction

This paper provides the Audit Committee with a report on progress in delivering our responsibilities as your external auditors. The paper also includes:

- a summary of emerging national issues and developments that may be relevant to you as a *District Council*
- includes a number of challenge questions in respect of these emerging issues which the Committee may wish to consider.

Members of the Audit Committee can find further useful material on our website www.grant-thornton.co.uk, where we have a section dedicated to our work in the public sector. Here you can download copies of our publications – 'Local Government Governance Review 2013', 'Towards a tipping point?', 'The migration of public services', 'The developing internal audit agenda', 'Preparing for the future', 'Surviving the storm: how resilient are local authorities?'

If you would like further information on any items in this briefing, or would like to register with Grant Thornton to receive regular email updates on issues that are of interest to you, please contact either your Engagement Lead or Audit Manager.

Paul Dossett Engagement Lead T 0207 728 3180 M 07919 025198 paul.dossett@uk.gt.com
Richard Lawson Audit Manager T 0207 728 2084 M 07766 442038 richard.lawson@uk.gt.com

Progress at 13 June 2013

Work	Planned date	Complete?	Comments
2012-13 Accounts Audit Plan We are required to issue a detailed accounts audit plan to the <i>District Council</i> setting out our proposed approach in order to give an opinion on the <i>District Council's</i> 2012-13 financial statements.	June 2013	✓	
Interim accounts audit Our interim fieldwork visit includes: <ul style="list-style-type: none"> • updating our review of the <i>District Council</i> control environment • updating our understanding of financial systems • review of Internal Audit reports on core financial systems • early work on emerging accounting issues • early substantive testing • proposed Value for Money conclusion. 	February 2013 February 2013 February 2013 February 2013 February 2013 March 2013	✓ ✓ ✓ ✓ ✓ ✓	
2012-13 final accounts audit Including: <ul style="list-style-type: none"> • audit of the 2012-13 financial statements • proposed opinion on the District Council's accounts • proposed Value for Money conclusion. 	August 2013 September 2013 September 2013	✗ ✗ ✗	The accounts audit is due to commence on 15 July.

Progress at 13 June 2013

Work	Planned date	Complete?	Comments
<p>Value for Money (VfM) conclusion</p> <p>The scope of our work to inform the 2012/13 VfM conclusion comprises:</p> <ul style="list-style-type: none">• Undertake a follow up against the recommendations from the 2011/12 report.• complete a risk assessment of the Council's arrangements agreeing a specific pieces of work to address any high risk areas identified	September 2013	×	We have undertaken the risk assessment and will be providing the conclusion in September 2013.

Emerging issues and developments

Accounting and audit issues

Code of Practice on Local Authority Accounting in the United Kingdom 2013/14

CIPFA/LASAAC has issued the Local Authority Accounting Code for 2013/14. The main changes to the Code include:

- amendments for the requirements of the localisation of business rates in England
- amendments to how 'other comprehensive income' is presented in the Comprehensive Income and Expenditure Statement. These changes follow the June 2011 amendments to IAS 1 Presentation of Financial Statements.
- amendments to how authorities should account for the cost of employees. This is as a result of the June 2011 amendments to IAS 19 Employee Benefits and include amendments to the classification, recognition, measurement and disclosure of local authority pension costs. This is accounted for as a prior period adjustment which means that the figures for previous years will need to be restated.
- clarifications and improvements of the Code as a result of the CIPFA/LASAAC post-implementation review of IFRS on issues such as:
 - the recognition and measurement of property, plant and equipment – in particular, paragraph 4.1.2.35 of the Code now requires items within a class of property, plant and equipment to be revalued simultaneously. The Code does permit a class of assets to be revalued on a rolling basis provided the revaluation is completed within a short period and provided the revaluations are kept up to date.
 - leases and lease-type arrangements (for example where lease rentals are charged at peppercorn rents)
 - service concession (PFI/PPP) arrangements in relation to assets under construction and intangible assets
 - the recognition of non-current assets held for sale
- amendments relating to deferred tax which may be applicable to authorities with group accounts. These follow amendments to IAS 12 Income Taxes issued in December 2010.

The Code also notes that guidance on the adoption of IFRS 13 Fair Value accounting and on accounting for schools has been deferred to the 2014/15 Code.

Challenge questions:

- Is your Head of Strategic Finance aware of the changes to the 2013/14 Code and assessed the potential impact?
- In particular, has your Head of Strategic Finance consulted:
 - your actuary to ensure you will have the information you need to restate amounts relating to pensions from previous years
 - your valuer to ensure that your revaluation programme complies with the new requirements for property, plant and equipment?

Emerging issues and developments

Accounting and audit issues

Internal audit – practice case studies

The NAO and the Institute of Internal Auditors have released a [set of case studies](#), available on the NAO website, illustrating some of the key principles of effective internal auditing, taken from a range of public and private sector organisations (including British Telecom, Department for Work and Pensions, EDF). These cover the following areas:

- applying internal audit resources
- scope of internal audit
- auditing projects
- the relationship with the audit committee
- risk-based internal audit
- evaluating internal audit

Examples of the practical advice these case studies provide are:

- 'ensure that the internal audit function has the right development practices and the right mix of people'
- 'internal audit must check its own performance'
- 'look at the range and depth of assurance that is being provided to management from other assurance providers within the organisation: this will reduce the duplication and free up resources to provide deeper assurance in other areas'
- 'make sure that internal audit's work is aligned to management's view of risk: the function may be focussing on the wrong issues if it does not understand management's risk priorities'
- 'review whether senior management and the business share the same view of risk – highlight where differences occur to ensure that the right risks and controls are targeted in the audit plan'
- 'consider carrying out a benchmarking review with a similar sized organisation in the same industry sector to compare and contrast approaches to internal audit and resourcing'

Challenge question:

- How can you drive more organisational value from internal audit?

Emerging issues and developments

Grant Thornton

Use of Outsourced IT Services

Over the past few years, there has been an increasing move to outsourcing IT services to third parties within the Local Government sector. This has accelerated over the last year as a result of need to drive efficiencies across the public sector.

Two recent incidents have highlighted the need to carry out proper due diligence and ensure the correct contractual and technical provisions are in place when signing agreements with third parties:

- a major IT service provider, who offered a wide range of services including Network, Communications and Data Centre Management, recently went into administration. This created significant uncertainty for their clients in terms of on-going business as usual requirements as well as access to data. At one point clients were asked to make additional payments in order to gain access to their critical data.
- a large NHS Trust had a failure of its hard disk drive containing its financial data. On contacting the supplier responsible for taking back ups, it became evident that no data back ups had been taken in the preceding 6 months and therefore the client had lost 6 months of data. As a result, the system had to be restored to the last back up date and the data recreated. This was a time consuming and expensive exercise, and has impacted on the financial audit work where additional procedures will have to be performed.

Both of these incidents highlight the risks involved when outsourcing services. Organisations with critical data who run their own data centres would have normally considered the risks associated with a failure of an IT service (or an entire data centre) and would have taken steps to mitigate these risks. Companies who outsource the performance of key services still retain responsibility for their operating and regulatory requirements, and for ensuring that the control environments supporting their business processes are operating effectively, regardless of who is managing them.

Challenge question:

- Are you happy that your Head of ICT has procedures in place to monitor and manage risks of outsourced IT services?

If you have any queries, talk to your engagement manager to see how Grant Thornton could help.

Emerging issues and developments

Local government guidance

2010/11 Whole of Government Accounts

The following reports have been published on the audited 2010/11 Whole of Government Accounts (WGA):

- Public Accounts Committee (PAC) issued its [2010/11 WGA report](#) - PAC has recommended that HM Treasury should do more to use WGA accounts to inform decision making and also drew attention to the need for the preparation and audit of WGA to be timelier.
- DCLG published an unaudited consolidated account for [English Local Government 2010/11](#) - the information is high-level, focussing on the consolidated statement of revenue and expenditure, the consolidated statement of financial position and the consolidated statement of changes in taxpayers' equity. There is no breakdown of line items and no comment on cash flows, commitments and off balance sheet liabilities. However, the document does provide links to more detailed local government finance statistics.

Challenge question:

- Has your Head of Strategic Finance considered these reports and any lessons for the authority?
- Has your Head of Strategic Finance produced a robust and adequately resourced timetable for the production and submission of 2012/13 WGA returns?

Governance statements

The National Audit Office has published '[Fact Sheet: Governance Statements: good practice observations from our audits](#)' providing insight and commentary on the first year of Governance Statement reporting observations on good practice “challenge questions” for those whose role it is to oversee and scrutinise an organisation’s Governance Statement.

Challenge questions:

- How do you plan to make your Annual Governance Statement be more transparent and relevant to your authority?
- Have you used the challenge questions in the fact sheet to help inform your review of the Annual Governance Statement?

Emerging issues and developments

Local government guidance

Openness and transparency on personal interests - A guide for councillors

In March, DCLG published '[Openness and transparency on personal interests - A guide for councillors](#)'.

This guide provides guidance to councillors about how to be open and transparent about their personal interests now that new standards arrangements have been introduced by the Localism Act 2011.

Challenge question:

- What has your authority done to improve awareness of openness and transparency requirements for councillors?



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PART A

Report to: Audit Committee
Date of meeting: 26 June 2013
Report of: Head of Finance (Shared Services)
Title: Fraud Annual Report 2012/13

1. **Summary**

- 1.1 This report informs Members of the work of the Fraud Section for the financial year 2012/2013 and provides details of updates and developments for the current financial year
- 1.2 The Audit Commission published its annual report, *Protecting the Public Purse – Fighting Fraud Against Local Government* in November 2012. As a part of the report the Commission supplies a checklist for those responsible for governance. Officers have provided comments and details of the actions taken against the checklist at Appendix A.

2. **Recommendations**

- 2.1 That this report and the contents referred to including the Audit Committee checklist shown at Appendix A be noted.

Contact Officer:

For further information on this report please contact:

Garry Turner Fraud Manager
Telephone Extension 727192/ 8454

Report approved by: Bernard Clarke, Head of Strategic Finance

3. DETAILED PROPOSAL

3.1 Fraud is a crime that affects all citizens including our tax payers and service users. The National Fraud Authority (NFA) estimates that fraud costs the UK £73 billion each year. Of this £73 billion it is estimated that £2.2 billion is attributed to fraud in local government. It is vital therefore that we have a strong anti-fraud culture underpinned with effective counter-fraud policies and procedures.

3.2 The Council is committed therefore to providing an Anti-Fraud Service which is supported by efficient policies that are reviewed, has sanctions in place for those that offend and that reflect legislative changes. Countering Fraud is the responsibility of everyone.

3.3 The Fraud Section is part of the Finance Shared Service. The details below apply to both councils unless otherwise stated.

Housing and Council Tax Benefit

3.4 In respect of Housing Benefit and Council Tax Benefit a complex legal framework is in place to define who is entitled to benefit and to reduce fraud from entering the system at inception. It is an integral part of the administration that everyone is aware of the risks. Unfortunately, however good the administration of benefits is, it is always likely some fraud will enter the system by deliberate acts.

3.5 The councils' expenditure on benefits totalled £71m in 2012/13.

3.6 The Department for Works and Pensions (DWP) sets the standards which govern the effective and secure delivery of benefits and counter-fraud activities. The purpose of this is to ensure that counter-fraud activities are properly managed. It is important to focus resources on fraud reduction, to identify, investigate and rectify administrative weakness and to assure Members of the integrity and quality of investigations. Many changes are being implemented or piloted as part of the new Fraud and Error programme which includes Universal Credit and a Single Fraud Investigation Service.

3.7 The funding for counter-fraud activities is paid via the general administration grant received from the DWP.

3.8 The fraud team are co-located in Three Rivers House and in the Annex at Watford Town Hall.

3.9 During 2012/13 the Fraud Section issued the following sanctions in respect of fraudulent claims;

Action	Three Rivers DC	Watford BC	Total
Administrative Penalties	16	20	36
Formal Cautions	12	19	31
Successful Prosecutions	13	11	24

3.10 In 2012/13 a total of 639 investigations were completed.

3.11 A total of 190 interviews under caution were conducted by officers in 2012/13. These interviews are digitally recorded interviews in accordance with the Police and Criminal Evidence Act 1984. The majority take place in the Council offices with many conducted in Police stations or other organisations with which we collaborate. Generally, those conducted in a Police station are after the customer has been arrested and a search of their premises has been conducted.

3.12 In 2012/13 a total of 556 referrals for investigation were made. Of these, 136 were rejected as they failed their risk assessment. A referral breakdown is shown below;

Information Source	Three Rivers	Watford
Housing Benefit /Council Tax Section	14	49
Other internal Council Departments	15	8
External sources including Police	31	56
National Fraud Initiative (not loaded until April 2013)	-	-
Housing Benefit Matching Service (HBMS)	60	127
Fraud Hotline and anonymous letters	41	74
Department for Works and Pensions (DWP)	10	15
Website referral	17	39

3.13 In 2012/13 following investigations we identified and issued invoices for overpayments in respect of fraudulent claims for benefit as shown below. Also included are details of other overpayments identified through investigations that relate to either the DWP or HMRC.

Benefit type	Three Rivers	Watford
Housing Benefit	£167,241	£378,826
Council Tax Benefit	£40,162	£93,245
Other	£91,199	£233,760
Total	£298,602	£705,833

3.14 The service continues to take part in various data-matching exercises. These include the National Fraud Initiative (NFI) and Housing Benefit Matching Service (HBMS). The NFI is an Audit Commission mandatory exercise that matches data within the councils and between participating bodies to prevent and detect fraud. The key strength of the NFI is that it brings together a wide range of organisations, working together to tackle fraud. Participants of the NFI include 1300 organisations that include for instance other local authorities, police authorities, NHS bodies etc. Examples of some matches are shown below.

Data Match	Possible fraud/ error
Housing benefit payments to payroll records	Claiming housing benefit by failing to disclose an income
Payroll records to records of failed asylum seekers and records of expired visas	Obtaining employment while not entitled to work in the UK
Council Tax records to electoral register	A council tax payer gets single person's discount and has not declared other persons living in the property
Payroll records to other payroll records	An employee is working for TRDC/WBC but has employment elsewhere that is not declared.

3.15 As can be seen from the above sample of matches, these data sets are not confined to just benefit fraud and include for instance pension fraud, blue badge fraud, tenancy fraud and taxi driver licences, (for example taxi drivers are matched to Asylum Seeker records).

3.16 The Fraud Section continues to work with many organisations including the DWP, the Police, Immigrations and Border agencies and other local authorities. It is vital to work jointly with all organisations and not in silos.

3.17 2012/13 performance indicators are shown in bold in the table below. 2011/12 outturn figures are also included to provide a comparison.

	Target PI (FN11)	Outturn for 2012/13	Outturn for 2011/12 for comparison purposes
Number of cases closed following investigation	330	639	491
Number of sanctions issued (Excludes Blue Badge Fraud Prosecutions)	62	91	77

Other Fraud and action to date

3.18 In 2012/13 the Fraud section has continued to consider emerging risks of fraud. Economic stress can increase the incentive to commit fraud. The Section has worked jointly on many cases to reduce fraud and the reputational damage it can cause. There is a specific Anti-Fraud and Anti-Corruption Policy, Housing and Council Tax Fraud Policy, Sanction Policy, Whistleblowing Policy and Bribery Act Policy. There is also a Fraud Response Plan which deals with non-benefit fraud.

3.19 The Fraud Section has investigated 3 cases of internal corporate fraud in 2012/13 and currently have 2 further cases ongoing for the current year.

- 3.20 In July 2012 the councils received a forensic health check review from Grant Thornton. The overall conclusion stated “there appears to be a good awareness of anti-fraud and corruption procedures within the Councils and effective governance arrangements are in place”.
- 3.21 Tenancy Fraud has been identified as an emerging risk and is reported to be the single largest category of fraud loss by value in local government. Housing is an essential commodity and demand far exceeds supply. In 2012 the NFA estimated that tenancy fraud losses amount to £900 million a year. There are many different ways of calculating tenancy fraud losses that include using temporary accommodation costs or that of an average replacement building cost.
- 3.22 Furthermore, the social value of housing to communities is considerable as families in temporary accommodation can often lead more transient lives which can lead to families unable to integrate into communities easily and provide stable educational environments for their children. This has implications for social cohesion. As a consequence the Council successfully received a grant, in association with local housing providers, from the Local Government Association (LGA) to fund a new position of Tenancy Fraud Investigator. The main role of this post is to recover properties illegally sublet, prevent fraud by increased publicity and awareness, set up data-sharing protocols and promote best practice. We have just completed our selection process and interviews and have provisionally made an offer to a suitable candidate. In addition new legislation has just been passed which is known as the Prevention of Social Housing Fraud Act 2013. This legislation provides local authorities with specific powers to prosecute for illegally subletting and powers to prosecute for housing associations. It further provides for unlawful profit orders to be granted which essentially are intended to take the financial gain out of criminality.
- 3.23 In respect of Blue Badge Fraud, the Section has successfully carried out various exercises working jointly on a multi-agency approach with our Parking Services and Hertfordshire Police. It is reported by the Audit Commission that councils lose £46m per year in abuse and loss of parking revenue. In 2012/13 the Fraud Section successfully prosecuted 2 cases under Section 117 of the Road Traffic Act 1984. It also successfully publicised the prosecutions. On each exercise conducted blue badge misuse was identified. Some drivers were cautioned whilst some badges were seized and returned to Hertfordshire County Council. Only the most serious cases were prosecuted.
- 3.24 In 2013/14 we intend to further review other emerging risks which include the new Council Tax Reduction Scheme, Business Rates Fraud, Recruitment Fraud and further consideration of an enhanced vetting procedure for specified posts.
- 3.25 In 2012/13 the councils launched a new E-learning module which was mandatory for all staff to complete. The first module was Anti-Fraud and Corruption and Money-laundering and provided staff with an understanding of types of frauds that can occur within the organisation,

an understanding of Money-laundering and the Bribery Act. The second module was a fraud awareness package which dealt primarily with benefit fraud and assisted staff in developing their role in helping prevent fraud. Ultimately, the purpose of this training is to reduce the Council's exposure to fraud and corruption.

- 3.26 The Single Fraud Investigation Service (SFIS) partnership between local authorities, HMRC and the DWP is intended to bring together one unified service. The DWP had intended it to commence in April 2013 with harmonised policies. This has not happened and currently there are 4 pilot schemes running in different locations testing different aspects of the service. The latest information is that roll-out of some of the design of SFIS will now commence in April 2014.
- 3.27 Finally, we are working with all departments in both Councils to enhance the capability to carry out thorough intelligence checks when investigating areas of regulatory functions.

4. **Implications**

4.1 **Financial**

- 4.1.1 The Head of Strategic Finance comments that there are no financial implications in this report.

4.2 **Legal Issues** (Monitoring Officer)

- 4.2.1 The Head of Legal and Property Services comments that there are no specific legal issues in the report.

4.3 **Potential Risks**

Please identify potential risks using the graph below. An example is given to demonstrate how the graph should be used. The score is reached by multiplying the likelihood by the impact.

Potential Risk	Likelihood	Impact	Overall score
<i>The most significant potential risk is the possibility that the work of the fraud section is of poor quality and the service is ineffective. This could lead to higher incidences of fraud risks.</i>	1	4	4

Appendices

Appendix A - Audit Commission checklist for those responsible for Governance

Background Papers

- Audit Commission Protecting the Public Purse 2012

File Reference

- *None*

CHECKLIST FOR THOSE RESPONSIBLE FOR GOVERNANCE

Description	Yes	No	Action/Comments
General			
1. Do we have a zero tolerance policy towards fraud?	✓		The zero tolerance of fraud is a clear statement in the shared anti-fraud and corruption policy. (paragraph 1.1 of the AFCS refers)
2. Do we have the right approach, and effective counter-fraud strategies, policies and plans? Have we aligned our strategy with Fighting Fraud Locally?	✓		Work currently ongoing by the Fraud Manager is aimed at aligning the Councils' approaches more closely with Fighting Fraud Locally and the 10 point action plan announced by Eric Pickles. We have reviewed our policies as a consequence of emerging risks identified.
3. Do we have dedicated counter-fraud staff?	✓		The Fraud Team comprises the councils' dedicated counter-fraud staff.
4. Do counter staff review all the work of the organisation?	✓		Between the Fraud Team and SIAS the risks of fraud are evaluated.
5. Do we receive regular reports on how well we are tackling fraud risks, carrying out plans and delivering outcomes?	✓		Annual reports are submitted to Audit Committee by the Fraud Manager.
6. Have we assessed our management of counter-fraud work against good practice?	✓		Internal Audit work in September 2010 reviewed the Fraud Team against the Protecting the Public Purse checklist. Time is allocated in the audit plan for 2013/14 to review the councils' approaches to identifying and tackling fraud risks.
7. Do we raise awareness of fraud risks?			
<ul style="list-style-type: none"> • With new staff including agency staff 		✓	We do for new staff but not agency staff. HR to review.
<ul style="list-style-type: none"> • With existing staff 	✓		Yes. E-learning Anti-Fraud and Corruption Training is provided. The material is available on the intranet.
<ul style="list-style-type: none"> • With elected members 	✓		The E-learning training was made available to elected Members.
<ul style="list-style-type: none"> • With our contractors 		✓	No

Description	Yes	No	Action/Comments
8. Do we work well with national, regional and local networks and partnerships to ensure we know about current fraud risks and issues?	✓		Fraud Manager makes extensive use of networks. These include the National Anti-Fraud Network (Nafn), The National Fraud authority (NFA) as examples. Bulletins are disseminated to all staff to minimise fraud risks.
9. Do we work well with other organisations to ensure we effectively share knowledge and data about fraudsters?	✓		Yes use of NAFN, the Audit Commission, NFA.
10. Do we identify areas where our internal controls may not be performing as well as intended? How quickly do we then take actions?	✓		Where specific exposure is identified then action is taken quickly – e.g. following on from an incident the procedures for changing bank account details were improved within Finance and Revenues & Benefits promptly. This is further achieved by agreeing the Council’s Annual Governance Statement
11. Do we maximise the benefit of our participation in the Audit Commission National Fraud Initiative and receive reports on the matches identified?	✓		Yes
12. Do we have arrangements in place that encourage our staff to raise their concerns about money-laundering?	✓		Yes a new money-laundering policy was agreed in 2012.
13. Do we have effective arrangements for reporting fraud, recording fraud and whistle blowing?	✓		Yes, revised arrangements were agreed in 2012 that included whistle blowing, Bribery Act and a revised Anti-Fraud and Corruption Strategy. This was communicated to all staff. The recording of fraud is on the fraud case management system Incase.
14. Do we have effective fidelity insurance arrangements?	✓		Yes effected through Zurich Municipal.

Description	Yes	No	Action/Comments
Fighting fraud with reduced resources			
15. Have we reassessed our fraud risks since the change in the financial climate?	✓		Both councils have updated their risk registers to include the risk of fraud as a specific risk. Audit (SIAS) performs an overview fraud risk analysis of key financial systems as part of the annual planning process and this incorporates the possible effects of the change in the financial climate. We have reviewed emerging risks and reported findings to Leadership Team April 2012.
16. Have we amended our counter-fraud plan as a result?	✓		Work is ongoing including this checklist as part of this process.
17. Have we reallocated staff as a result?	✓		Yes.
Current risks and issues			
Housing Tenancy			
18. Do we take proper action to ensure that we only allocate social housing to those who are eligible?	✓		Yes appropriate checks in place – via for example ID documents, Experian, Land Registry and through home visits to verify circumstances. Housing staff liaise with fraud on specific cases.
19. Do we ensure that social housing is occupied by those to whom it is allocated?	✓		Temporary accommodation monitored through managing agents. Permanent stock responsibility passed to housing association on stock transfer. We have obtained funding from the LGA and are recruiting a tenancy fraud investigator specifically for this purpose following this issue being highlighted as an emerging risk.
Procurement			
20. Are we satisfied our procurement controls are working as intended?	✓		An audit was conducted in 2012/13 for TRDC and reviewed the corporate procurement arrangements. The proposed audit for WBC was deferred until 2013/14.
21. Have we reviewed our contract letting procedures since the investigations by the Office of Fair Trading into cartels and compared them with best practice?	✓		Yes this was reviewed as part of the TRDC audit in 2012/13 but for WBC this will be picked up in 2013/14.

Description	Yes	No	Action/Comments
Recruitment			
<p>22. Are we satisfied our recruitment procedures achieve the following?</p> <ul style="list-style-type: none"> • Do they prevent us employing people working under false identities • Do they confirm employment references effectively • Do they ensure applicants are eligible to work in the UK • Do they require agencies supplying us with staff to undertake the checks that we require? 			<p>Recruitment audit 2011/12 identified that more could be done to promote a consistent approach to minimum standards for the vetting of candidates/new employees to provide a higher level of assurance. This work is ongoing. Whilst the Head of HR is satisfied with our recruitment process we accept more could be done. This will include further consideration to enhanced vetting.</p>
	✓		Yes
	✓		Yes
	✓		Yes – more checks on document verification could minimise further risks though
	✓		Yes, assurances were obtained from agencies that the relevant checks are in fact being carried out for every candidate.
Personal Budgets			
<p>23. Where we are expanding the use of personal budgets for adult social care, in particular direct payments, have we introduced proper safeguarding proportionate to risk and in line with recommended good practice?</p>			N/A

Description	Yes	No	Action/Comments
24. Have we updated our whistle blowing arrangements, for both staff and citizens, so that they may raise concerns about the financial abuse of personal budgets?			N/A
Council Tax			
25. Do we take proper action to ensure that we only award discounts and allowances to those eligible.	✓		A 3-year programmed review was entered into with County Council and Revenues & Benefits in 2011/12 to assess the SPD position and discounts. This review is a continuing process to ensure we have an accurate tax base.
Housing and Council Tax Benefits			
26. When we tackle Housing and Council Tax Benefit fraud do we make full use of the following?			
<ul style="list-style-type: none"> • National Fraud Initiative • Department for Works and Pensions Housing Benefit Matching Service 	✓		Yes
<ul style="list-style-type: none"> • Internal Data Matching 	✓		Yes
<ul style="list-style-type: none"> • Private Sector data matching 		✓	No – our data is however supplied to the Audit Commission for inclusion in the National Fraud Initiative (NFI)
		✓	No – but private sector data is used in the NFI

PART A

Report to: Audit Committee
Date of meeting: 26 June 2013
Report of: Head of Finance Shared Services
Title: Internal Audit Annual Report 2012/2013

1.0 **SUMMARY**

This report introduces the Internal Audit's Annual Report on the work of the Internal Audit Service for 2012/2013 and Head of Finance Shared Services opinion of the adequacy and effectiveness of the Council's control environment (attached).

2.0 **RECOMMENDATIONS**

2.1 That the contents of the annual internal audit report be noted.

Contact Officer:

For further information on this report please contact: Head of Finance Shared Services : Alan Power, Telephone number (01923) 727196 (email Alan.Power@ThreeRivers.gov.uk) and Chris Gamble Senior Auditor : SIAS (01923) 278104 (chris.gamble@hertfordshire.gov.uk).

Report approved by: Bernard Clarke, Head of Strategic Finance

3.0 **IMPLICATIONS**

3.1 **Financial**

3.1.1 The Head of Strategic Finance comments that there are no immediate implications arising from this report.

3.2 **Legal Issues** (Monitoring Officer)

3.2.1 The Head of Legal and Property Services comments that the legal implications are dealt with in the body of the report. The Council is under a duty to undertake an adequate and effective internal audit of its accounting records and of its system of internal control in accordance with the proper practices in relation to internal control. The Committee is required consider an annual report, including an opinion on the adequacy and effectiveness of the control environment, to those charged with governance.

3.3 **Potential Risks**

Potential Risk	Likelihood	Impact	Overall score
The most significant potential risk relates to the possibility that Internal Audit is of poor quality and ineffective. This could lead to an increase in control weaknesses, in greater risks to the Council and to a loss of confidence by the external auditors in Internal Audit and the Council's control environment.	1	3	3

Appendix

Annual Audit report

Background Papers

The following background papers were used in the preparation of this report. If you wish to inspect or take copies of the background papers, please contact the officer named on the front page of the report:

Internal Audit Files.

File Reference

None.

WATFORD BOROUGH COUNCIL
ANNUAL INTERNAL AUDIT REPORT 2012/2013

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1 Introduction

This report summarises the work undertaken by Internal Audit in relation to the 2012/2013 audit plan to the end of May 2013. It covers functions performed directly by Watford Borough Council and by Shared Services on its behalf. The report meets the requirements of the CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom 2006 by:

- (i) including an opinion on the overall adequacy and effectiveness of the Council's control environment
- (ii) disclosing any qualifications to that opinion, together with the reasons for the qualification
- (iii) presenting a summary of audit work undertaken to formulate the opinion, including reliance placed on the work of other assurance bodies
- (iv) drawing attention to any issue the Head of Internal Audit judges particularly relevant to the production of the Annual Governance Statement
- (v) comparing the work actually undertaken with the work that was planned and summarising the performance of the Internal Audit team against its performance measures and
- (vi) commenting on compliance with the CIPFA standards and communicating the results of the Internal Audit quality assurance programme.

The Accounts and Audit (Amendment) (England) Regulations 2006 require the Council to maintain an adequate and effective system of internal audit of its accounting records and of its systems of internal control in accordance with proper practices in relation to internal control.

In May 2011, the Chartered Institute of Public Finance & Accountancy (CIPFA) and the Chartered Institute of Internal Auditors (CIIA) agreed to collaborate in the development of the internal audit profession in the public sector. As a result, national Public Sector Internal Audit Standards (PSIAS), based upon the mandatory elements of the global CIIA's International Professional Performance Framework have been developed.

The PSIAS are effective from 1 April 2013 and consist of the following:

- Definition of Internal Auditing;
- Code of Ethics; and
- Standards for the Professional Practice of Internal Auditing.

A separate report on the PSIAS has been included on the agenda of the Audit Committee for 26 June.

The Council is responsible for ensuring its business is conducted in accordance with the law and proper standards and that public money is safeguarded, properly accounted for and used economically, efficiently and effectively. The work undertaken by Internal Audit must not be seen as a substitute for management's responsibility for maintaining sound management practices, including robust controls.

2 Audit Opinion

Based on the internal audit work undertaken we give satisfactory assurance on the adequacy and effectiveness of the internal control environment.

There have been no significant new concerns arising from the majority of the audits undertaken in 2012/13 that necessitate an adverse overall opinion. **However, updates on some of the concerns reported in the previous Annual Report have been included in 2012/13.** These are listed in Section 3 of this report.

The factors taken into account in forming the opinion are set out in more detail in sections 3, 4 and 5 below.

Every internal audit report contains an audit opinion on the effectiveness of controls within the system/function/activity reviewed, highlighting any significant weaknesses which could affect the Council's control environment. The opinion provided in each report falls into one of the following categories:-

Substantial Assurance = Controls are sound and are adhered to consistently providing confidence that, based on the testing for the audit, the service objectives in the area(s) reviewed will be achieved.

Satisfactory Assurance = Controls are sound in design but testing identified some inconsistent application that may put the achievement of some service objectives at risk in the area(s) reviewed.

Limited Assurance = Gaps in control and inconsistent application of controls put the achievement of service objectives in the area(s) reviewed at risk.

No Assurance = Significant absence of controls and/or significant failure in controls that are in place.

These individual opinions feed into the overall opinion provided in this report.

3 Audit Qualifications

Whilst overall control arrangements are effective there are certain qualifications to this:

- **Reconciliations to the Financial Management System (reported 2011/12)**

An audit of reconciliations between the various feeder systems (revenues, benefits, payroll etc) and eFinancials has been finalised by Deloitte & Touche. The review confirmed that significant improvements have taken place regarding completing reconciliations. There are however some recommendations that have been made to further strengthen the system in operation.

The importance of in-year reconciliations as a source of assurance is fully recognised by Finance who will ensure that in-year reconciliations will be produced between the general ledger (eFinancials) and all associated feeder systems throughout 2013/14 and beyond.

- **ICT (reported 2011/12)**

The Councils must ensure they establish robust IT governance arrangements to manage the new contract (with Capita) along with a comprehensive IT strategy. Failure in this area will mean that the potential (and necessary) improvements to IT will not be realised and the costs of the contract could escalate.

Capita are committed to addressing the vulnerabilities identified within the IT systems, and the Councils have responded positively to implementing outstanding Internal Audit recommendations

- **Separation of Duties (reported 2011/12)**

As previously reported the issue of separation of duties in the processing of financial transactions (key financial systems) may be difficult to achieve taking into consideration the reductions in staffing levels brought about by the ongoing requirement to find savings. Heads of Services and Service Managers must continue to ensure that where staff numbers are reduced, appropriate compensating controls are put in place to mitigate the additional risk of error or fraud that may arise from increasing reliance on individuals to perform all or the majority of stages of transactions that were previously performed by separate officers.

The following area was reported in the last annual report and has been addressed.

- **Recovery of Overpaid Benefits (reported last year 2011/12)**

The previous annual report highlighted the failures of systems which hindered the recovery of overpaid Housing and Council Tax benefit. There have been improvements in the systems over the last financial year which have ensured that overpaid benefits are being recovered. Though follow up of last year's report was done, no additional testing was conducted this year.

4 Basis of Opinion

4.1 Work Undertaken

The work undertaken by Internal Audit during the 2012/2013 financial year was in accordance with the Audit Plan as approved by the Audit Committee. This has been a transitional year for Internal Audit as the service was transferred to the Shared Internal Audit Service (SIAS) partnership from 1 April 2013. As previously reported to the Committee, the departure of the Audit Manager resulted in a proportion of the audits allocated for 2012/13 to be postponed until 2013/14 or deleted if no longer considered necessary.

Details of the audits undertaken and a note of the progress on each one are shown in Appendix 1.

4.2 The Scope of the Audit Plan

The 2012/2013 Audit Plan was prepared by the Audit Manager after reviewing service plans and risk registers, completing a fraud risk assessment and consulting with senior officers. It was based on an assessment of the risks facing both councils and was designed to meet the requirements of the external auditors.

The planning process should therefore help ensure that all key systems and significant risks have been taken into account.

4.3 Implementation of Recommendations

When an audit is completed weaknesses/areas requiring improvement are discussed with senior management. This leads to an action plan being drawn up which shows agreed measures to be taken and the timescales within which they will be implemented.

All recommendations are followed up to ensure that action has been taken, or where not, that there is an acceptable reason. Occasional follow up visits are carried out and all recommendations relating to key systems are routinely followed up during the next planned audit. The results of the follow up

process, and in particular any failure to implement recommendations, is reported to each meeting of the Audit Committee.

These arrangements should ensure that action is taken to remedy any issues identified during the year

4.4 Other Factors

Other factors that have contributed to the construction of the internal audit opinion:

- Observations arising from requests to Internal Audit for assistance, attendance at meetings, committee agendas and minutes etc
- The absence of material changes in the Council's objectives or activities in the year under review.
- There have been no limitations placed on the scope of work undertaken by Internal Audit, on its access to records and information or on the provision of explanations as necessary.

4.5 External Assurance

The work undertaken by the external auditors has been taken into account and where appropriate the scope of individual Internal Audit assignments incorporates any concerns raised by the external auditors.

5 Fraud Investigations/Awareness

With the exception of benefit fraud, which is investigated solely by the Benefit Fraud Team, Internal Audit is responsible for investigating suspected cases of fraud and corruption in collaboration with the Fraud Team.

It is management's responsibility to ensure that adequate control procedures are in place to deter and detect fraudulent activity, not Internal Audit's or the Fraud Team's. Internal Audit's responsibility includes providing an opinion on the effectiveness of the Council's arrangements to prevent and detect fraud, remaining vigilant on the potential for fraud in all areas audited and making recommendations to address weaknesses in controls that could give (or have given) rise to frauds.

There were no frauds of which Internal Audit is aware that should be reported to the Audit Committee.

6 Internal Audit - Quality Assurance

The Internal Audit team seeks to operate in accordance with the standards laid down by CIPFA in the Code of Practice for Internal Audit in Local Government in the UK (2006) which sets out auditing standards under the following eleven headings:

- Scope of Internal Audit
- Independence
- Ethics for Internal Auditors
- Audit Committees
- Relationships
- Staffing, Training and Continuing Professional Development
- Audit Strategy and Planning
- Undertaking Audit Work
- Due Professional Care
- Reporting
- Performance, Quality and Effectiveness.

Based on reviews undertaken to date, we are satisfied that there are no material areas of non-compliance with the Code.

Internal Audit's work is subject to review by the external auditors on an annual basis. There has been no criticism of our work over the past year.

Internal Audit has its own quality assurance controls. Standard procedures and working papers are used. For every audit the working papers and all versions of the audit report are reviewed. Any concerns/queries are discussed with individual auditors.

Work on individual audits is carried out by auditors with the appropriate level of skill and experience.

Use is made of customer satisfaction questionnaires as a means of gaining independent comment on our service. Any issues raised are discussed with the customer and the auditor. We try to learn from any mistakes we may make or from suggestions for improvement.

Alan Power
Head of Finance Shared Services
May 2013

APPENDIX 1

Position as at 3 June 2013
2012/2013

Annual Plan 2012/13

Audit	Progress
Shared Audits	
Payroll	Final report 03.06.13
NNDR	Final report 24.05.13
Council Tax	Final report 24.05.13
Benefits	Draft report stage
Creditors	Final report 07.05.13
Debtors	Final report 20.05.13
FMS: Reconciliations	Final report 21.5.13
FMS: Journals and Internal Transfers	Final report 21.05.13 (part of FMS Reconciliations)
Income Collection	Draft report stage
Final Accounts 2011/12 Preparations within Finance	Final report 25.06.12
Online expense claims – via ResourceLink	Final report 03.06.13 (part of Payroll audit)
West Herts Crematorium	Final report 10.08.12
IT – Virtualisation	Final report 12.12.12
WBC	
Cyber-crime awareness and prevention	Final Report 18.12.12
Risk Management	Final Report 17.05.13
Emergency Planning Processes (Olympics Readiness)	Final Report 20.07.12
Partnerships	Final Report 15.05.13
Carbon Management	Final Report 03.05.13
Procurement	Deferred to 2013/14
Data Transparency	Final Report 07.02.13
Data Protection	Final Report 18.03.13

LOCAL PERFORMANCE MEASURES 2012/2013

Criteria	Target p.a. (as per Audit Plan)	To 31st March 2013	Comment
% of annual audit plan achieved. Based on number of audits.	92%	94%	This was based on revised Audit Plan (Audit team reduced from 3 to 2 staff).
Sickness – average days per employee.	4	3.2	
Training – average days	4	6.2	Time includes for internal and external seminars/training.

Criteria	Target p.a.	Actual To 31st March 2013	Comment
Final audit reports issued within 10 available working days of agreement to draft report.	100%	100%	
Level of customer satisfaction	94%	99.69	Based on 4 satisfaction surveys received.



Watford Borough Council
Audit Committee Progress Report
26 June 2013

Recommendation

Members are recommended to:

- Note the Internal Audit Progress Report for the period to 31 May 2013
- Agree removal of implemented recommendations (Appendices B)

Contents

- 1 Introduction and Background
 - 1.1 Purpose
 - 1.2-1.4 Background
- 2 Audit Plan Update
 - 2.1-2.3 Delivery of Audit Plan and Key Findings
 - 2.4-2.6 All Priority Recommendations
 - 2.7 Proposed audit plan amendments
 - 2.8- 2.9 Performance against targets

Appendices

- A Progress against the 2013-14 Audit Plan
- B Progress against outstanding internal audit recommendations

1. Introduction and Background

Purpose of Report

1.1 This report details:

- a) Progress made by the Shared Internal Audit Service (SIAS) in delivering the Council's annual audit plan for 2013/14 as at 31 May 2013.
- b) Progress on finalisation of the 2012/13 audit plan as at 31 May 2013.
- c) Implementation status of all outstanding previously agreed audit recommendations from 2010/11 onwards.
- d) An update on performance management information as at 31 May 2013.

Background

- 1.2 The work of internal audit is required to be reported to a Member Body so that the Council has an opportunity to review and monitor an essential component of corporate governance and gain assurance that its internal audit provision is fulfilling its statutory obligations. It is considered good practice that progress reports also include proposed amendments to the agreed annual audit plan.
- 1.3 The Internal audit service has been transferred to the Shared Internal Audit Service (SIAS) partnership since April 2013. The 2013/14 draft annual audit plan was presented to the Audit Committee by the Head of Assurance (SIAS) and approved by the Audit Committee on 13 March 2013.
- 1.4 The Audit Committee will receive quarterly updates against the annual audit plan from SIAS, and this is the first such report. Previously the Committee received progress reports from the in-house audit team, the last of which was brought to this Committee on 13 March 2013.

2. Audit Plan Update

Delivery of Audit Plan and Key Audit Findings

- 2.1 As at 31 May 2013, 98.3% of the audits from the 2012/13 revised audit plan have been completed. The annual report also on the Audit Committee agenda of 26 June provides a full status update on each individual project within the audit plan.
- 2.2 The following 2012-13 reports have been finalised in the period between 13 March 2013 to 3 June 2013:

Audit Title	Date of Issue	Assurance Level	Number and Priority of Recommendations
Data Protection	18.03.13	Satisfactory	Five recommendations, medium priority.
Carbon Management	03.05.13	Substantial	No recommendations made.
Accounts Payable	07.05.13	Substantial	Two recommendations, medium priority.
Partnerships	15.05.13	Satisfactory	Five recommendations, medium priority.
Risk Management	17.05.13	Satisfactory	Three recommendations, medium priority.
Sundry Debtors	20.05.13	Satisfactory	Two recommendations, one high and one medium priority
FMS Reconciliations	21.05.13	Satisfactory	Five recommendations one high, three medium and one low priority.

NNDR	24.05.13	Satisfactory	Four recommendations, two high and two medium priority.
Council Tax	24.05.13	Satisfactory	Four recommendations, two high and two medium priority.

2.3 Work on the 2013/14 audit plan is underway, at an early stage. Appendix A sets out the status of each item within the 2013/14 plan.

Recommendations

2.4 Members will be aware that a Final Audit Report is issued when it has been agreed by management; this includes an agreement to implement the recommendations that have been made. It is SIAS's responsibility to bring to Members' attention the implementation status of high priority recommendations; it is the responsibility of Officers to implement the recommendations by the agreed date.

2.5 The table below summarises progress in implementation of all outstanding internal audit recommendations, with full detail given in appendix B:

Year	Recommendations made No.	Implemented	Not yet due	Outstanding & request made for extended time	Percentage implemented %
2010/11	213	207	0	6	97%
2011/12	114	108	5	1	94.7%
2012/13	42	9	32	1	21.4%

2.6 Many of the IT audit recommendations dating back to 2010 are being actioned by the ICT Client Manager as part of the transfer of IT to the new provider. Extended time for implementation has been requested for 6 of the recommendations by ICT, one by the Finance Service and one by Environmental Services.

Proposed Audit Plan Amendments

- 2.7 At the 13 March Audit Committee, members commented on the risk assessment approach and those audits deferred to future years. To date, the focus of the team has been in completing work from the 12/13 plan and no discussion has yet taken place with regards to re-assessing the priorities for the current year plan. This will be kept under review at audit liaison meetings and any changes reported back to this Committee.

Performance against targets

- 2.8 Annual performance indicators and associated targets were approved by the SIAS Board in March 2013. Actual performance for Watford Borough Council against the targets that can be monitored for 2013/14 is shown the table below.

Performance Indicator	Annual Target	Profiled Target to 31 May 2013	Actual to 31 May 2013
1. Planned Days – percentage of actual billable days against planned chargeable days completed (excluding unused contingency)	95%	17%	13.2%
2. Planned Projects – percentage of actual completed projects to draft report stage against planned completed projects (excludes 12/13 completion and 'ongoing' pieces)	95%	17%	8.8%

3. Client Satisfaction – percentage of client satisfaction questionnaires returned at 'satisfactory' level	100%	100%	No 13/14 reports issued
4. Number of High Priority Audit Recommendations agreed	95%	100%	No 13/14 high priority recommendations yet made

2.9 In addition, the performance targets listed below are annual in nature. Performance against these targets will be reported on in the 2013-14 Head of Assurance's Annual Report:

- **5. External Auditors' Satisfaction** – the Annual Audit Letter should formally record whether or not the External Auditors are able to rely upon the range and the quality of SIAS' work.
- **6. Annual Plan** – prepared in time to present to the March meeting of each Audit Committee. If there is no March meeting then the plan should be prepared for the first meeting of the civic year.
- **7. Head of Assurance's Annual Report** – presented at the Audit Committee's first meeting of the civic year.

APPENDIX A INTERNAL AUDIT PLAN 2013/14 - UPDATE ON POSITION AS AT 31 MAY

2013-14 SIAS Audit Plan

AUDITABLE AREA	LEVEL OF ASSURANCE	RECS			AUDIT PLAN DAYS	LEAD AUDITOR ASSIGNED	BILLABLE DAYS COMPLETED	STATUS/COMMENT
		H	M	MA				
Key Financial Systems								
Benefits (shared)	Not yet assessed				15	No		Planned for Q3 / Q4
Council Tax (shared)	Not yet assessed				12	No		Planned for Q3 / Q4
Creditors (shared)	Not yet assessed				11	No		Planned for Q3 / Q4
Debtors (shared)	Not yet assessed				11	No		Planned for Q3 / Q4
Main Accounting (shared)	Not yet assessed				19	No		Planned for Q3 / Q4
NNDR (shared)	Not yet assessed				12	No		Planned for Q3 / Q4
Payroll (shared)	Not yet assessed				14	No		Planned for Q3 / Q4
Treasury Management	Not yet assessed				5	No		Quarter TBC
Budgetary Control	Not yet assessed				8	No		Quarter TBC

APPENDIX A INTERNAL AUDIT PLAN 2013/14 - UPDATE ON POSITION AS AT 31 MAY

AUDITABLE AREA	LEVEL OF ASSURANCE	RECS			AUDIT PLAN DAYS	LEAD AUDITOR ASSIGNED	BILLABLE DAYS COMPLETED	STATUS/COMMENT
		H	M	MA				
Asset Management	Not yet assessed				8	No		Quarter TBC
Operational Audits								
Recruitment and vetting – follow-up (Shared)	Not yet assessed				5	Yes	1	Planned for Q1
Health & Safety (Shared)	Not yet assessed				10	Yes		Planned for Q1
Project and change management	Not yet assessed				10	Yes		Planned for Q2
Housing re-design –advisory support	Not yet assessed				10	Yes	1	Planned for Q1
Review of Corporate Spatial Data	Not yet entered				10	Yes	1	Planned for Q1
Health Campus	Not yet entered				10	No		Planned for Q2
Commercial rent	Not yet assessed				6	Yes		Planned for Q1
Data Protection –follow-up	Not yet assessed				6	Yes		Planned for Q3

APPENDIX A INTERNAL AUDIT PLAN 2013/14 - UPDATE ON POSITION AS AT 31 MAY

AUDITABLE AREA	LEVEL OF ASSURANCE	RECS			AUDIT PLAN DAYS	LEAD AUDITOR ASSIGNED	BILLABLE DAYS COMPLETED	STATUS/COMMENT
		H	M	MA				
Procurement								
New IT contract management review (shared)	Not yet assessed				10	No		January 2014
Procurement and contract management baseline review	Not yet assessed				10	Yes		Planned for Q3
Outsourcing arrangements	Not yet assessed				10	No		Quarter TBC
Counter Fraud								
Review of counter fraud arrangements Shared Service Benefit Fraud Team (shared)	Not yet assessed				5	No		Quarter TBC
Anti-Fraud and Corruption Baseline Review	Not yet assessed				10	Yes		Planned for Q1
Risk Management and Governance								
Risk management	Not yet assessed				5	No		Quarter TBC
Corporate governance	Not yet assessed				5	No		Quarter TBC

APPENDIX A INTERNAL AUDIT PLAN 2013/14 - UPDATE ON POSITION AS AT 31 MAY

AUDITABLE AREA	LEVEL OF ASSURANCE	RECS			AUDIT PLAN DAYS	LEAD AUDITOR ASSIGNED	BILLABLE DAYS COMPLETED	STATUS/COMMENT
		H	M	MA				
IT Audits								
IT vulnerabilities- extended follow-up (shared)	Not yet assessed				10	No		August 2013
Cyber Risk (Shared)	Not yet assessed				10	No		October 2013
SIAS Joint Work								
New ways working seminar (Shared)	Not yet assessed				1			Quarter TBC
Comparative review of budget setting and monitoring arrangements (Shared)	Not yet assessed				1			Quarter TBC
Herts waste partnership	Not yet assessed				1			Quarter TBC
Contingency								
Investigation	Not yet entered				2		4	In progress
Boundary way insulation project	Not yet entered				0	Yes	1	Complete

APPENDIX A INTERNAL AUDIT PLAN 2013/14 - UPDATE ON POSITION AS AT 31 MAY

AUDITABLE AREA	LEVEL OF ASSURANCE	RECS			AUDIT PLAN DAYS	LEAD AUDITOR ASSIGNED	BILLABLE DAYS COMPLETED	STATUS/COMMENT
		H	M	MA				
Strategic Support								
Head of Internal Audit Opinion 2012/13	Satisfactory				2		2	Complete
Introduction to Public Sector Internal Audit Standards	N/A				1		1	Complete
Audit committee	N/A				8		1	Ongoing
Monitoring & Client Liaison	N/A				5		1	Ongoing
2014/15 Audit Planning	N/A				3			Ongoing
SIAS Development	N/A				3			Ongoing
Follow-up recommendations	N/A				10		1	Ongoing
Completion of 2012-13 audits								
Time required to complete work commenced in 2012/13	Various				24		28	Two pieces of 12/13 work remain at draft report stage
WBC TOTAL					148		13	
SHARED SERVICES TOTAL					170		29	
COMBINED TOTAL					318		42	

APPENDIX A INTERNAL AUDIT PLAN 2013/14 - UPDATE ON POSITION AS AT 31 MAY

Key:

H = High Priority recommendation

M= Medium Priority recommendation

MA= Merits Attention Priority recommendation

N/A = Not Applicable

Note:

For purposes of performance indicator on planned projects:

Number of deliverables = 34 pieces (does not include ongoing pieces or completion of 12/13 activity)

Audit Plan 2010/2011

IT Service Desk and Change Management Audit							
Final report issued March 2011							
Ref No.	Recommendation	Priority	Action to Date	Responsibility	Deadline	Resolved x or ✓	Revised Deadline
01	<p>The Service Catalogue should be updated and finalised to ensure it contains a listing of all the current services being provided by ICT.</p> <p>Once finalised, the Service Desk contact details and fault reporting procedures should be made available to all Watford and Three Rivers staff on the intranet.</p>	Important	<p>Position (August 2011) This work has been placed on hold and priority has been given to other work streams and projects. ICT is currently conducting an options appraisal of alternative models of service delivery, which may mean that staff interact with the service desk differently from 1 Oct 2012. Position (February 2012) As at August 2011 above.</p> <p>Position (June 2012) Update regarding IT Tender is that any potential transition to an outsourced provider would be early 2013.</p> <p>Position (August 2012) No change from June update</p> <p>Position (November 2012) The councils are currently conducting due diligence with the preferred supplier for the ICT Service. Outstanding audit recommendations will be discussed during due diligence and reported to the next Audit committee meeting.</p> <p>Position January 2013 Provision of a Service Request Catalogue is part of the Capita proposal. This will define services and items that can be ordered by the Councils users.</p>	ICT Client Manager	June 2011	<p>x</p> <p>Part Resolved</p>	<p>On hold</p> <p>May 2013</p> <p>Sept 2013</p>

IT Service Desk and Change Management Audit							
Final report issued March 2011							
Ref No.	Recommendation	Priority	Action to Date	Responsibility	Deadline	Resolved * or ✓	Revised Deadline
			The interface to Service Desk will be documented and published during Transition, and strictly adhered following Service Commencement. <i>Position May 2013</i> <i>As Above.</i>				
03	Management should review the priority settings and the associated response times within the LanDesk system to ensure that they correspond to the defined agreed SLA. Management should ensure that procedures and processes are documented to escalate calls to Service Desk management when the incident is approaching the SLA to help identify if remedial action is required.	Important	To be investigated and rectified. Position (May 2011): This has been investigated. Remedial work to correct this will form an outcome once the existing Touchpaper system is upgraded in early June 2011. Position (August 2011) The LANDesk system was upgraded in July 2011 but further work has been placed on hold and priority has been given to other work streams and projects. ICT is currently conducting an options appraisal of alternative models of service delivery, which may mean that staff interact with the service desk differently from 1 Oct 2012. Position (February 2012) As at August 2011 above. Position (June 2012) Update regarding IT Tender is that any potential transition to an outsourced provider would be early 2013. Position (August 2012) No change from June update	ICT Client Manager	June 2011	✓	On hold May 2013

IT Service Desk and Change Management Audit							
Final report issued March 2011							
Ref No.	Recommendation	Priority	Action to Date	Responsibility	Deadline	Resolved * or ✓	Revised Deadline
			<p>Position (November 2012) The councils are currently conducting due diligence with the preferred supplier for the ICT Service. Outstanding audit recommendations will be discussed during due diligence and reported to the next Audit committee meeting.</p> <p>Position January 2013</p> <p>Capita's proposal includes the implementation of a replacement ServiceDesk solution (see 5 Solution Overview section 2.2/2.5/2.7)</p> <p>Capita's Service Desk, Incident Management and Change Management processes ensure that all related SLAs are strictly monitored in real-time and reported at month-end, with underlying trends analysed via Problem Management.</p> <p><i>Position May 2013</i></p> <p><i>Capita's proposal includes the implementation of a replacement Service Desk solution (see 5 Solution Overview section 2.2/2.5/2.7).</i></p>				

Asset Management							
Final report issued March 2011							
Ref No.	Recommendation	Priority	Action to Date	Responsibility	Deadline	Resolved * or ✓	Revised Deadline
5.4.7	There should be detailed procedures in place for administering the fixed asset registers.	High	<p>Agreed</p> <p>The procedures will be compiled to take account of the IFRS standard.</p> <p>The IFRS compliant module was installed late in the closing of accounts process. Existing assets have been updated on the system, but no new assets have yet been added New assets acquired during 2010/11 will be added to the register during the 2011/12 financial year. Procedures will be written as the asset register is updated.</p> <p>Position February 2012: This is the first full year with a fully operational integrated fixed asset module. Fixed asset / capital procedure notes will be prepared during the 2012 closing period as the work is undertaken. Proposed Revised Deadline July 2012</p> <p>Position May 2012: Closing of accounts in progress. Deadline remains July 2012.</p> <p>Position August 2012: General procedures can be documented, but detailed procedures relate to the screens in the Financial Management System (FMS). The FMS is being upgraded, going live with version 4.1 on 20 August. Detailed procedures will be written with reference to the upgraded version.</p>	Finance Manager	June 2011	* (Partly resolved)	<p>July 2012</p> <p>October 2012</p> <p>November 2012</p> <p>July 2013 (Not yet due)</p>

Asset Management							
Final report issued March 2011							
Ref No.	Recommendation	Priority	Action to Date	Responsibility	Deadline	Resolved * or ✓	Revised Deadline
			<p>Position November 2012 A bug in the fixed asset module has further delayed the implementation of this recommendation. It was fixed in October 2012, and procedures will be written by the end of November.</p> <p>Position January 2013 Changes to the Asset Register are infrequent and mostly confined to year end accounting entries. Testing has been done on the new version and notes written for those procedures that required testing. The remainder will be written at the year end, with appropriate screen shots, as the accounting entries are carried out.</p> <p><i>Position May 2013</i></p> <p><i>Changes to the Asset Register are infrequent and mostly confined to year end accounting entries. Testing has been done on the new version and notes written for those procedures that required testing. The remainder will be written at the year end, with appropriate screen shots, as the accounting entries are carried out.</i></p>				

IT Remote Working 2010/2011							
Final report issued January 2012							
Ref No.	Recommendation	Priority	Action to Date	Responsibility	Deadline	Resolved x or ✓	Revised Deadline
01	A remote working policy and procedures should be developed. This should include all areas pertaining to remote working.	Important	<p>To be included within the IT Security Policy and Handbook for both WBC and TRDC.</p> <p>Position June 2012 This has been delayed due to staff workload relating to the IT tender.</p> <p>Position (August 2012) No change from June update</p> <p>Position (November 2012) No change from August update</p> <p>Position January 2013</p> <p>Capita can help with advice on this but the responsibility for this lies with the Council's Head of ICT or ICT Client Managers.</p> <p><i>Position May 2013 No change from January update.</i></p>	ICT Client Manager	March 2012	x	<p>December 2012</p> <p>May 2013</p> <p>Dec 2013</p>
02	All remote users should be issued with Terms and Conditions of Use for any laptops and mobile phone devices and should be required to confirm that they have read, understood and agree to comply with the stated policies.	Minor	<p>ICT will define the terms and conditions of use for laptops and mobile phone devices. Mobile phones are not within the remit of the ICT Shared Service, this will need to be managed by the relevant officer within each council.</p> <p>Position (February 2012)</p> <ul style="list-style-type: none"> WBC T&C for mobile phone usage has been completed and sent out to all mobile phone users. T&C for all laptops and TRDC Mobile phones is pending. 	<p>ICT Client Manager</p> <p>Helen Smith (WBC Mobile phones)</p> <p>Phil King (TRDC mobiles)</p>	March 2012	x (Part resolved)	<p>December 2012</p> <p>May 2013</p> <p>July 2013</p>

IT Remote Working 2010/2011							
Final report issued January 2012							
Ref No.	Recommendation	Priority	Action to Date	Responsibility	Deadline	Resolved * or ✓	Revised Deadline
			Position June 2012 This has been delayed due to staff workload relating to the IT tender. Position (November 2012) No change from August update Position January 2013 Capita can help with advice on this but the responsibility for this lies with the Council's Head of ICT or ICT Client Managers for the laptops and Helen Smith\Phil King for mobile phones. <i>Position May 2013</i> <i>ICT Client Managers will liaise with Capita and draw up a policy document to detail the remote working policy to coincide with the Information Security Policy.</i>				
04	A procedure to review leavers and dormant remote access accounts should be developed to ensure that remote access is promptly removed for users on termination of their employment and that all IT equipment or mobile devices are returned to ICT.	Important	Agreed Position (June 2012) Service desk act on notifications from HR related to leavers. A more formal process is currently being worked on. This has been delayed due to staff workload relating to the IT tender. Position (August 2012) No change from June update Position (November 2012) Work is currently being carried out to cleanse the active directory of old accounts. The councils are currently conducting due	ICT Client Manager	March 2012	✓	December 2012 May 2013

IT Remote Working 2010/2011							
Final report issued January 2012							
Ref No.	Recommendation	Priority	Action to Date	Responsibility	Deadline	Resolved * or ✓	Revised Deadline
			<p>diligence with the preferred supplier for the ICT Service. If outsourced, the supplier will have processes and procedures in place for this. Position January 2013</p> <p>The Capita ServiceDesk will provide a service to suspend/remove dormant accounts once informed by the Council via a Service Request. It is assumed that the Active Directory is clean on Service Commencement.</p> <p>Ref.5 Solution Overview section 2.7.1. "The Request Fulfilment process will facilitate the delivery of low risk, low cost and frequently occurring standard operational changes that are documented, repeatable and will have been previously implemented.</p> <p>Typical examples include day to day administrative tasks, for example to cater for new users and leavers [...]Capita will agree the types of Change that can be handled through the standard Service Requests and finalise the relevant Request Fulfilment processes with the Councils during Transition." The process for this will be defined during transition.</p> <p>The return/re-allocation of IT equipment will be defined during transition as part of the Change and Asset Management processes as defined in Section 8 Schedule 4.1 Statement of Work Item 3.4 Assets.</p>				

IT Remote Working 2010/2011							
Final report issued January 2012							
Ref No.	Recommendation	Priority	Action to Date	Responsibility	Deadline	Resolved x or ✓	Revised Deadline
05	The ICT Shared Service should ensure the two-factor user authentication solution is enabled for remote users to gain remote access to the Council networks.	Important	<p>Agreed</p> <p>Position (June 2012): This has been installed and we are in the process of testing this functionality</p> <p>Position (August 2012) Rollout of this functionality is being planned and intended to be in place within the deadline.</p> <p>Position (November 2012) No change from August update</p> <p>Position January 2013</p> <p>Two factor authentication has not been rolled out but is planned to be completed before service commencement with Capita.</p> <p><i>Position (May 2013) Dual Factor Authentication on current equipment will not be compliant with PSN CoCo standards. This will be reviewed during transformation.</i></p>	Head of ICT / ICT Client Manager	June 2012	x	December 2012 May 2013 Dec 2013
09	<p>Management should ensure that security settings on mobile device handsets such as iPhones enforce the following settings:</p> <ul style="list-style-type: none"> Devices should be required to be protected by a power on password or PIN. Any default passwords or PIN codes need to be changed on first use, these should not 	Important	<p>Agreed. Government Code of Connection stipulates that they have only approved Blackberrys for use as mobile devices. There are currently more critical priorities to address within ICT and this is where the focus will lie.</p> <p>The implementation of a Blackberry Enterprise Server will address the above recommendation and will be identified as a future project for the ICT Service.</p> <p>Position (August 2012)</p>	ICT Client Manager	March 2013	x	March 2014

IT Remote Working 2010/2011							
Final report issued January 2012							
Ref No.	Recommendation	Priority	Action to Date	Responsibility	Deadline	Resolved * or ✓	Revised Deadline
	<p>be removed unless authorised in writing by ICT;</p> <ul style="list-style-type: none"> Devices should be set to 'Non-discoverable' or 'Hidden' to help prevent information disclosure by short distance data transfer; and Users should be restricted from reconfiguring the security settings on devices. <p>The remote wipe solution should be investigated to ensure all the data stored on the mobile phone can be wiped either remotely or by exceeding the login threshold. Management should ensure that only ICT approved mobile devices should be procured and issued and all confidential and sensitive data held on mobile device handsets such as iPhones is adequately encrypted according to the sensitivity of the data</p>		<p>Due to the large resource and investment required with this, it will be assigned a priority once the future of the ICT Shared Service is known.</p> <p>Position (November 2012) The councils are currently conducting due diligence with the preferred supplier for the ICT Service. Outstanding audit recommendations will be discussed during due diligence and reported to the next Audit committee meeting.</p> <p>Position January 2013 Mobile telephony is outside the proposal. Implementation of a Blackberry solution which can provide all of these requirements has been included as part of 13/14 project requirement and will be discussed during transformation.</p> <p>Position May 2013 No change from above.</p>				
10	Data stored on returned laptops or mobile devices should have all data removed prior to issuing the device to another user.	Minor	<p>Agreed</p> <p>Position (June 2012) New (and some old) laptops are configured to not allow the user to save information locally. If there is a requirement to save data offsite, users are given encrypted memory sticks for use.</p>	ICT Client Manager	March 2012	✓	<p>March 2014</p> <p>May 2013</p>

IT Remote Working 2010/2011							
Final report issued January 2012							
Ref No.	Recommendation	Priority	Action to Date	Responsibility	Deadline	Resolved * or ✓	Revised Deadline
			<p>There is a wider desktop replacement and re-configuration project required to complete this fully. This is a large piece of work and would need to be prioritised in line with other priorities</p> <p>Position (August 2012) No change from June update</p> <p>Position (November 2012) No change from August update</p> <p>Position January 2013 This will be undertaken as defined in Section 8 Schedule 4.1 Statement of Work Item 3.4 Assets (3.4.40 and 3.4.43), the exact processes to be defined and agreed during Transition.</p>				
11	The ICT Shared Service should ensure that any laptops issued to remote users are configured to receive Operating System and anti-virus updates	Important	<p>Agreed Position (June 2012) Laptops are configured to receive windows updates. New laptops are configured to receive anti-virus updates, however this only occurs when the laptops are plugged into the Council network. Finalising this work would tie into the wider desktop project as per ref 10 above.</p> <p>Position (August 2012) No change from June update</p> <p>Position (November 2012) No change from August update</p> <p>Position January 2013 Capita would expect the Council project to be completed prior to service take-on. Capita will provide OS and AV updates as per Section 8</p>	Infrastructure Manager	March 2012	✓	March 2014 May 2013

IT Remote Working 2010/2011							
Final report issued January 2012							
Ref No.	Recommendation	Priority	Action to Date	Responsibility	Deadline	Resolved * or ✓	Revised Deadline
			Schedule 4.1 Statement of Work Item 3.2.8. Any new laptops issued post Service Commencement will be configured for OS and AV updates.				

Audit Plan 2011/2012

IT Project Management 2011/2012							
Final report issued November 2011							
Ref No.	Recommendation	Priority	Action to Date	Responsibility	Deadline	Resolved * or ✓	Revised Deadline
02	An IT Strategy that supports both Councils' corporate strategies needs to be implemented to direct the forward usage of ICT within both Councils and the Shared Service. An IT strategy should be developed in consultation with the business strategies for both Councils and the Shared Service to ensure that IT development links into corporate priorities.	Minor	<p>Agreed</p> <p>Position (August 2012) This has not progressed due to resource constraints caused by work on the ICT Outsourcing</p> <p>Position (November 2012) The councils are currently conducting due diligence with the preferred supplier for the ICT Service. The decision to outsource will have a large impact on the strategy.</p> <p>Position January 2013 Capita can help with advice on this but the responsibility for this lies with the ICT Client Manager roles which are currently being advertised at both councils</p> <p><i>Position (May 2013) ICT Client Managers have now been appointed. Due to the high workload during transition to Capita the revised deadline has been amended.</i></p>	ICT Client Manager	October 2012	*	<p>March 2013</p> <p>May 2013</p> <p><i>Sept 2013</i></p>

Money Laundering 2011/2012							
Final report issued January 2012							
Ref No.	Recommendation	Priority	Action to Date	Responsibility	Deadline	Resolved * or ✓	Revised Deadline
4.1.14	A training session should be arranged in conjunction with Three Rivers District Council to ensure that key staff that need to be given further in-depth training are trained.	Medium	<p>Garry Turner/Nigel Pollard are drafting a new harmonised policy for TRDC and WBC which will include a new reporting form. The remaining recommendations will be addressed once these Policies have received approval.</p> <p>Position May 2012 We have drafted policy just need to finalise and circulate.</p> <p>Position August 2012 Just amending Bribery act on E learning before issuing</p> <p>Position November 2012 – Updates created but new E Learning platform Vine will not be launched until January 2013. The new platform is an enhanced tool and will provide more functionality for users.</p>	Bernard Clarke, Head of Strategic Finance	End of June 2012	✓	<p>October 2012</p> <p>February 2013</p>
4.1.15	Refresher training should then be arranged for all key staff especially within 'CSC' and 'Revenues and Benefits' at regular intervals (e.g. every two years) to ensure that understanding of the practical requirements of the Money Laundering legislation remains current.	Medium	<p>Garry Turner/Nigel Pollard are drafting a new harmonised policy for TRDC and WBC which will include a new reporting form. The remaining recommendations will be addressed once these Policies have received approval</p> <p>Position May 2012 We have drafted policy just need to finalise and circulate.</p> <p>Position August 2012 Just amending Bribery act on E learning before issuing</p>	Bernard Clarke, Head of Strategic Finance	End of June 2012	✓	<p>October 2012</p> <p>February 2013</p>

Money Laundering 2011/2012							
Final report issued January 2012							
Ref No.	Recommendation	Priority	Action to Date	Responsibility	Deadline	Resolved * or ✓	Revised Deadline
			Position November 2012 – Updates created but new E Learning platform Vine will not be launched until January 2013. The new platform is an enhanced tool and will provide more functionality for users.				
4.1.26	Guidance should be issued by the MLRO to the Revenues Service to explain the process for dealing with cases where refunds are requested by consistent over-payers.	Medium	<p>Garry Turner/Nigel Pollard are drafting a new harmonised policy for TRDC and WBC which will include a new reporting form. The remaining recommendations will be addressed once these Policies have received approval Position May 2012 We have drafted policy just need to finalise and circulate.</p> <p>Position August 2012 E learning training will address this query. Just updating bribery act before issuing revised E learning</p> <p>Position November 2012 – Updates created but new E Learning platform Vine will not be launched until January 2013. The new platform is an enhanced tool and will provide more functionality for users.</p>	Bernard Clarke, Head of Strategic Finance	End of June 2012	✓	<p>October 2012</p> <p>February 2013</p>

IT – Asset Management and Virus Protection 2011/2012							
Final report issued August 2012							
Ref No.	Recommendation	Priority	Action to Date	Responsibility	Deadline	Resolved * or ✓	Revised Deadline
01	<p>An IT Asset Management Policy should be developed to define the objectives, scope, and resource requirements for IT Asset Management.</p> <p>Additionally, procedures for the management of all physical IT assets owned by the Council from procurement and maintenance to their disposal and destruction should be documented and procedures for performing asset management activities, such as asset identification, control, status accounting, auditing and analysing assets should be defined for all staff involved in maintaining the asset register.</p>	Important	<p>Partly Agreed. Non-IT equipment is not the responsibility of the ICT Shared Service and will need to be raised with the appropriate managers listed below.</p> <p>Position (August 2012) No progress to report since this report was issued in August 2012</p> <p>Position (November 2012) No change from August update</p> <p>Position January 2013 Asset Management of Council IT assets currently controlled by the council ICT Department will be undertaken as defined in Section 8 Schedule 4.1 Statement of Work Item 3.4 Assets, the exact processes to be defined and agreed during Transition.</p> <p><i>Position May 2013</i> <i>Capita are currently conducting an asset audit which will be entered into the new Resolution Management System support desk system and maintained under the outsource contract.</i></p>	ICT Client Manager	December 2012	✓	May 2013

IT – Asset Management and Virus Protection 2011/2012							
Final report issued August 2012							
Ref No.	Recommendation	Priority	Action to Date	Responsibility	Deadline	Resolved * or ✓	Revised Deadline
03	<p>Management should perform a review of all assets recorded within the Asset Register to help ensure that the data input is up-to-date, complete and accurate.</p> <p>The following details should in particular be recorded for all assets to facilitate monitoring and tracking of all IT hardware and software.</p>	Important	<p>Agreed</p> <p>Position (August 2012) No progress to report since this report was issued in August 2012. It may be most practical to do this during the transition phase if the service is to be outsourced.</p> <p>Position (November 2012) No change from August update</p> <p>Position January 2013 The councils have agreed to ask Capita to do this during the transition period during a change freeze period.</p> <p>Position (May 2013) Capita are currently conducting an asset audit which will be entered into the new Resolution Management System support desk system and maintained under the outsource contract.</p>	Avni Patel Head of ICT	December 2012	✓	May 2013
06	The Shared Service should ensure that printers and scanners are recorded on the Asset Register.	Important	<p>Agreed</p> <p>Position (August 2012) No progress to report since this report was issued in August 2012. It may be most practical to do this during the transition phase if the service is to be outsourced.</p>	Head of ICT / ICT Client Manager	August 2012	✓	May 2013

IT – Asset Management and Virus Protection 2011/2012							
Final report issued August 2012							
Ref No.	Recommendation	Priority	Action to Date	Responsibility	Deadline	Resolved * or ✓	Revised Deadline
			Position (November 2012) No change from August update Position January 2013 The councils have agreed to ask Capita to do this during the transition period during a change freeze period. Asset Management of Council IT assets currently controlled by the council ICT Department will be undertaken as defined in Section 8 Schedule 4.1 Statement of Work Item 3.4 Assets, the exact processes to be defined and agreed during Transition. <i>Position May 2013</i> <i>No Change from above.</i>				
08	The Shared Service should develop procedures to ensure that when IT assets are no longer required that they are marked as disposed of on the asset register. Equipment that is physically destroyed either in house or by a third party should be periodically reconciled to the Asset Register to ensure that all hardware has been securely disposed.	Important	Agreed Position (August 2012) No progress to report since this report was issued in August 2012 Position (November 2012) No change from August update Position January 2013 Asset Management of Council IT assets	ICT Client Manager	December 2012	✓	May 2013

IT – Asset Management and Virus Protection 2011/2012							
Final report issued August 2012							
Ref No.	Recommendation	Priority	Action to Date	Responsibility	Deadline	Resolved * or ✓	Revised Deadline
			<p>currently controlled by the council ICT Department will be undertaken as defined in Section 8 Schedule 4.1 Statement of Work Item 3.4 Assets. Disposal and de-commissioning are defined in items 3.4.35 through 3.4.43.</p> <p><i>Position May 2013</i> <i>No Change from above.</i></p>				

Recruitment 2011/2012							
Final report issued August 2012							
Ref No.	Recommendation	Priority	Action to Date	Responsibility	Deadline	Resolved * or ✓	Revised Deadline
4.3.14	WBC and TRDC should review the potential benefits of using the Hertfordshire County framework for procurement of agency staff.	Medium	<p>Position (August 2012) Agreed. The County framework should be signed by September and a presentation will then be made to District Heads of HR to see who wishes to use the new framework. HR will review at that stage.</p> <p>Position November 2012 A meeting has been held on 8 November with CMS the new County provider. A further review will be conducted with Comensura, WBC's current provider and then a recommendation submitted to Leadership Team/Management Board for consideration. Agreement needs to be reached by January 2013 if a new provider is to be appointed by April 2013</p> <p>Position January 2013 Comensura contract has been extended and can run for up to 2 years from Nov 2012, subject to 6 months notice. Further discussions to take place at Leadership Team and Management Board in April 2013.</p> <p>Position May 2013 For review at Leadership Team/Management Board June/July 2013.</p>	Cathy Watson, Human Resources Manager	End of March 2013.	*	December 2013

NNDR 2011/2012							
Final report issued							
Ref No.	Recommendation	Priority	Action to Date	Responsibility	Deadline	Resolved * or ✓	Revised Deadline
5.5.5	Management should ensure that all relevant staff use the E-learning training tool on money laundering to ensure that they keep up-to-date with the issues which relate to this area and comply with the Councils policy and procedure.	Medium	Agreed The Revenues Manager will instruct staff by e-mail and at Team Briefings to use the E-learning training tool. Position January 2013 Waiting on a new e-learning package to be rolled out by HR. Expected delivery by end of February 2013.	Revenues Manager	31 st January 2013	✓	February 2013

Council Tax 2011/2012							
Final report issued September 2012							
Ref No.	Recommendation	Priority	Action to Date	Responsibility	Deadline	Resolved * or ✓	Revised Deadline
5.6.5	Management should ensure that all relevant staff use the E-learning training tool on money laundering to ensure that they keep up-to-date with the issues which relate to this area and comply with the Councils policy and procedure	Medium	Agreed The Revenues Manager will instruct staff by e-mail and at Team Briefings to use the E-learning training tool. Position January 2013 Waiting on a new e-learning package to be rolled out by HR. Expected delivery by end of February 2013.	Revenues Manager	31 st January 2013	✓	February 2013

Financial Procedure Rules 2011/2012							
Final report issued September 2012							
Ref No.	Recommendation	Priority	Action to Date	Responsibility	Deadline	Resolved * or ✓	Revised Deadline
4.1.15	FPRs should then be reviewed on a regular basis – at least every 2 years - and updated to reflect any changes made to other policies within the council that ensuring consistent message is being given to staff.	Medium	Position January 2013 – The FPR's for both councils have been scheduled in one document and respective s151 Officers will agree style for a harmonised approach. <i>Position May 2013</i> <i>This recommendation is being addressed but has taken a lower priority against essential tasks.</i>	Alan Power, Head of Finance Shared Service	End of March 2013.	*	<i>Sept 2013</i>
4.1.21	As far as is reasonably practical, whenever financial systems are harmonised between WBC and TRDC, the FPRs for both councils should be updated with the same information to make them consistent and avoid duplication of effort.	Medium	<i>Position May 2013</i> <i>Agreed with recommendation.</i>	Alan Power, Head of Finance Shared Service	End of March 2013.	*	<i>Sept 2013</i>

Income Management Systems 2011/2012							
Final report issued October 2012							
Ref No.	Recommendation	Priority	Action to Date	Responsibility	Deadline	Resolved * or ✓	Revised Deadline
5.6.3	The Income Team Leader should carry out regular reviews (at least on biannual basis) of access rights by matching job functionalities of officers to their access permissions. Also there should be formal systems put in place which require a standardised form to be completed by the Service requesting access and authorised by the Income Team Leader when officers are set-up on the system, access rights are amended and user accounts are disabled in the event of staff leavers.	Medium	<p>Agreed</p> <p>Due to a limited number of staff who have access to the system, the Income Team Leader has agreed to review access rights when a member of staff leaves. Also it was agreed that for new staff an electronic authorisation form will be completed.</p> <p>Position January 2013</p> <p>Preparation work has started to fully introduce this recommendation from the 1 April 2013.</p>	Revenues Manager Income Team Leader	31 st January 2013	✓	April 2013

IT Back up and Disaster Recovery 2011/12

Final report issued December 2012

Ref No.	Recommendation	Priority	Action to Date	Responsibility	Deadline	Resolved * or ✓	Revised Deadline
02	The Shared Service should conduct a risk assessment of the capability to recover key systems and services in the event of a disaster based on the Recovery Time Objectives (RTO) and Recovery Point Objectives (RPO) for Councils' systems. This should ensure that any potential issues that could be faced are documented with appropriate counter measures put in place.	High	Agreed Position January 2013 This work will be undertaken by Capita during transition and transformation. Position (May 2013) As above, Capita will propose a full disaster recovery plan, post data-centre move (scheduled for Q4 2013).	Avni Patel Head of ICT	May 2013 (Not yet due)	x	Dec 2013
04	The Shared Service should test its DR arrangements on an annual basis at both Adam Continuity and ICM.. Testing should follow a detailed test plan and test results should be reported to management following the test period. We also recommend that where appropriate, ad hoc tests of tape restores are performed when not otherwise tested.	High	Agreed Position January 2013 A DR test is being planned before the service is transferred to Capita are expected to continue this into the future. Position (May 2013) Due to extensive workload in the run-up to service commencement, a "dry run" of the existing Disaster Plan has not been carried out. However, existing arrangements with both of our continuity providers have been amended and re-signed for a period of one year. Before the expiry of these agreements, Capita will have their own Disaster Plan in place (post data centre move).	Avni Patel Head of ICT	March 2013	x	Dec 2013

Audit Plan 2012/2013

IT Server Virtualisation (ICT) 2012/13							
Final report issued December 2012							
Ref No.	Recommendation	Priority	Action to Date	Responsibility	Deadline	Resolved * or ✓	Revised Deadline
01	The adequacy of the security settings and management arrangements established and applied to the virtual environment at both the Councils should be reviewed and where the standards currently are not aligned with best practice standard such as recommended by CIS (Centre for Internet Security), then they should be applied/configured to create a baseline for on-going security and monitored accordingly.	<i>High</i>	<p>Agreed The Council is awaiting for capita to respond with their view on outstanding settings. They are planning to virtualise the remainder of servers and move them up to their own data centre within the first year of the contract, which should go live in May 2013.</p> <p>Position January 2013</p> <p>Capita will be moving all servers to their data Centre in Chippenham by December 2013 with new hardware and vmware installations. This recommendation will be incorporated into the design of this implementation.</p> <p><i>Position (May 2013)</i> <i>The above position has been endorsed and supported by the ICT Client Management Team.</i></p>	Head of ICT / ICT Client Manager	November 2013	*	December 2013 (Not yet due)

Data Transparency 2012/13							
Final report issued February 2013							
Ref No.	Recommendation	Priority	Action to Date	Responsibility	Deadline	Resolved * or ✓	Revised Deadline
4.1.7	<i>Once the outcome of the DCLG consultation is known, the Partnerships and Performance Section Head should ensure that WBC website has been updated to the correct standard and the anomalies listed above are addressed.</i>	<i>Medium</i>	<i>Position (May 2013) Not yet due.</i>	<i>Kathryn Robson, Partnership and Performance Section Head</i>	<i>End of July 2013. (Not yet due)</i>		
4.1.8	<i>When complying with the requirements, the Partnership and Performance Section Head should agree a protocol with Leadership Team for redacting information to a level that should prevent any misuse of information by potential fraudsters.</i>	<i>Medium</i>	<i>Position (May 2013) Not yet due.</i>	<i>Kathryn Robson, Partnership and Performance Section Head</i>	<i>End of July 2013. (Not yet due)</i>		

Data Transparency 2012/13							
Final report issued February 2013							
Ref No.	Recommendation	Priority	Action to Date	Responsibility	Deadline	Resolved * or ✓	Revised Deadline
4.1.9	<i>The Partnerships and Performance Section Head should also ensure that the required information is sign posted for easy access.</i>	Medium	<i>Position (May 2013) Not yet due.</i>	<i>Kathryn Robson, Partnership and Performance Section Head</i>	<i>End of July 2013. (Not yet due)</i>		

Data Protection 2012/13							
Final report issued 18 th April 2013							
Ref No.	Recommendation	Priority	Action to Date	Responsibility	Deadline	Resolved * or ✓	Revised Deadline
4.1.11	<i>Services should be reminded by the Customer Services Improvement Officer to pass on any requests received under the Data Protection Policy to her immediately to ensure that response for sending information can be given promptly.</i>	Medium	<i>Services are reminded on a regular basis of this requirement through ZZMail and/or intranet messages. Staff guide was updated June 2012. Position May 2013 New Staff Guidance for the handling of complaints is being issued May 2013. This includes guidance on officer responsibilities regarding DataAccess requests.</i>	<i>Danielle Negrello, Customer Service Section Head</i>	<i>End of March 2013</i>		<i>June 2013</i>

Data Protection 2012/13							
Final report issued 18 th April 2013							
Ref No.	Recommendation	Priority	Action to Date	Responsibility	Deadline	Resolved * or ✓	Revised Deadline
4.1.12	<i>Customer Services Improvement Officer should work with the Data Link Officers within services to address the underlying problem for the delays to ensure that the authority consistently meets with the guideline time frame.</i>	Medium	<i>A meeting has already taken place with the service where there is the biggest issue with delayed responses to agree better performance in future. Service responses will be monitored and addressed at service meetings by the CSC team.</i> <i>Position May 2013</i> <i>Ongoing monitoring of the service to track improvements are achieved.</i>	Danielle Negrello, Customer Service Section Head	End of July 2013. (Not yet due)		
4.1.13	<i>If poor response times persist, the Customer Services Improvement Officer should publish figures of non compliance periodically (e.g. quarterly) to Leadership Team.</i>	Medium	<i>Performance figures for FOI are reported and Data Protection could be included as part of the monthly managing the business indicators if no improvement is seen.</i> <i>Position (May 2013)</i> <i>Not yet due.</i>	Danielle Negrello, Customer Service Section Head	End of July 2013. (Not yet due)		
4.2.6	<i>Consideration should be given for a series of training sessions on Data Protection to be made available for staff aimed at preventing future breaches. The course should include action to be taken when access requests are received and also when a breach takes place.</i>	Medium	<i>Online Data Protection training is available to staff on the intranet in the Information Management section. Will put forward DP as a possible training module on the new training portal.</i> <i>Head of Legal and Property Services runs lunch and learn sessions on a quarterly basis for all staff.</i> <i>Position (May 2013)</i> <i>Not yet due.</i>	Danielle Negrello, Customer Service Section Head	End of July 2013. (Not yet due)		

Data Protection 2012/13							
Final report issued 18 th April 2013							
Ref No.	Recommendation	Priority	Action to Date	Responsibility	Deadline	Resolved * or ✓	Revised Deadline
4.3.4	<i>Customer Services Improvement Officer should request confirmation from each of the service to say that they have checked their system for flags and that they have been none present or if there were any present, that they have been successfully removed.</i>	Medium	<i>Services should have their own flags on the system which would be checked by them and where necessary remove them. The wording on the PV list will be amended to add guidance for services regarding records on their systems.</i> <i>Position (May 2013)</i> <i>Not yet due.</i>	<i>Danielle Negrello, Customer Service Section Head</i>	<i>End of July 2013. (Not yet due)</i>		

Carbon Management 2012/13							
Final report issued May 2013							
Ref No.	Recommendation	Priority	Action to Date	Responsibility	Deadline	Resolved * or ✓	Revised Deadline
4.1.10	<i>Clear lines of responsibility should be set up between the Environmental Services and Buildings and Projects team to ensure both parties know who is responsible for which part of the process for compiling the raw data.</i>	Medium	<i>It was agreed at Asset Management Group that it was the responsibility of each Building Manager to monitor consumption of energy for their own building. The role of the Energy and Renewal Surveyor is to use the data to send in returns to monitor our carbon footprint. The role of Buildings and Projects is to act as Building Manager for the Town Hall complex and to respond to any concerns raised by building managers about repair issues that might affect energy consumption</i>	<i>Neil Walker, Energy and Renewal Surveyor and Ian Browne, Buildings and Projects Section Head</i>	<i>Already Implemented.</i>	✓	

Carbon Management 2012/13							
Final report issued May 2013							
Ref No.	Recommendation	Priority	Action to Date	Responsibility	Deadline	Resolved * or ✓	Revised Deadline
4.1.14	<i>The Head of Environmental Service should remind all the Heads of Services to ensure that the spreadsheet for the actual meter readings is completed in full.</i>	High	Agreed	Alan Gough, Head of Environmental Service	End of April 2013	✓	
4.1.15	<i>Arrangements should be made for meter readings to be sent to the utility companies on a regular basis. (at least quarterly). Specific meter readings should be taken and sent to the utility companies at end of each financial year to ensure that the authority gets charged for the actual usage and not estimated.</i>	Medium	A number of our operational buildings have smart meters to measure electricity consumption. These automatically send actual readings to the utility company, therefore we are getting accurate bills for those buildings. Buildings and Projects will monitor the information supplied on the spreadsheet, will send reminders to building managers to complete the spreadsheet by a particular date each month and will forward the data to the utility company for them to prepare their bill. Sending the information monthly rather than annually would be more practical. Position (May 2013) Not yet due.	Service/ Building Managers to complete spreadsheet. Buildings and Projects to send information to utility company.	Monthly from May 2013 (Not yet due at time of drafting)		
4.1.20	<i>Once it is clear who is going to update the usage spreadsheet, check should be carried out on the usage readings recorded against the utility bills on a monthly basis using invoice images on Budget Monitor II to ensure that they have been correctly recorded. This would highlight if there are any marked fluctuations to the energy usage or any errors in .</i>	Medium	This should be the responsibility of building managers as they should understand the energy consumption of their own buildings. Position (May 2013) Not yet due.	Service Manager/ Building Managers	Monthly from May 2013 (Not yet due at time of drafting)		

Carbon Management 2012/13							
Final report issued May 2013							
Ref No.	Recommendation	Priority	Action to Date	Responsibility	Deadline	Resolved * or ✓	Revised Deadline
4.1.26	<i>Both the Energy and Renewal Surveyor and the Buildings and Projects Section Head should liaise with each other to ensure that the names of the establishments are recorded consistently to avoid confusion.</i>	<i>Medium</i>	<i>Buildings and Projects Section Head will refresh spreadsheet addresses to ensure naming and numbering match GIS data. Energy and Renewal Surveyor will use address reference from spreadsheet.</i>	<i>Buildings and Projects Section Head</i>	<i>End of April 2013</i>	✓	
4.1.27	<i>The Energy and Renewal Surveyor and Buildings and Projects Section Head should ensure that the establishments list clearly identifies the properties which are required for the calculation of the Carbon Management data.</i>	<i>Medium</i>	<i>The spreadsheet will identify which properties we need to report on.</i>	<i>Neil Walker, Energy and Renewal Surveyor and Ina Browne, Buildings and Projects Section Head</i>	<i>End of May 2013</i>	✓	
4.2.5	<i>The Energy and Renewal Surveyor and Buildings and Projects Section Head should ensure that the officers identified by the Asset Management Group for taking and recording the meter readings should continue to record the readings on a monthly basis for a period (e.g. six months) even after the smart meters have been installed.</i>	<i>Medium</i>	<i>The implementation date will depend on the installation of the smart meters. Position (May 2013) Not yet due.</i>	<i>Alan Gough, Head of Environmental Health</i>	<i>End of October 2013. (Not yet due)</i>		

Carbon Management 2012/13							
Final report issued May 2013							
Ref No.	Recommendation	Priority	Action to Date	Responsibility	Deadline	Resolved * or ✓	Revised Deadline
4.2.6	<i>Service Manager/Building Managers should ensure that the readings on the bills are checked to the readings recorded on the spreadsheet by various establishments to ensure accuracy of the charges made. Once the accuracy of the meter readings is established, the recording could be discontinued.</i>	Medium	<i>The implementation date will depend on the installation of the smart meters. Position (May 2013) Not yet due.</i>	<i>Service Manager/ Building Managers</i>	<i>End of October 2013. (Not yet due)</i>		

Accounts Payable 2012/13							
Final report issued : May 2013							
Ref No.	Recommendation	Priority	Action to Date	Responsibility	Deadline	Resolved * or ✓	Revised Deadline
4.1.7	<i>The AP Service should monitor the number of PO's that are raised after invoices are received on a quarterly basis for both authorities to see if any improvement in trend is noticeable and to identify any persistent areas of failure. These figures should be published to show the rise or fall in the use of commitment accounting by services across both councils.</i>	Medium	<i>Recommendation 4.1.7 will be progressed via Director of Corporate Resources and Governance and Head of Strategic Finance. An email will be sent to all staff reminding them of their Financial Obligations and encourage them to raise orders in advance of invoices. The results will be presented to Leadership Team (WBC) and Management Board (TRDC) on a 6 monthly basis. Consideration will be given for this to be added to "Managing the organisation" information if the Head of Strategic Finance thinks it will add value. Position (May 2013)</i>	<i>Tracy Langley, Senior Finance Officer</i>	<i>End of June 2013. (Not yet due)</i>		

Accounts Payable 2012/13							
Final report issued : May 2013							
Ref No.	Recommendation	Priority	Action to Date	Responsibility	Deadline	Resolved * or ✓	Revised Deadline
			<i>Not yet due.</i>				
4.1.11	<i>The Senior Finance Officer should liaise with the Customer Service Section Head (WBC) to see if the invoices could be passed straight to the AP Service.</i>	<i>Medium</i>	<i>The Senior Finance Officer raised queries with the Support Service Manager to see if this could be achieved. Currently they do not open post which is specifically addressed to an individual or department. The only post opened is for Revenues and Benefits or Finance or just Watford Borough Council. The Support Service Manager does not have the resources to open more post but he will remind his team that as much as possible should be sent direct to AP.</i> <i>Position (May 2013)</i> <i>Not yet due.</i>	<i>Tracy Langley, Senior Finance Officer</i>	<i>End of June 2013 (Not yet due).</i>		

Accounts Payable 2012/13							
Final report issued : May 2013							
Ref No.	Recommendation	Priority	Action to Date	Responsibility	Deadline	Resolved * or ✓	Revised Deadline
4.1.16	<i>The Senior Finance Officer should remind all Heads of Services that the new payment voucher introduced should be used for all relevant payments.</i>	Low	Position (May 2013) Not yet due.	Tracy Langley, Senior Finance Officer	End of June 2013. (Not yet due)		

Partnerships 2012/13							
Final report issued May 2013							
Ref No.	Recommendation	Priority	Action to Date	Responsibility	Deadline	Resolved * or ✓	Revised Deadline
5.1.2	<i>The Partnership Framework document should be up-dated at the earliest opportunity. When up-dated the review date should be recorded. This should ensure that the latest guidance is followed. (Medium).</i>	Medium	Agreed Position (May 2013) Not yet due.	Partnerships and Performance Section Head	July 2013 (Not yet due)		

Partnerships 2012/13							
Final report issued May 2013							
Ref No.	Recommendation	Priority	Action to Date	Responsibility	Deadline	Resolved * or ✓	Revised Deadline
5.2.3	<i>The Partnerships and Performance Section should make arrangements for the regular collation and reporting of agreed partnership performance information to the relevant reporting body. This will ensure that there is an overview of the work of partnerships and the outcomes in terms of meeting their and the council's specific objectives. It will also help identify under-performing partnerships.</i>	<i>Medium</i>	<i>Agreed Position (May 2013) Not yet due.</i>	<i>Partnerships and Performance Section Head</i>	<i>September 2013 (Not yet due)</i>		
5.3.3	<i>Before the Council enters into significant partnerships a formal risk assessment should be carried out and recorded by the appropriate senior officer. At this stage, if a risk is considered to be significant enough it may be necessary to reconsider membership of the partnership. Risks should be recorded on the service or corporate risk register.</i>	<i>Medium</i>	<i>Agreed Position (May 2013) Not yet due.</i>	<i>Partnerships and Performance Section Head</i>	<i>July 2013 (Not yet due)</i>		

Partnerships 2012/13							
Final report issued May 2013							
Ref No.	Recommendation	Priority	Action to Date	Responsibility	Deadline	Resolved * or ✓	Revised Deadline
5.3.5	<p><i>The Council should ensure that a risk management framework is applied to the operations of all partnerships and for example the following areas are addressed:</i></p> <ul style="list-style-type: none"> <i>Risks associated with working in the partnership are assessed with responsibility for managing each risk assigned to individual partners;</i> <i>Risks are recorded in the relevant risk register maintained by the lead officer in the relevant Service;</i> <i>The risks recorded in the registers are regularly reviewed;</i> <i>There is a mechanism for reporting and dealing with risks if these materialize.</i> 	<i>Medium</i>	<p><i>Agreed</i></p> <p><i>Position (May 2013)</i></p> <p><i>Not yet due.</i></p>	<i>Partnerships and Performance Section Head</i>	<i>September 2013 (Not yet due)</i>		
5.4.4	<p><i>The Council should ensure that any data sharing within the partnerships complies with national legislation and the council's policies.</i></p>	<i>Medium</i>	<p><i>Agreed</i></p> <p><i>Position (May 2013)</i></p> <p><i>Not yet due.</i></p>	<i>Partnerships and Performance Section Head</i>	<i>September 2013 (Not yet due)</i>		

Risk Management 2012/13							
Final report issued May 2013							
Ref No.	Recommendation	Priority	Action to Date	Responsibility	Deadline	Resolved * or ✓	Revised Deadline
5.2.3	<i>All Heads of Service must regularly (biannually) up-date their risk registers and evidence this control procedure by noting the review date on the risk register.</i>	<i>Medium</i>	<i>Agreed Position (May 2013) Not yet due.</i>	<i>Head of Strategic Finance</i>	<i>30th June 2013 (Not yet due)</i>		
5.2.6	<i>The intranet should be up-dated with the current version of the Service risk registers at the earliest opportunity (Medium).</i>	<i>Medium</i>	<i>Agreed Position (May 2013) Not yet due.</i>	<i>Head of Strategic Finance</i>	<i>30th June 2013 (Not yet due)</i>		
5.3.2	<i>There should be effective action plans in place to address significant risks identified in the Service Risk registers. The action plan may include for example the following areas :</i> <ul style="list-style-type: none"> - <i>Detailed action to be taken,</i> - <i>Officer(s) responsible for taking action,</i> - <i>Timescales for implementing appropriate action.</i> 	<i>Medium</i>	<i>Agreed Position (May 2013) Not yet due.</i>	<i>Head of Strategic Finance</i>	<i>30th June 2013 (Not yet due)</i>		

Council Tax 2012/13							
Final report issued May 2013							
Ref No.	Recommendation	Priority	Action to Date	Responsibility	Deadline	Resolved * or ✓	Revised Deadline
5.1.3	<i>There should be an independent sample quality checks carried out to ensure that new accounts are processed accurately, for example the date of the new account and correct Council Tax band. This control procedure should be evidenced for Management review and remedial action purposes.</i>	Medium	Agreed. <i>Processing controls will be formulated and an implementation date has been agreed.</i> <i>Position (May 2013)</i> <i>Not yet due.</i>	Billing Team Leader	August 2013 (Not yet due)		
5.3.5	<i>Regular reviews of access rights should be carried out by matching job functionalities of officers to their access permissions. This check should be evidenced for Management review purposes.</i>	High	Agreed <i>A review of access rights is carried out continually on informal basis. On annual basis a review will be carried out as part of administering the declaration of interest process (see recommendation no.5.4.2 below).</i> <i>Position (May 2013)</i> <i>Not yet due.</i>	Revenues Manager	August 2013 (Not yet due)		
5.4.2	<i>All officers should be required to complete a declaration of interest form and a senior officer should check on a regular basis that this control procedure is adhered to and keep evidence (signed and dated) of this check being carried out. Also staff should be stopped from having any update access to any account where they have an interest such as family and close friends (High).</i>	High	Agreed <i>This is currently taking place and should be completed soon and will include the above process (see recommendation above no. 5.3.5).</i> <i>Position (May 2013)</i> <i>Not yet due.</i>	Revenues Manager	August 2013 (Not yet due)		

Reconciliations, Journals and Internal Transfers 2012/13							
Final report issued May 2013							
Ref No.	Recommendation	Priority	Action to Date	Responsibility	Deadline	Resolved * or ✓	Revised Deadline
01	<i>The list of reconciliations maintained by the Finance Service should be kept up to date and fully completed. At the end of each month, a delegated officer in the Finance Service should confirm that all necessary reconciliations have been completed over the period and any exceptions should be escalated to a delegated officer/body.</i>	Important	Agreed. <i>This task has been allocated to a Finance Manager to do as part of their month end procedures. The reconciliation list has been harmonised and codes identify if reconciliations are needed for TRDC only, WBC only or both (the list has been made clearer for independent review purposes).</i>	Finance Manager	April 2013	✓	
02	<i>Reconciliations should be completed on a regular and timely basis, as stated in the reconciliation timetable. Sufficient supporting documentation should be retained with the reconciliations and these should be signed by the Officer who prepared them, and should also be reviewed and signed by an independent Officer.</i>	Essential	Agreed. <i>Monthly reconciliations are not possible due to resource constraints. Officers preparing reconciliations are to document and get Independent Officer sign off. Similarly, with independent officer review and sign off for all reconciliations – less resourcing will not allow for this to be consistently applied. Position (May 2013)</i> Not yet due.	Finance Manager, Revenues and Benefits Manager	August 2013 (Not yet due)	*	
03	<i>All suspense accounts should be subject to review on a periodic basis, at least monthly, by a delegated officer. Where items are moved out of suspense, there should be sufficient documentation to substantiate the reason for the move.</i>	Important	<i>Reconciliations list updated to include all suspense accounts subject to monthly review.</i>	Finance Manager	April 2013	✓	

Reconciliations, Journals and Internal Transfers 2012/13							
Final report issued May 2013							
Ref No.	Recommendation	Priority	Action to Date	Responsibility	Deadline	Resolved * or ✓	Revised Deadline
04	<i>The issues preventing the formal reconciliation of the Academy Revenues and Benefits systems to the eFinancials system should be resolved and responsibility for performing those reconciliations should be agreed at the earliest opportunity.</i>	<i>Important</i>	<i>Finance Manager, Senior Accountant and Finance Officer have processed and checked transactions during the Financial year. This is a significant improvement on last year when transactions were not processed for TRDC until after the year end.</i>	<i>Finance Manager</i>	<i>April 2013</i>	<i>✓</i>	
05	<i>The journal header should be held on file which is signed and dated by the preparing Officer and reviewing Officer. In addition appropriate supporting documentation should be held on file to allow the second officer to effectively review the journal before signing off the journal header.</i>	<i>Minor</i>	<i>Officers preparing reconciliations are to document, sign and get Independent Officer sign off.</i>	<i>Finance Manager, Revenues ad Benefits Manager</i>	<i>April 2013</i>	<i>✓</i>	

NNDR 2012/13							
Final report issued May 2013							
Ref No.	Recommendation	Priority	Action to Date	Responsibility	Deadline	Resolved * or ✓	Revised Deadline
5.1.3	<i>There should be an independent sample quality checks carried out to ensure that new accounts are processed accurately, for example the date of the new account and correct Council Tax band. This control procedure should be evidenced for Management review and remedial action purposes.</i>	Medium	Agreed. <i>Processing controls will be formulated and an implementation date has been agreed.</i> <i>Position (May 2013)</i> <i>Not yet due.</i>	Billing Team Leader	August 2013 (Not yet due)		
5.3.2	<i>There should be a formal systems put in place which require a standardised form to be completed and authorised by the Revenues Manager when officers are set-up on the system, access rights are amended and user accounts are revoked in the event of staff leavers.</i>	Medium	Agreed <i>A form has been developed and now in use.</i>	Revenues Manager	Implemented		
5.3.5	<i>Regular reviews of access rights should be carried out by matching job functionalities of officers to their access permissions. This check should be evidenced for Management review purposes.</i>	High	Agreed <i>A review of access rights is carried out continually on informal basis. On annual basis a review will be carried out as part of administering the declaration of interest process (see recommendation no.5.4.2 below).</i> <i>Position (May 2013)</i> <i>Not yet due.</i>	Revenues Manager	August 2013 (Not yet due)		

NNDR 2012/13							
Final report issued May 2013							
Ref No.	Recommendation	Priority	Action to Date	Responsibility	Deadline	Resolved * or ✓	Revised Deadline
5.4.2	<i>All officers should be required to complete a declaration of interest form and a senior officer should check on a regular basis that this control procedure is adhered to and keep evidence (signed and dated) of this check being carried out. Also staff should be stopped from having any update access to any account where they have an interest such as family and close friends (High).</i>	High	Agreed <i>This is currently taking place and should be completed soon and will include the above process (see recommendation above no. 5.3.5).</i> <i>Position (May 2013)</i> <i>Not yet due.</i>	Revenues Manager	August 2013 (Not yet due)		

Accounts Receivable 2012/13							
Final report issued : May 2013							
Ref No.	Recommendation	Priority	Action to Date	Responsibility	Deadline	Resolved * or ✓	Revised Deadline
4.1.9	<i>Though the 3 day target is an internal target, Recovery Team should be reminded of this so that invoices are raised within that target.</i>	Medium	<i>Position (May 2013)</i> <i>Not yet due.</i>	Colin South, Recovery Team Leader	June 2013 (Not yet due)		

Accounts Receivable 2012/13							
Final report issued : May 2013							
Ref No.	Recommendation	Priority	Action to Date	Responsibility	Deadline	Resolved * or ✓	Revised Deadline
4.2.8	<i>Recovery Team Leader should either train staff as per last years recommendation (4.2.9) or take advantage of the offer provided by the two debt collecting agencies of chasing sundry debts free of charge to assist in prompt collection of debt for existing and future debts.</i>	High	<i>The service will use debt collecting agency and/or train staff as appropriate.</i> <i>Position (May 2013)</i> <i>Not yet due.</i>	<i>Colin South, Recovery Team Leader</i>	<i>June 2013 (Not yet due)</i>		



Watford Borough Council
Audit Committee
Public Sector Internal Audit Standards
(incorporating the SIAS Audit Charter)

June 2013

Recommendations

That Members give due consideration to this report and adopt the PSIAS with effect from 1 April 2013.

That Members accept the SIAS Audit Charter (shown at Appendix A) as part of compliance with the Public Sector Internal Audit Standards 2013.

That assurance from management that there have been no inappropriate scope or resource limitations on internal audit activity is confirmed to the Committee when the Head of Assurance's annual report is considered.

That Members note non-compliance and remedial action in respect of the Public Sector Internal Audit Standards

Contents

1. Introduction and Background
2. Reason for Recommendation
3. Compliance with PSIAS

Appendix A

SIAS Audit Charter 2013-14

Appendix B

Areas of non conformance with public sector internal audit standards at May 2013

1. INTRODUCTION AND BACKGROUND

- 1.1 In May 2011, the Chartered Institute of Public Finance & Accountancy (CIPFA) and the Chartered Institute of Internal Auditors (CIIA) agreed to collaborate in the development of the internal audit profession in the public sector. As a result, national Public Sector Internal Audit Standards (PSIAS), based upon the mandatory elements of the global CIIA's International Professional Performance Framework have been developed.
- 1.2 The PSIAS are effective from 1 April 2013 and consist of the following:
- Definition of Internal Auditing;
 - Code of Ethics; and
 - Standards for the Professional Practice of Internal Auditing.
- 1.3 The PSIAS replace the Code of Practice for Internal Audit in Local Government in the United Kingdom, last revised in 2006. In local government, the PSIAS are mandatory for all principal local authorities and other relevant bodies subject to the Accounts and Audit (England) Regulations 2011. They are also mandatory for the Office of the Police and Crime Commissioner, constabularies, fire authorities, national park authorities, joint committees and joint boards in the United Kingdom.

2. REASON FOR RECOMMENDATION

- 2.1 The new Standards are intended to promote further improvement in the professionalism, quality and effectiveness of internal audit across the public sector. They reaffirm the importance of robust, independent and objective internal audit arrangements to provide Audit Committees and Senior Management with the key assurances they need to support them both in managing the organisation and in producing the annual governance statement.
- 2.2 Overall, most of the content within the Standards is a continuation and further development of existing best practice. Listed below are some key points of difference for the Audit Committee's consideration.

Existing requirements

- **The chief audit executive** – The chief audit executive (CAE) (referred to as the head of audit in the previous standards), must hold a professional qualification (CMIIA, CCAB or equivalent) and be suitably experienced. The Head of Assurance (Chartered Public Finance Accountant) fulfils this role in respect of SIAS.
- **Annual report** – The requirement for the production of an internal audit annual report remains. The Annual Report to each Council will now need to include details of any non-conformance with PSIAS and the impact that non-conformance has had on the overall scope or operation of the internal audit

activity. More significant deviations must be considered for inclusion in the annual governance statement.

- **Risk-based audit plan** – There is still a requirement to produce a risk based audit plan. However, an audit strategy is no longer required and has been replaced with a risk based plan that incorporates or links to a strategic statement setting out how the internal audit service will be provided and how The Charter (see below) will link to the authority’s objectives and priorities.
- **Ethical standards** - the internal audit manual already contains a set of ethical standards which are based upon those within the 2006 Cipfa Code. These are now replaced by those of the CIIA. The CIIA Code of Ethics has been further enhanced with the requirement that internal auditors in the public sector must also have regard to the Seven Principles of Public Life (the Nolan Principles).

New requirements

- **Internal Audit Charter (The Charter)** – The Charter must formally define the purpose, authority and responsibility of the internal audit activity. It will also cover arrangements for avoiding conflicts of interest if internal audit performs non-audit activities. A copy of the SIAS Audit Charter is included in this report at Appendix A.
- **Quality assurance** – The quality of service should be rigorously checked under a quality assurance and improvement programme which requires on-going internal assessments of all aspects of internal audit activity, as well as external assessment every five years. The programme is designed to assess the efficiency and effectiveness of internal audit as well as identify opportunities for improvement. There is a requirement for the CAE to include a section on the quality assurance and improvement programme in the internal audit annual report.
- **External assessment** – will be required every five years. The assessment will need to be performed by qualified and independent assessors or assessment teams that are external to the organisation.
- **Resource limitations** – it will be the role of the Audit Committee to seek assurance from the CAE and from management that there are no inappropriate limitations on the scope or resources of internal audit. The Head of Assurance will provide this assurance in the annual report and it is suggested that the Committee also seeks assurance from management in considering the annual report.
- **Effective communication** – The standards require ‘effective communication’ between the CAE and both the audit committee and the committee chair in discussions about: the authority’s risk and assurance requirements; assurance opinions; issues of concern raised by audit work undertaken; and implementation of agreed recommendations and the enhanced assurance arising.

3. COMPLIANCE WITH PSIAS

- 3.1 The Head of Assurance has reviewed in detail the compliance of the Shared Internal Audit Service with the PSIAS standards. The document detailing this exercise is lengthy and has not been provided with agenda papers but is available on request.
- 3.2 Areas of non-conformance with PSIAS and arrangements for addressing these are Appendix B of this report. In the view of the Head of Assurance these areas of non-compliance are not significant, and the reasons for this judgement are also set out in the Appendix. It is planned to ask External Audit to validate this self-assessment.



Internal Audit Charter

Introduction and Purpose

Internal auditing is an independent and objective assurance and consulting activity that is guided by a philosophy of adding value to improve the operations of the Council. It assists the Council in accomplishing its objectives by bringing a systematic and disciplined approach to evaluate and improve the effectiveness of the Council's risk management, control, and governance processes.

Statutory Basis of Internal Audit

Within local government there is a statutory requirement for an internal audit function. The 2003 Accounts and Audit Regulations (as amended by the 2006, 2009 and 2011 Regulations) require that a local authority 'must undertake an adequate and effective internal audit of its accounting records and of its system of internal control in accordance with the proper practices in relation to internal control'.

In addition, the Council's Chief Finance Officer has a statutory duty under Section 151 of the Local Government Act 1972 to establish a clear framework for the proper administration of the authority's financial affairs. The S151 officer relies, amongst other sources, upon the work of internal audit in reviewing the operation of systems of internal control and financial management.

Role

The internal audit activity is established by the Audit Committee. The internal audit activity's responsibilities are defined by the Audit Committee, via this Charter, as part of their oversight role.

SIAS may undertake consultancy activity (additional activity requested by management) where it has the necessary skills and resources to do this, and this will be determined by the Head of Assurance on a case by case basis.

Professionalism

SIAS governs itself by adherence to The Chartered Institute of Internal Auditors' (CIIA) mandatory guidance including the Definition of Internal Auditing, the Code of Ethics, and the International Standards for the Professional Practice of Internal Auditing ('the Standards'). This mandatory guidance constitutes principles of the fundamental requirements for the professional practice of internal auditing and for evaluating the effectiveness of the internal audit activity's performance.

The Institute of Internal Auditors' Practice Advisories, Practice Guides, and Position Papers will also be adhered to as applicable to guide operations. In addition, the internal audit activity will adhere to the Council's relevant policies and procedures and the internal audit activity's standard operating procedures manual.

Mandatory public sector specific standards were introduced on 1 April 2013, through a joint venture between the Chartered Institute of Public Finance and Accountancy (CIPFA) and the CIIA. These new Public Sector Internal Audit Standards (PSIAS) are based on the mandatory elements of the CIIA existing standards, with additional public sector requirements.

Authority

The internal audit activity, with strict accountability for confidentiality and safeguarding records and information, is authorised full, free, and unrestricted access to any and all of the organisation's records, physical properties, and personnel pertinent to carrying out any engagement. All employees are requested to assist the internal audit activity in fulfilling its roles and responsibilities. The internal audit activity will also have free and unrestricted access to the Audit Committee and senior management.

Organisation

SIAS has direct access to senior management, the Audit Committee, the Chief Executive and the Chair of the Audit Committee. The Section 151 Officer and the Audit Committee will jointly agree the level of internal audit resource to be deployed at the Council. The Head of Assurance Services will communicate and interact directly with the senior management and the Audit Committee, including in executive sessions and between meetings as appropriate. Outside of formal senior management meetings and meetings of the Audit Committee, the Head of Assurance Services will have unrestricted access to the Chief Executive and to the Chair of the Audit Committee.

For line management purposes, the Head of Assurance Services will report to the post of Deputy Chief Executive and Chief Financial Officer at Hertfordshire County Council (HCC). The Deputy Chief Executive of HCC will approve all decisions regarding the performance evaluation, appointment, or removal of the Head of Assurance Services, in consultation with the SIAS Board.

For the purposes of the internal audit activity, the following groups are defined:

Audit Committee

Audit Committee is responsible for overseeing the effectiveness of the internal audit function, and holding the Head of Assurance Services to account for delivery, through the receipt of regular updates and reports. The Audit Committee is responsible for the effectiveness of the governance, risk and control environment within the Council, holding managers to account for delivery.

Senior Management

Responsible for helping shape the programme of assurance work through an analysis and review of key risks to the achieving the Council's objectives and priorities. Senior management provide leadership and direction for the Council.

SIAS Board

The governance group charged with monitoring and reviewing the overall operation of SIAS, including:

- Resourcing and financial performance
- Performance indicators measuring operational effectiveness
- The overall strategic direction of the shared service.

Independence and Objectivity

The internal audit activity will remain free from interference by any element in the organisation, including matters of audit selection, scope, procedures, frequency, timing, or report content to permit maintenance of a necessary independent and objective mental attitude.

Internal auditors will have no direct operational responsibility or authority over any of the activities audited. Accordingly, they will not implement internal controls, develop procedures, install systems, prepare records, or engage in any other activity that may impair internal auditor's judgment.

The Head of Assurance Services will confirm to the Audit Committee, at least annually, the organisational independence of the internal audit activity.

Conflicts of Interest

Internal auditors must exhibit the highest level of professional objectivity in gathering, evaluating, and communicating information about the activity or process being examined. Internal auditors must make a balanced assessment of all the relevant circumstances and not be unduly influenced by their own interests or by others in forming judgments.

In addition to the ethical requirements of the various professional bodies, each auditor is required to proactively declare any potential 'conflict of interest' prior to the commencement of each audit assignment.

All auditors are required to sign an annual declaration of interest to ensure that the allocation of audit work avoids conflict of interest. Auditors who undertake any consultancy work will be prohibited from auditing those areas. Audits are rotated within the team to avoid over-familiarity and complacency. SIAS has procured an arrangement with an external firm to provide additional internal audit days on request; this arrangement will be used for the internal audit of any functions also directly managed by the Head of Assurance.

Responsibility and Scope

The scope of internal auditing encompasses, but is not limited to, the examination and evaluation of the adequacy and effectiveness of the organisation's governance, risk management, and internal control processes in relation to the organisation's defined goals and objectives. Internal control objectives considered by internal audit extend to the entire control environment of the organisation and include:

- Consistency of operations or programs with established objectives and goals, and effective performance
- Effectiveness and efficiency of operations and employment of resources
- Compliance with significant policies, plans, procedures, laws, and regulations
- Reliability and integrity of management and financial information processes, including the means to identify, measure, classify, and report such information
- Safeguarding of assets

Internal audit is responsible for evaluating all processes ('audit universe') of the organisation including governance processes and risk management processes. It also assists the Audit Committee in evaluating the quality of performance of external auditors and ensuring a proper degree of coordination with internal audit is maintained.

Due to its detailed knowledge and understanding of risks and controls, internal audit is well placed to provide advice and support on emerging risks and issues. As a result, internal audit may perform consulting and advisory services as appropriate for the organisation. It may also evaluate specific operations at the request of the Audit Committee and senior management, as appropriate.

Based on its activity, internal audit is responsible for reporting significant risk exposures and control issues identified to the Audit Committee and to senior management, including fraud risks, governance issues, and other matters needed or requested by these bodies. This ensures internal audit plays a key role in providing assurance to the Audit Committee and senior management on the effectiveness of the entire control environment.

Role in Anti-Fraud

The work programme of SIAS is designed, in part, to help deter fraud and corruption. With this in view, SIAS bases its planning on regular risk assessment, and works with Chief Financial Officers, other senior managers, and the Audit Committee in determining its programme of work.

SIAS also shares information with relevant partners, including with government via the National Fraud Initiative, to increase the likelihood of detecting fraudulent activity, and of reducing the risk of fraud to all.

SIAS offers a fraud investigation services and can support organisations in ensuring their fraud prevention arrangements are robust. The Head of Assurance should be notified of all suspected or detected fraud, corruption or impropriety so that the impact upon control arrangements can be evaluated.

Internal Audit Plan

At least annually, the Head of Assurance Services will submit to the Audit Committee an internal audit plan for review and approval, including risk assessment criteria. The internal audit plan will include timing as well as budget and resource requirements for the next financial year. The Head of Assurance Services will communicate the impact of resource limitations and significant interim changes to senior management and the Audit Committee.

The internal audit plan will be developed based on a prioritisation of the audit universe using a risk-based methodology, including input of senior management. Prior to submission to the Audit Committee for approval, the plan will be discussed with appropriate senior management. Any significant deviation from the approved internal audit plan will be communicated through the periodic activity reporting process.

Reporting and Monitoring

The Head of Assurance will arrange for a written report to be prepared and issued following the conclusion of each internal audit engagement; this will be distributed as appropriate.

The internal audit report will include management's response and corrective action taken or to be taken in regard to the specific findings and recommendations. Management's response will include a timetable for anticipated completion of action to be taken and an explanation for any corrective action that will not be implemented.

The internal audit activity will be responsible for appropriate follow-up on engagement findings and recommendations and will report to the Audit Committee on the results of this activity.

The Head of Assurance will consider any request from external stakeholders for reports on the results of internal audit activity, in consultation with senior management.

The Head of Assurance will arrange for quarterly update reports to the Audit Committee to advise on the results of each internal audit engagement, and provide an annual report to the Audit Committee giving an opinion on the internal control environment.

Periodic Assessment

In accordance with section 6 of the Accounts and Audit (England) Regulations 2011, the SIAS Board will make arrangements for the conduct of a review of the effectiveness of internal audit.

The review is designed to ensure that the opinion given in the Annual Report of the Head of Assurance Services may be relied upon as a key source of evidence in the Annual Governance Statement.

The work will be conducted on the basis of one review of SIAS providing assurance for all SIAS partner members.

Review of the Audit Charter

This charter will be subject to annual review by the Head of Assurance Services and any changes presented to Audit Committee for approval at the first audit committee meeting in each financial year.

Helen Maneuf - Head of Assurance Services
May 2013

(Date of next review: May 2014)

Ref	Area of Non-Conformance with the Standard	Commentary	Actions
2a	<p>Code of Ethics</p> <p>Using evidence gained from assessing conformance with other Standards, do internal auditors display objectivity by performing services in accordance with the Public Sector Internal Audit Standards.</p>	<p>The SIAS Audit Manual sets out the working protocols for performing audit services. The Audit Manual reflects the CIPFA Code of Practice in force until 31 March 2013.</p> <p>This does not represent a significant issue given that the CIPFA Code of Practice has a large degree of similarity with PSIAS.</p>	<p>Update the Audit Manual to reference the Public Sector Internal Audit Standards.</p> <p>Head of Assurance June 2013</p>

Ref	Area of Non-Conformance with the Standard	Commentary	Actions
2b	<p>Code of Ethics</p> <p>Do internal auditors have regard to the on Standards of Public Life’s <i>Seven Principles of Public Life</i>?</p>	<p>Internal auditors have regard to the Seven Principles of Public Life although this is not explicitly documented in the SIAS ethical framework.</p> <p>This does not represent a significant issue given that the auditors are already required to observe ethical protocols and make an annual declaration of interest.</p>	<p>Update the SIAS ethical framework document to reference the Seven Principles of Public Life.</p> <p>Head of Assurance June 2013</p>

Ref	Area of Non-Conformance with the Standard	Commentary	Actions
3.1a	<p>Purpose, Authority and Responsibility</p> <p>Does the board (defined as the Audit Committee) approve decisions relating to the appointment and removal of the Chief Audit Executive (CAE) (Head of Assurance)</p>	<p>The Deputy Chief Executive of Hertfordshire County Council, in consultation with the Board of the Shared Internal Audit Services approves decisions relating to the appointment and removal of the CAE.</p> <p>This is as provided for in the governance of the Shared Internal Audit Service.</p> <p>This does not represent a significant issue given that there is provision for consultation with partner members in relation to such decisions.</p>	<p>No action proposed.</p>

Ref	Area of Non-Conformance with the Standard	Commentary	Actions
3.1b	<p>Purpose, Authority and Responsibility</p> <p>Does the board (defined as the Audit Committee) seek reassurance from management and the CAE as to whether there are any inappropriate scope or resource limitations.</p>	<p>This is a new requirement. Provision for this is made through proposals for management to confirm to the Audit Committee the absence of inappropriate scope or resource limitations, at the point of receiving the Annual Report of the Head of Assurance.</p>	<p>Include recommendation in the Annual Report of the Head of Assurance</p> <p>Head of Assurance June 2013</p>

<p>3.1c</p>	<p>Purpose, Authority and Responsibility Does the chief executive or equivalent undertake, countersign, contribute feedback to or review the performance appraisal of the CAE?</p>	<p>The performance appraisal is carried out by the Deputy Chief Executive of Hertfordshire County Council (HCC)</p> <p>This is not considered a significant issue given that the Deputy Chief Executive is a senior manager within HCC and represents HCC on the SIAS Board thus providing a direct link to partner authorities.</p>	<p>Chief Executive of Hertfordshire County Council to counter-sign the performance appraisal.</p> <p>Chief Executive, HCC March 2014</p> <p>Deputy Chief Executive of HCC will offer opportunity for SIAS Board Chairs to feed in views to inform the performance appraisal January 2014</p>
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<p>3.1d</p>	<p>Purpose, Authority and Responsibility Is feedback sought from the chair of the audit committee for the CAE's performance appraisal?</p>	<p>No such feedback is sought at present. This is not considered a significant issue given that there are informal opportunities for Audit Committee Chairs to feedback on SIAS either directly or via Chief Financial Officers.</p>	<p>Head of Assurance to discuss arrangements with the SIAS Board. Head of Assurance June 2013 Deputy Chief Executive will offer opportunity for Audit Committee chairs to feed in views to inform the performance appraisal January 2014</p>
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Ref	Area of Non-Conformance with the Standard	Commentary	Actions
3.3	<p>Proficiency and Due Professional Care</p> <p>Do internal auditors have sufficient knowledge of the appropriate computer-assisted audit techniques that are available to them to perform their work, including data analysis techniques?</p>	<p>There is sufficient knowledge of the appropriate computer assisted audit techniques. Therefore this is not considered to be a significant issue.</p> <p>However there are opportunities to increase the use of such techniques in the performance of audit activity.</p>	<p>Strategy for computer assisted audit techniques to be developed.</p> <p>Head of Assurance</p> <p>June 2014</p>

<p>3.4a</p>	<p>Quality Assurance and Improvement Programme Has the CAE developed a Quality Assurance and Improvement Programme (QAIP) that covers all aspects of the internal audit activity and enables conformance with all aspects of the PSIAS to be evaluated?</p>	<p>SIAS has a quality and performance framework which contains many elements of the QAIP, and therefore this is not a significant issue.</p> <p>However the SIAS quality and performance framework needs to be reviewed to ensure it meets the full requirements of the QAIP</p>	<p>Review the quality and performance framework to ensure it fully meets the requirements of the QAIP Head of Assurance July 2013</p>
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Ref	Area of Non-Conformance with the Standard	Commentary	Actions
3.4b	<p>Quality Assurance and Improvement Programme Does the CAE maintain the QAIP?</p>	<p>The SIAS quality and performance framework is maintained regularly therefore this is not a significant issue; the review will ensure that ongoing maintenance arrangements are clarified.</p>	<p>Clarify ongoing maintenance arrangements of SIAS QAIP July 2013</p>
3.4c	<p>Quality Assurance and Improvement Programme Has the CAE considered including any significant deviations from the PSIAS in the governance statement and has this been evidenced?</p>	<p>The CAE has considered and evidenced this in this document</p>	<p>No further action required.</p>

Ref	Area of Non-Conformance with the Standard	Commentary	Actions
4a	<p>Performance Standards</p> <p>Does the risk-based plan include the approach to using other sources of assurance and any work that may be required to place reliance upon those sources?</p>	<p>There is no documented note of the approach to other sources of assurance, or mapping exercise, and any work that may be required to place reliance upon these sources</p>	<p>Document the approach to other sources of assurance and the work required to place reliance upon these sources</p> <p>Head of Assurance</p> <p>March 2014</p>
4b	<p>Performance Standards</p> <p>Has the CAE carried out an assurance mapping exercise as part of identifying and determining the approach to using other sources of assurance?</p>	<p>This is not significant because albeit not documented in the audit plan covering report, discussions about other assurance sources are regularly held as part of the overall audit planning process.</p>	
4.4	<p>Engagement Planning</p> <p>Are the retention requirements for engagement records consistent with the organisation's own guidelines as well as any relevant regulatory or other requirements?</p>	<p>An exercise to review the consistency of retention periods is underway. However, because SIAS already has a document retention guide this is not considered to be significant.</p>	<p>Complete exercise to review consistency between retention periods.</p> <p>Head of Assurance</p> <p>June 2014</p>

Ref	Area of Non-Conformance with the Standard	Commentary	Actions
4.5	<p>Communicating results</p> <p>Does the Annual Report incorporate the results of the QAIP and any associated improvement actions</p>	<p>The Annual Report for 2012/13 reports on the first assessment against the PSIAS and notes that the SIAS quality and improvement framework will be reviewed to incorporate all the requirements of the QAIP. A report on this will be included within the 2013/14 Annual Report.</p>	<p>Include results of QAIP and progress on improvement actions in 2013/14 Annual Report</p>

Agenda Item 10

PART A

Report to: Audit Committee
Date of meeting: 26th June 2013
Report of: Head of Strategic Finance
Title: Annual Governance Statement 2012/2013

1.0 **SUMMARY**

1.1 This report sets out the Annual Governance Statement (Appendix A) that the council is required to produce annually, for inclusion in the Statement of Accounts. Best practice requires that Members consider this separately before inclusion within the accounts.

2.0 **RECOMMENDATIONS**

2.1 That the Annual Governance Statement set out as Appendix A be approved.

Contact Officer:

For further information on this report please contact: Bernard Clarke, Head of Strategic Finance, telephone extension: 8189 email: bernard.clarke@watford.gov.uk

3.0 **DETAILED PROPOSAL**

3.1 It is a statutory requirement that all authorities are required to produce an Annual Governance Statement (AGS). The purpose of the Statement is to demonstrate that the council has put in place proper arrangements for the governance of its affairs and for their continued effectiveness.

3.2 The AGS has been reviewed by Cipfa/ Solace during 2012/ 2013 and they have produced a publication 'Delivering Good Governance'. Its major themes include to 'give an increased emphasis on a strategic approach' and 'should provide a review of the effectiveness of governance arrangements in the year and on any planned changes in the coming period'. In other words it should not be seen as an historic backwards looking document but needs to anticipate issues still to come.

3.3 Grant Thornton has also produced a document entitled 'Improving council governance, a slow burner'. Main features within the report included the following key risks:

- the effect of government policies means dealing with spending reductions, changes around Universal Credit and business rates localisation.
- risks associated with greater use of contractors to provide public services was a particular concern. How will they be monitored in the context of good governance.
- do Audit Committees have the ability/ skills to respond to a changing environment.
- many councils follow too rigidly the Cipfa/ Solace guidance rather than reflecting the unique features and challenges of their individual council.
- good council governance is much more than publishing statements of compliance. It is about ensuring an entire organisation is aligned to achieving its strategic goals effectively and ethically.
- councils should be surveying users and other stakeholders (people who really know how the council are doing).
- limited resources should be focused upon areas of greatest risk.
- many authorities admit that they do not have robust arrangements for developing members.

3.4 A recent article in Local Government Chronicle also postulated the argument...' Annual Governance Statement...who cares?'

The author continues:

- I do care about the resources wasted to produce an AGS that looks the same as the next council's.
- I care that they are dull and far too long
- It bothers me that they are largely retrospective, that they are probably written in a darkened room by some poor soul who picked up the task

- when it popped up as the last item on the meeting's agenda
- I care that the content of the AGS is how councils see governance— paper based and a list of must dos rather than the business of running the council for the benefit of the public
- I care more that the AGS might reflect the latent bureaucracy and mediocrity that might still prevail in local government (No, Eric Pickles was not the author).
- I care that councils do not use the AGS as a driver of their future proofing and to ensure that their governance will remain sufficiently robust to withstand the stresses and risks of the changing operating environment.

3.5 It is hoped that the Governance Statement at Appendix A goes some way to meeting all of the above objectives. Finally, the Audit Committee's attention is particularly drawn to the section on Significant Governance issues, which sets out priority areas for improvement. The guidance on the AGS is very clear that an AGS with no such issues to report is likely to be a sign of an ineffective governance culture.

3.6 In accordance with recommended practice, the Governance Statement has been reviewed by Leadership Team on 14th May 2013.

4.0 **IMPLICATIONS**

4.1 **Financial**

4.1.1 The Head of Strategic Finance comments that there are no financial implications arising directly from this report.

4.2 **Legal Issues** (Monitoring Officer)

4.2.1 The Head of Legal and Property Services comments that the requirement to publish an Annual Governance Statement arises from the Accounts and Audit (Amended) Regulations (England) 2006.

4.3 **Equalities**

4.3.1 The Council's commitment to equalities is reflected in its values and hence in this Statement.

4.4 **Potential Risks**

Potential Risk	Likelihood	Impact	Overall score
Failure to correctly identify key issues	2	4	8
The ongoing review of the Governance Statement is designed to minimise the risk of over-looking important issues. Failure to do so could lead to problems for the council, including financial loss, reputational risk and adverse comment from the external auditor.			

Appendix

Appendix A - Annual Governance Statement

Background Papers

If you wish to inspect or take copies of the background papers, please contact the officer named on the front page of the report.”

Delivering Good Governance in Local Government – SOLACE/CIPFA
Improving Council Governance, a slow burner—Grant Thornton
The Annual Governance Statement – CIPFA Finance Advisory Network

File Reference

None

(Reference documents and web site availability are detailed at the end of this Governance Statement).

1.0 Scope of responsibility

- 1.1 Watford Borough Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for. The council also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness. A key aspect of this responsibility is the identification and management of risk.
- 1.2 Further, Watford has approved and adopted a code of corporate governance which is consistent with the principles of the Cipfa / Solace Framework 'Delivering Good Governance in Local Government'. It is also in accordance with the requirements of the Accounts and Audit (England) Regulations 2011.
- 1.3 This Governance Statement explains how Watford Borough Council has recognised key challenges and the processes it has put in place to maintain services with considerably less money. It also explains how the council is attempting, through considerable financial investment, to safeguard the future prosperity of its area.
- 1.4 Underpinning the Governance Statement is a framework which ensures corporate ownership at the very highest levels of management and is dynamic in responding to all governance issues as they occur. A key component of the Governance framework is the underlying system of internal control which is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness.

2.0 Strategic Aims and Objectives

- 2.1 The governance framework enables the council's key objectives to be met and these can be summarised as follows:

VISION:

A successful town in which people are proud to live, work, study and visit

OUR OBJECTIVES:

- Making Watford a better place to live in
- To provide the strategic lead for Watford's sustainable economic growth
- Promoting an active, cohesive and well informed town
- Operating the council efficiently and effectively

- 2.2 Underpinning these over arching priorities are a series of measurable (SMART) objectives so that every member of staff and our community can feel fully engaged in the process. The council also plays a major role in the Local Strategic Partnership, **One Watford**, which is made up of key stakeholders such as Hertfordshire County Council, Police and Crime Commissioner for Hertfordshire, Herts Valleys Clinical Commissioning Group, the Chamber of Commerce, Watford and Three Rivers Trust, Watford Community Housing Trust, and John Lewis plc.

3.0 Decision Making Structures

- 3.1 Watford Borough Council has a directly elected Mayor, which means that the community elect the person to lead the council at four yearly intervals. The Mayor is supported by a Cabinet that plays a key role in determining the overall budget and policy framework of the council. Each member of the Cabinet has a portfolio for which they are responsible and can make decisions within their area of responsibility.
- 3.2 The major check upon executive decisions taken by the Mayor and Cabinet is the council and key decisions such as setting the annual budget and establishing the Constitutional Framework can only be approved by council. Prior to council approval, a detailed scrutiny process through a Budget Panel ensures all proposals are given rigorous challenge.
- 3.3 In addition the council has an overarching Overview and Scrutiny Committee which, amongst other responsibilities, oversees the work of Budget Panel and any task groups set up to scrutinise a particular service area. There are also five further committees covering development control, licensing, audit, functions and standards.
- 3.4 At an officer level, the senior management (with effect from July 2013) will comprise the Managing Director and Heads of Service. Financial control will primarily be the responsibility of a shared Director of Finance with neighbouring Three Rivers District Council. This combined management will comprise the Leadership Team who meets fortnightly to review and progress the key objectives of the council.
- 3.5 Overall financial control is monitored on a monthly basis by Leadership Team and the Budget Scrutiny Panel, and quarterly by Cabinet. Budget preparation is influenced by the council's Medium Term Financial Strategy which forecasts budget pressures and available resources over a four year period. This MTFS is reported quarterly to Cabinet and Budget Panel where variations to the strategy are approved. The council has the ultimate responsibility for approving the annual budget. The final accounts at the end of a financial year are subject to formal approval by the Audit Committee (but is also reported to Cabinet and Budget Panel).

4.0 The Governance Framework

- 4.1 The council has approved a Code of Corporate Governance which identifies community focus, service delivery arrangements, structures and processes, risk management, internal control arrangements and standards of conduct and is detailed within the council's Constitution. This sets out how the council takes decisions, roles and responsibilities of members and officers, codes of conduct and procedure rules and also sets out the rights of citizens.
- 4.2 Council, Cabinet and committee/ scrutiny meetings are open to the public and written reports are available to the public through the council's website. Information is only treated as confidential when it is necessary to do so for legal/ commercial reasons.
- 4.3 The council publishes its Corporate Plan annually, which sets out key service improvement priorities for the medium term, with targets for performance and deadlines for achievement. This has been informed by public consultation on a range of topics, particularly around priority setting, and a detailed analysis of the Watford context based on information derived from sources such as Census 2011 and the Indices of Multiple Deprivation. Progress on the Plan is reported to the public through a quarterly magazine, About Watford, and includes an 'annual report' on the council's achievements compared to its initial targets.
- 4.4 Councillors are assisted in their policy and decision-making roles by the advice of staff with suitable qualifications and experience, under the leadership of the Managing Director. All reports requiring a decision from members include comments on financial, legal, equalities, sustainability, community safety and other appropriate issues such as potential risks to non

achievement, all of which ensures that comprehensive advice is provided prior to decisions being taken.

- 4.5 The scrutiny function within a local authority provides a necessary check upon the role of the Executive and is a key component of corporate governance. At Watford it is co-ordinated through the Overview and Scrutiny Committee, which can review Cabinet decisions and service performance, the council has recently set up an Outsourced Services Task Group as a standing scrutiny panel to scrutinise the activities of functions undertaken by external providers on the council's behalf. In addition the Standards Committee considers member conduct and the Budget Panel considers financial issues in a non political forum. Finally, the Audit Committee reviews the overall governance arrangements including the service related control and risk management environment. The Audit Committee also considers the response to Freedom of Information requests, and the Ombudsman's annual report as well as annual accounts and treasury management (investment) policies.
- 4.6 The council's protocols and procedures are reviewed and updated on a regular basis for standing orders, financial regulations, a scheme of delegation and supporting procedure notes/ manuals clearly defining how decisions are taken and the process and controls required to manage risks. Compliance with established policies, procedures, laws and regulations is achieved through a combination of training events, written policy and procedural documentation, authorisation procedures, managerial supervision, review by internal and external audit and use of the disciplinary procedure where appropriate.
- 4.7 Codes of Conduct defining the standards of behaviour for members, staff, our partners and the community have been developed and communicated and are available on the council's website. These include:
- Members Code of Conduct
 - Code of Conduct for staff
 - Anti fraud and corruption policy (including whistle blowing and anti bribery)
 - Money Laundering detection guidance
 - Members and officer protocols
 - Regular performance appraisals, linked to service and corporate objectives.
 - Service standards that define the behaviour of officers
 - A Standards Committee which has a key role in promoting and maintaining high standards of conduct for members.
 - Officers are subject to the standards of any professional bodies to which they belong.
- 4.8 The Head of Democracy and Governance (from July 2013) is the council's Monitoring Officer and her duties include: maintaining the council's Constitution; reporting on any potential or actual illegality or maladministration; and giving advice to the Mayor and councillors on the Constitution or issues of maladministration, financial impropriety or probity.
- 4.9 The Shared Director of Finance (from July 2013) is the statutory Chief Finance Officer. Her duties include: overall responsibility for financial administration; reporting on any actual or potential instances of illegality in expenditure, including unlawful loss or deficiency or illegal items of account; and giving advice to the council on financial planning.

5.0 Performance Management

- 5.1 Performance management follows very much a 'cascade' principle. The council approves its Corporate Plan annually (although it covers a rolling four year perspective) and highlights key aspirations and targets including a series of objectives to be achieved in the year ahead. This Corporate Plan then cascades down to individual services delivery plans, which in turn translates into team and individual work plans. Performance is monitored on a quarterly basis through Heads of Service, Leadership, Cabinet Members and Overview and Scrutiny Committee. Performance reviews also include consideration of complaints and progress against the council's equalities agenda.

- 5.2 The Council keeps residents and stakeholders informed of its progress through a quarterly publication called 'About Watford' which is delivered to every household and covers key issues, events and challenges. At the end of every financial year the March edition includes an Annual Report which informs the community of progress in the achievement of the Corporate Plan.

6.0 Data Quality and Risk Management

- 6.1 The need to develop policies and guidance on data quality and assurance is essential in order to promote consistency and awareness across the organisation. To that end, the council has a senior member of staff who acts as the Senior Information Risk Officer. There is also a council wide Data Quality Champions Group which meets periodically and adopts a risk based approach to data quality. Guidance documents include a Data Quality Policy; an Information Security Policy; a Data Asset Register; and management training modules all of which are on the intranet.
- 6.2 The governance framework is dependent upon the underlying system of internal control which is designed to manage risk to a reasonable level. The council's approach to risk management is governed by its Risk Management Strategy which is updated annually and approved by Leadership Team and the Audit Committee. This Strategy underpins the Strategic Risk Register which was planned to be updated in June 2013 (now July 2013) and covers major issues that will affect the achievement of the council's key objectives. This Risk Register is at a strategic/ high level and is complemented by detailed project and service area registers. This process is overseen by the Risk Management and Business Continuity Steering Group which meets four times a year and ensures a consistent approach to risk management across the council.
- 6.3 Business continuity and emergency planning are other key aspects within the corporate governance framework and again falls within the remit of the Risk Management corporate group. There is however a need to review the current disaster recovery procedures to establish if they continue to be fit for purpose and this is scheduled to be carried out in 2013/2014.
- 6.4 The risk management section within the Partnership Framework has been revised and all committee reports contain a 'risk implications' section as an aid to decision taking. There is however a need to ensure an effective risk identification process occurs where the council has outsourced the provision of services to a private sector partner.

7.0 Shared Services with Three Rivers District Council

- 7.1 Watford Borough Council has been a leading authority in developing a shared service for revenues, benefits, ICT, financial services, and human resources with the neighbouring district council. In order to monitor and control this arrangement a Shared Services Joint Committee has been formed and comprises members from both councils.
- 7.2 The Joint Committee is required to produce its own statutory Statement of Accounts which are subject to audit by Watford Borough Council's external auditors. This process clearly provides a degree of comfort to both constituent authorities that good governance practices are being followed. The internal audit service (provided through the Shared Internal Audit Service, a local internal audit partnership) also allocates a significant number of audit days to the validation of the control environment.
- 7.3 Reliance upon external and internal audit scrutiny is insufficient however and the constituent bodies have put in place:
- a detailed joint agreement which includes all aspects of best practice, financial administration and risk management.

- detailed estimates to be approved by the constituent authorities prior to each financial year and budget monitoring information provided to the constituent authorities on a regular basis.
- the Joint Committee to receive detailed quarterly performance management monitoring reports.
- the draft Statutory Statement of Accounts to be considered and approved by the Joint Committee.
- consideration of all audit reports affecting shared services.

8.0 Community Engagement

- 8.1 Corporate governance includes informing our community of the plans and aspirations of the council and is primarily communicated through its published Corporate Plan and the regular editions of 'About Watford'. The directly elected Mayor, Dorothy Thornhill MBE, takes the lead in ensuring there is open and effective community leadership and provides a focal point for individuals, communities, business and voluntary organisations to engage with the council. The Mayor is also the Chair of the borough's Local Strategic Partnership, One Watford, which developed the Sustainable Community Strategy through extensive consultation and engagement and which is communicated through its own website and that of the council.
- 8.2 The council has established twelve neighbourhood forums, which mirror the borough's ward boundaries and each have a devolved budget of £2,500. These are organised and managed by the relevant local councillors as part of their commitment to community leadership and engagement.
- 8.3 The council has established clear channels of communication with all sections of the community and other stakeholders. It provides citizens and business with information about the council and its spending through a leaflet that is distributed with council tax and business rate bills and the publication of a summary of its key financial information through the council magazine 'About Watford'.
- 8.4 A range of consultation and engagement projects are undertaken annually. This includes a regular 'Community Survey' with the borough's Citizens' Panel, which incorporates the council's annual budget survey. The Citizens Panel has been completely refreshed to ensure it is representative of the Watford community. Local residents are also invited to attend the Mayor's annual information seminars, which help build understanding about council finances and the implications for future service delivery. The Watford Compact provides an agreement between the statutory and voluntary sectors in Watford to clarify and strengthen their relationship and to achieve better outcomes for individuals and for the Watford community. All signatories to this document adhere to the national Compact standards.

9.0 The Role of Audit and the Audit Committee

- 9.1 The governance framework and its compliance mechanisms must be distinguished from the role of audit which is to review the effectiveness of the compliance framework, not to be a substitute for it.
- 9.2 The internal audit function is carried out, from 1st April 2013, by the Shared Internal Audit Service (SIAS), a local internal audit partnership hosted by Hertfordshire County Council. This will provide greater independence and resilience and should be considered a positive step in improving governance. Internal Audit carry out a programme of reviews during the year which are based upon a risk assessment including fraud risk. As part of these audits, any failures to comply with legislation, council policy and practice or best practice guidance issued by a relevant body is identified and reported. Circulation of reports to senior officers, reports to the Audit Committee and follow-up procedures ensure action is taken on priority improvements. Progress on implementing internal audit recommendations is reported in quarterly reviews to Audit Committee and to the Leadership Team.

- 9.3 External auditors, Grant Thornton, appointed by the Audit Commission, provide an external review function through the audit of the annual accounts, assessment of value for money, certification of grant claims and the periodic inspection of services such as revenues and benefits. The Annual Audit and Inspection Letter is circulated to all Members and formally reported to Cabinet and the Audit Committee.
- 9.4 The Audit Committee's terms of reference are consistent with best practice. The Committee approves the annual plan of internal audit, and receives the quarterly and annual reports of the Head of the Shared Internal Audit Service. It approves the Statement of Accounts, the annual governance statement and the review of the effectiveness of the internal audit system. It receives reports on risk management and reviews the operation of treasury management. It also received the annual letter from the Ombudsman and considers regular reports upon Freedom of Information requests.

10.0 Key Challenges/ Risks

10.1 The key challenges/ risks facing the council can be summarised as follows:

- continued reductions in central government funding
- the outsourcing of services to the private sector and other local authority bodies
- the transfer of risk to local authorities for business rates and council tax benefit
- planning for the introduction of universal credit with the part transfer of responsibility to central government
- the continued reduction in the level of senior management which could affect governance controls
- ensuring the investment strategies of the council deliver future prosperity and financial returns.
- the effect of demographic changes upon future service delivery
- the cost of future pensions liabilities increases due to reduced investment returns and people living longer

The council's approach to dealing with these challenges are set out in succeeding paragraphs of this Governance Statement.

- 10.2 Central government is compelled to reduce public expenditure in order to balance its books. Local authorities have suffered significant losses of central funding and this is anticipated to continue until 2018. The scale of such funding (after the effects of inflation) is likely to approach a 50% cumulative reduction in external support. Council tax increases will be constrained and cannot cover this shortfall in government funding and it will, therefore, be necessary to reduce the council's cost base. The council is committed to delivering value for money and has developed a financial planning process to identify service efficiencies. This has resulted in £2.6m of efficiencies over the three year period 2011/2014 and has been achieved in part through reducing management costs.
- 10.3 This work has been further developed with the production of a 'Roadmap' to identify what the council will look like in the future and which seeks to anticipate and manage change. Service reviews have commenced and will be used to identify a further £2m of efficiencies which includes exposing some services to external providers. As a consequence, the ICT shared service (with TRDC) is to be outsourced to Capita Secure Information Solutions ; also the waste, street cleansing, recycling, parks and open spaces services will be outsourced to Veolia Environmental Services UK . The combined saving in future years to Watford from outsourcing these two services is likely to provide an annual saving of circa £900k.
- 10.4 This level of saving is encouraging but exposes the council to a second key risk/ challenge namely how to monitor both the achievement of these financial savings and the effect upon day to day service delivery. Key performance indicators are included within both contracts and will be monitored by client teams which in turn will be accountable to Leadership Team/ Cabinet Members/ the Overview and Scrutiny Committee / Outsourced Services Scrutiny Panel and the Shared Services Joint Committee.

- 10.5 Further, in its search for public expenditure savings, central government has been transferring risk to local authorities. Business rates collected by councils had formerly been paid over to central government and subsequently received back according to need. This has now changed whereby changes to the business rates base will affect local authorities and central government on an equal basis. For some authorities this may provide increased income, but for others the reverse will happen and the risk of a shortfall in funding has increased. Similarly, central government has imposed a 10% cut on council tax benefit payments and has transferred that shortfall in funding to local authorities to try and make good. In both instances, Watford will need to monitor the implications and to seek to minimise the impact for its finances and its client base.
- 10.6 The need for further expenditure reductions will be required and the council seeks to ensure continuous improvement through:
- work carried out as part of the annual budget process
 - project appraisal and formal project management for all improvement projects and major investment programmes.
 - undertaking best value/ value for money and managerial reviews
 - implementing the recommendations of Internal Audit
 - implementing the recommendations of external auditors and inspectors
 - the adoption of best practice where cost-effective
 - increasing use of technology to deliver services that customers want
 - market testing of services where appropriate
 - consultation with the public and staff
 - partnership working with companies and other public bodies
 - setting challenging targets for improvement
- 10.7 Further strategies to reduce the council's cost base have included reducing the levels of senior management and has resulted in the deletion of the two executive director posts, the sharing of the Director of Finance role (with neighbouring Three Rivers District Council), and the deletion of the Executive Director, Services post. This has cascaded down and resulted in further management and support officer reductions. From a governance perspective it is important that the 'control environment' and levels of risk do not increase as a consequence and will need to be monitored closely during 2013/2014.
- 10.8 The council has an ambitious programme of capital investment which involves significant partnership working with the private sector. The regeneration of Charter Place has resulted in Intu PLC taking control and financing its future redevelopment and will involve the management of the centre and the Market facility in the short term. In return the council has obtained funding for future improvements and guarantees for improved levels of commercial rent income. The monitoring of this project will require vigilance in the years ahead. Similarly, the council has entered into a partnership with Kier Construction (through a Local Asset Backed Vehicle) and a simultaneous agreement with the West Hertfordshire Hospitals NHS Trust to deliver the Health Campus project. This includes the opportunity to deliver new Hospital facilities, improved access by way of a new road, increased parking provision, around 560 residential units, office space and an increased retail offer. The project is not without risk and involves significant up front financial investment by the council. A key governance issue for the future will be to ensure that the council is not disadvantaged in comparison with its private sector partner.
- 10.9 The council needs to anticipate the effect of demographic changes and the Census 2011 shows that Watford's population has increase by 13.3% (to 90,301 persons) during the 10 year period 2001 to 2011. This will affect the provision of services and will include the effect upon housing, education, social care, transport and volumes of welfare claimants. Both Watford and Hertfordshire County Council constantly evaluate the impact that demographic changes will necessitate.

10.10 Demographic and employment changes will also impact upon Watford Council's Pensions Fund as it is adversely affected by the fact that former (and current) employees are living longer and will continue to drawdown pensions far longer than previously occurred. Combined with this, investment returns have not been favourable whilst interest rates remain depressed. An actuarial review of the value of the Pension Fund will be known in December 2013 and will probably present the council with a key challenge in funding any pensions shortfall. The council's Medium Term Financial Strategy which covers the period 2013/ 2017 will need to factor in any financial effects arising out of the actuarial review.

11.0 Review of effectiveness

- 11.1 In accordance with recent external audit guidance, the review of the effectiveness of the governance framework will focus upon significant weaknesses and the 'big picture'. If issues have not been highlighted then that is because current governance arrangements have proved fit for purpose.
- 11.2 The review of effectiveness is informed by the work of the executive managers within the authority who have responsibility for the development and maintenance of the governance environment, the Head of Shared Internal Audit Services annual report and also by comments made by the external auditors and other review agencies and inspectorates. The Mayor and Portfolio Holders maintain a continuous review of the council's policies, activities and performance of officers both through quarterly reviews and on a day to day basis.
- 11.3 The governance of special projects has raised a number of issues relating to procurement and evaluation of financial and service offers. In these cases external specialist advice has been sought in order to protect the council's interests. These projects include the Watford Health Campus, Charter Place re-development, and market testing of waste, refuse, street cleansing, parks and open spaces. The ICT service for Watford and Three Rivers has recently been outsourced to Capita SIS with effect from 21st May 2013.
- 11.4 The increasing threat of cyber crime presents Watford with one of its greatest challenges and this has been evaluated through a comprehensive report to the Audit Committee (and Joint Shared Services Committee) upon ICT security/ vulnerabilities. This report was also provided to Capita SIS as part of its due diligence process and a detailed progress plan has been produced to correct potential weaknesses within ICT security. Progress on this plan is reported to Watford's Audit Committee at every meeting.
- 11.5 The Annual Report of the Head of Shared Internal Audit Services has been reported to the Audit Committee at its meeting on 26th June 2013 and included the following statement... "Audit Opinion: Based on the internal audit work undertaken we give satisfactory assurance on the adequacy and effectiveness of the internal control environment". The Annual Report continues: " there have been no significant new concerns arising from the majority of the audits undertaken in 2012/2013 that necessitate an adverse overall opinion. However updates on some of the concerns reported in the previous Annual Report have been included in 2012/2013, in Section 3 of this report". The majority of these concerns relate to the ICT environment where a significant number of improvements have been made and the ICT outsourced contract has included financial resources to programme all outstanding issues.
- 11.6 For the future, there is however a need to organise training for the Audit Committee in 2013/2014 to ensure it has the expertise to properly supervise and challenge the governance arrangements across the council. A training session for members of Watford and Three Rivers Audit Committees is to be held in the autumn of 2013/2014.
- 11.7 The 'Key Challenges/ Risks' section of the Governance Statement identifies a number of major issues faced by Watford over the immediate future and will require a systematic strategy to review how existing governance effectiveness will be maintained and has been summarised within the next section of this Statement.

12.0 Significant Governance Issues

- 12.1 The 'normal' running of council business has and can be controlled through the governance framework detailed at sections 4 to 9 of this report. Specific issues identified within the 2011/2012 Governance Statement have largely been resolved and are updated at the end of this Governance Statement.
- 12.2 The Annual Governance Statement for 2012/2013 does however identify additional risks that the council needs to address by way of individual action plans with measurable milestones and timescales and include:

No.	Issue	Action	Lead	Update
1	Continued reductions in Central Government funding will place pressures upon the delivery of services	The MTFS will be updated quarterly and planned efficiencies through the council's Road Map will be monitored	Shared Director of Finance and Leadership Team	Quarterly updates have been planned
2	The outsourcing of ICT and waste, street cleansing, recycling, parks and open spaces can result in an unacceptable fall in levels of service.	Detailed key performance indicators have been included within contract documentation and need to be rigorously monitored	Head of Cultural and Client Services	Monthly monitoring in place Outsourced Scrutiny Panel to receive performance reports
3	Welfare Benefit changes and the preparation for Universal Credit needs to ensure no unacceptable impact upon benefit recipients	Monitoring of existing client base needs to identify where distortions occur. Testing of current ICT systems need to ensure a seamless transfer of caseloads to central government	Head of Shared Services Revenues and Benefits	Quarterly monitoring and reporting to the Shared Services Joint Committee will occur Monthly updates to be provided to Leadership Team

4	Deletion of senior management posts may result in a breakdown in governance processes.	Transfer of responsibilities to named officers should ensure future accountability	Managing Director and Leadership Team	<p>Quarterly monitoring through Leadership, Portfolio Holders and internal audit reports to Audit Committee</p> <p>Extensive work undertaken to review delegations / responsibilities where appropriate to ensure effective management of highlighted areas is identified and actioned</p>
5	Ensuring investment partnerships at the Health Campus and Charter Place achieve planned objectives	Detailed development agreements are in place and will be monitored through Partnership Boards	Managing Director and Elected Mayor	Quarterly monitoring through the Major Projects Board should occur
6	The effect of demographic changes need to be identified at an early stage	The composition of the council's client base is kept under continuous review. Pressures upon services such as housing and welfare entitlement will be known	Leadership Team	Quarterly monitoring will consider any implication upon existing service provision
7	The council's Pension Fund needs to be adequately funded in order to meet current and future liabilities	In December 2013 the triennial review of the Pension Fund will be reported by the Actuary. The council will need to respond to the main features of that report	Shared Director of Finance	The Medium Term Financial Strategy will need to factor in making additional annual provision if necessary. The use of ad hoc payments into the Fund should also be considered

Statement from the Elected Mayor and Managing Director

13.1 We propose over the coming year to keep a close focus upon the key governance issues identified as part of the 2012/2013 review and are satisfied that the identified actions and reporting mechanisms will ensure no adverse outcomes will occur. We will monitor their implementation and operation periodically during the year with a formal review as part of the 2013/2014 Annual Governance Statement.

.....

Mayor
Date

.....

Managing Director
Date

Specific Issue identified within the previous year’s Annual Governance Statement

2011/2012	Issues			
No.	Issue	Action	Lead	Update
1	Revenues and Benefits reconciliations to be completed for 2011/2012.	External help has been engaged to bring this up to date.	Head of Revenues and Benefits Shared Services.	This has been resolved and all reconciliations are up to date.
2	Revenues and Benefits received a detailed Health Check report in Summer 2010. A few recommendations have still to be achieved.	Solid progress has been made but this should continue to be revisited until all recommendations are completed.	Head of Revenue and Benefits Shared Services	All immediate recommendations have been actioned..

3	Revenues and Benefits received an Inspection from the Department of Works and Pensions at year end. The first issue related to notification of amendments from the DWP (ATLAS) had not been actioned The second issue relates to the fact that the Shared Services 'local authority error' for Watford is higher than acceptable levels.	Retrospective action needs to be taken to action all ATLAS notifications. Improvements in timescales for dealing with outstanding benefit claimants should result in the level of local authority error falling to acceptable levels.	Head of Revenues and Benefits Shared Services	ATLAS work has largely been completed but will continue to require monitoring until all notifications have been actioned. The incidence of local authority error has not significantly improved and is a cause for continuing concern.
4	The incidence of Cyber Fraud has increased across the economy generally. This fraud includes false supplier details, syndicates submitting fictitious benefits claims, and the lack of proper vetting procedures relating to key staff appointments.	The most vulnerable areas of Council activity have been reviewed . ICT security systems have had a 'health check' . Additional staff vetting procedures should be in place when appointing ICT or Benefits staff in particular.	Head of Finance Shared Services and Head of ICT Shared Services Head of HR Shared Services	Only outstanding issue is the vetting of Benefits staff and needs to be addresses during 2013/2014.
5	Issues relating to the ICT operating platforms need to continue to be addressed so that there is greater resilience for all users.	Progress has been made in improving server resilience and issues relating to the 'thin client' environment. This progress needs to continue.	Head of ICT Shared Services	The operating platform is considerably more resilient and this will be completed as part of the outsource of the ICT service to Capita SIS.

Key Reference Documents:

Cipfa/ Solace Framework ‘Delivering Good Governance in Local Government’

Accounts and Audit (England) Regulations 2011

<http://www.legislation.gov.uk/uksi/2011/817/contents/made>

Medium Term Financial Strategy 2013/ 2017 (January 2013)

<http://watford.moderngov.co.uk/documents/s4197/Appendix%206%20Medium%20Term%20Financial%20Strategy%202013-2017%2016012013%20Budget%20Panel.pdf>

Watford Borough Council Constitution

<http://www.watford.gov.uk/ccm/content/legal-and-democratic/constitution/constitution.en;sessionid=6BFC7098E7D9D16A855D7CC46E575CAE>

Watford Borough Council Corporate Plan 2013-17 – including the council’s strategic priorities

<http://watford.moderngov.co.uk/documents/s4588/Appendix%20I%20Draft%20Corporate%20plan.pdf>

Watford Sustainable Community Strategy

<http://www.watford.gov.uk/ccm/content/strategic-services/new-partnerships/sustainable-community-strategy.en>

Procedure Rules, Financial Regulations and Schemes of Delegation

- Procedure Rules (Part 4 of the constitution)

<http://www.watford.gov.uk/ccm/content/legal-and-democratic/constitution/constitution.en>

- Financial Regulations

<http://www.watford.gov.uk/ccm/content/legal-and-democratic/constitution/part-4---financial-procedure-rules.en>

- Schemes of Delegation

<http://www.watford.gov.uk/ccm/content/legal-and-democratic/constitution/part-3-%281%29---schemes-of-delegation.en>

Codes of Conduct

Members

<http://www.watford.gov.uk/ccm/content/legal-and-democratic/constitution/part-5---codes-and-protocols.en>

Officers

<http://www.watford.gov.uk/ccm/content/legal-and-democratic/constitution/part-5---officers-code-of-conduct.en>

Reviewed by Leadership Team, May 2013.

PART A

Report to: Audit Committee
Date of meeting: 26th June 2013
Report of: Head of Strategic Finance
Title: Treasury Management Update Report

1.0 **SUMMARY**

1.1 This report provides the regular review of the Council's Treasury Management Strategy and investment performance.

2.0 **RECOMMENDATIONS**

2.1 That the Committee notes the report.

Contact Officer:

For further information on this report please contact: Bernard Clarke, Head of Strategic Finance, telephone extension: 8189 email:

bernard.clarke@watford.gov.uk

3.0 Background

3.1 As this will be my last review of the global investment background, I should be expected, like Mervyn King (at the Bank of England) to give an up beat message. Regrettably, whilst all appears calm, very great turbulence probably lies ahead. So I will commence this review with a quick 'Whicker's' world tour (whilst the views are mine they are supported by a great many economic analysts).

Eurozone

3.2 Any starting point must be the euro zone which is mired in a recession and shrank for the sixth quarter in a row. France fell back with a 0.2% contraction of GDP and confirmed fears that the second biggest economy is in dangerous decline, whilst Germany only reported a 0.1% growth in GDP. In Italy the economy shrank for the seventh quarter in a row, with Spain showing another 0.5% contraction. Greece entered its sixth year of recession.

3.3 The ECB has eventually realised its tight money in the past has exacerbated the situation and has dropped its bank rate to 0.5% (the same as the US and UK) but this will be insufficient and the solution appears to be for the ECB to introduce its own quantitative easing to encourage growth (but that will be resisted by Germany).

3.4 Politicians within the euro zone, however, continue to believe the problem is an Anglo Saxon financial crisis rather than lack of competitiveness and trade imbalances. As a consequence 11 countries have agreed to introduce a 'Tobin' tax on financial transactions. This tax not just to apply to transactions within the euro zone but worldwide if denominated in euros (with a hoped for target of 35 bn of euros each year going into their coffers). The UK government has raised a legal challenge as it is a direct attack on the City of London and has been backed by the US. Interestingly, all central bankers within the euro zone (including the Bundesbank) are against the tax as it will push up government borrowing costs, will only deliver 3 bn of receipts and drive markets to the far east and New York.

3.5 There has been an unwritten convention within EC circles that the common agricultural policy was sacrosanct to France; the car industry to Germany; and financial services to the UK. This has now been torn up and is pushing the UK to the exit door. Latest intelligence suggests the wall of opposition will mean the Tobin tax so neutered as to be meaningless.

3.6 Meanwhile, gas prices in Europe are 4 times higher than the US and energy prices 3 times higher both of which seriously affects the European chemical, steel and glass industries. France has a moratorium on shale gas; Germany

is running down its nuclear reactors; and Italy won't touch shale or nuclear. Europe is being left in a permanent slump and will probably lose its footing in the world.

United Kingdom

- 3.7 Household wealth is lower than it was a decade ago where British households had the fifth highest spending power in the World (behind USA, Luxembourg, Norway and Germany). By 2011 we had slumped to 12th wealthiest and helps to explain the lack of consumer demand. We continue to live above our means with a savings rate between 2005 and 2011 of minus 1.1% (compared to a positive 11.8% savings rate in France; and 10.9% in Germany). British families are the most heavily indebted in the developed world at 98% of GDP and this had risen by a third between 1997 and 2009.
- 3.8 The housing market (and house prices) is improving spurred on by low mortgage rates and government initiatives. There is of course the danger that this will create a bubble further down the line.
- 3.9 There is however some clear, blue water emerging between the UK and our continental cousins. Euro zone unemployment averages 12.1% (the UK 7.9%); the UK growth performance (whilst pretty poor) is starting to pull away from the euro zone. This has considerable risk of reversal as the UK's main trading bloc is the EU. Even here there has been a rebalancing where 62% of exports in 2002 went to the EU whereas latest data shows £151bn to Europe and £149bn to the rest of the world.
- 3.10 Revisions to national statistics suggest the UK not only avoided a triple dip recession, but a double dip as well. Any growth will be extremely modest (circa 0.9% during 2013) but is a marked improvement on the position within the euro zone.

France

- 3.11 French labour costs are not competitive. The minimum wage is the highest in Europe combined with a 35 hour week. Pensions are high with entitlement at 62 (far lower for public sector employees). The French Socialist Party did not help matters by blaming the deep social and economic crisis on the 'selfish intransigence of Mrs Merkel'. This provoked an instant response from the Free Democrat Party (in Mrs Merkel's coalition) who responded by deriding France as a basket case with an economy in deep decline. It accused Paris of clinging to a coddled welfare model with a state sector near 56% of GDP.

Germany

- 3.12 Has fared reasonably well over the past 4 years due to its relatively low labour costs and the advantages of the euro being competitive (compared to what the deutschmark would have been). Recent data shows a slowdown

in growth and there has been a fall in new orders in the past quarter. The effective devaluation of the Japanese yen will affect its far eastern markets.

Italy

- 3.13 Italy's new premier, Enrico Letta is on a collision course with Germany after vowing to end austerity measures which were 'killing' his country. Silvio Berlusconi waded in calling for a showdown with northern powers before it loses its chemical, car and steel industries. It has now been recognised that it was a mistake to squeeze the budget by 3% of GDP last year. The consequence has been internal demand contracting 5.3% and increased Italian debt measured against a shrinking budget. It still remains the case that Italy would benefit most from euro exit. It has a primary trade surplus and fat gold reserves providing bond collateral that could raise 400 bn euros if necessary. Its only problem is that the euro is over valued by 20% compared to a return to the lira.

Holland

- 3.14 Previous notions were that Germany, Holland, Finland and Austria were the hard liners calling for austerity. Recent comments (from the Bureau of Economic Policy Analysis) included 'the Dutch government's inability to acknowledge the damage done by austerity despite mounting evidence is a case of 'cognitive dissonance'. This evidence includes unemployment doubling over the past two years to 8.1%; the economy has been in recession since early 2011; a credit frenzy was allowed and household debt to disposable income in 2010 had risen to 266% . There has been an inevitable correction with house prices having fallen by 18%, leaving many households 'onder water'. Further falls are expected in 2013 and 2014. Consumer sentiment is not good. Dutch banks are heavily dependent upon capital markets as its loan to deposits ratio is 183% (compared to 120% in the UK). In February 2013, the Dutch Government was forced to nationalise the fourth largest bank after it was over exposed to commercial property debt.

Austerity Across Europe Continues

- 3.15 It is instructive to compare current targets for cutting public spending across Europe as the table below indicates:

	2013	2015
UK	6.8%	3% of GDP
France	3.9%	3%
Spain	6.5%	3%
Holland	3.6%	2.8%
Italy	3%	3%
Portugal	5.5%	2.5%

- 3.16 The effect of austerity does however increase the size of public debt (as it is related to a shrinking economy). So, for example public debt rose from 108% of GDP in Portugal to 124% last year; and 69% to 84% in Spain. The UK has experienced its public debt continuing to increase as it seeks to stabilise its finances.

The United States

- 3.17 The US has operated quantitative easing (like the UK) since the early stages of the financial crisis and has been printing 85 bn dollars of new money every month. This available credit has provided much needed world liquidity but the Swiss based Bank for International Settlements has observed that this emergency stimulus is becoming a dangerous addiction.
- 3.18 The Federal Reserve Board has a number of members who feel the tap should be turned off and this has caused panic in the wider world as it is toxic for anybody who relies on dollar funding and that particularly affects the emerging markets.

Emerging Markets/ BRICS (Brazil/ Russia/ India/ China/ South Africa)

- 3.19 Optimism that the world would be pulled out of recession by emerging markets/ BRICS has dissipated. Brazil has seen manufacturing output fall 2.8% since 2008 and its main exports, iron ore and agriculture have gone backwards. Russia is similarly heavily dependent upon oil and gas (whilst globally shale energy is on the increase). India still suffers power blackouts and a current account deficit of 6.7%. China has run out of steam where growth had largely been generated by increasing credit internally from 9 trillion dollars to 23 trillion in four years. Much of its municipalities/ industry are heavily in debt and has reached credit exhaustion which is now like pumping air into a leaking balloon. The danger for Europe is that much investment was shovelled into emerging markets-- 4.4 trillion dollars from the European bloc and any future shocks may well affect the repayment of this investment.

Japan

- 3.20 The new premier (Shinzo Abe) has attempted to lift Japan out of its deflationary 20 year 'ice age' by instructing the bank of Japan to start printing money (equivalent to 75bn dollars a month—nearly the same as the US but with an economy a third of the size). This had the effect of achieving an initial 3.5% growth rate and also devalued the yen by 30% which clearly has made it more competitive against the USA/ China/ South Korea/ and Europe. Germany in particular could find its far eastern markets drying up.
- 3.21 The Japanese stock market rose 70% since November 2012 with foreign hedge funds accounting for a third of all long positions. A correction was inevitable with the Tokyo Nikkei falling over 7% in one day. Investors are likely to be sitting on losses for quite a while.

Equity/ Stock Markets

- 3.22 Equity / stock markets across the world saw dramatic increases in their values in the early part of 2013 but was almost certainly not justified by fundamentals but rather because government bonds/ gilts continue to provide a negative return. A correction has subsequently occurred with the FTSE index reaching 6,875 before falling to a current level of 6,340. It is hoped that this level will be maintained as many pension funds in particular have suffered badly by the low level of investment returns from bonds.

Government Stock/ Gilts

- 3.23 Show a very poor return and this will continue until interest rates begin to rise. The UK continues to enjoy 'safe haven' status as the problems throughout the world start to emerge. It is anticipated that once a panic sets in most investors will turn to American treasury stock as the ultimate safe haven.

Conclusion

- 3.24 A rash of weak manufacturing data from America, Europe and Asia has cast serious doubts on the strength of the global economy and is in sharp contrast to the optimistically surging stock markets. The levels of Government and Bank debt is far too high and has been heavily dependent upon printing presses being turned on. At some point this 'fix' will need to be addressed. Personal debt is still high in the UK and this has resulted in a lack of demand for consumer goods and which has not helped the retail sector in particular. If there is a glimmer of light it is that the UK economy has hopefully turned the corner but any growth will be extremely modest for the foreseeable future.

4.0 The Co-operative Bank

- 4.1 The Co-op was formally seen as an old fashioned, safe and secure mutual institution. Its Chief Executive was keen to transform it to become a leading player both in the retail (supermarket) sector and in the banking industry. As a consequence the Co-op swallowed up Somerfield supermarkets and also bought out the Britannia Building Society. As a final act, the CEO also engineered the Co-op to be preferred bidder for 632 branches of the TSB brand within the Lloyd's/ HBOS bank umbrella.
- 4.2 This last act proved his, and the Co-ops undoing, because the Financial Services Authority, in carrying out due diligence concluded that a sizeable black hole existed in the Co-op Bank's balance sheet. Recent losses have had to be declared as a consequence of a new finance package (to

integrate the Co-op and Britannia financial systems). This has now been scrapped at an abortive cost of £250m.

In addition, prior to the take over of Britannia, due diligence was less than thorough and a sizeable tranche of commercial bad debts have had to be written down.

- 4.3 The exact size of the black hole has yet to be declared but is in the range £1bn to £1.8bn. The Co-op Bank has a capital 'adequacy' of 1% whereas 7% is where it should be. Its parent, the wider Co-operative Group (which includes retail and funeral operations) has signally failed to state it will bridge any capital shortfall.
- 4.4 In the short term the Co-op Bank is seeking to sell its insurance business but at a knockdown price of circa £220m and is seeking to identify further disposal opportunities. It is also seeking to make its £1.3bn of subordinated bond and preference shareholders take a hit.
- 4.5 The Co-op has over 6.5m customers and as at the present date there has been no run on the bank (savers would expect to have the first £85k of any deposits covered by the government compensation scheme). The Co-op is also the council's banker (and indeed is banker to a number of local authorities, as well as the Labour Party nationally). The current contract for Watford expires in April 2014 and a procurement process has commenced.
- 4.6 It is not feasible to bring this date forward as any change of banker requires proper planning with changes to cheque stationery, standing orders, direct debit mandates etc. The main problem for the council is that it has tended to leave a chunk of money 'overnight' in the Co-op to meet cash flow requirements (the Treasury Policy Statement limits this to £5m maximum at any one time). As an example of the fluctuations in the council's cash flows, on 15th May there was £45m in our portfolio which has now fallen to circa £39m and is due to the timing of payments into the council's bank accounts and payments out to HCC/HPA preceptors and business rates to the government.
- 4.7 The council has received assurances from the Co-op that any money in its current account is not classified as either subordinated bonds or preference shares. Nevertheless we are leaving as little as possible in the Co-op at the end of each day and has resulted in using the government's Debt Management Office as the depository for overnight facilities. This is inconvenient and has caused the council's investment officers to spend more time on the cash management process. It is however necessary until a strategy to meet the Co-op's black hole has been announced (hopefully within the next two weeks).

5.0 Council's Current Investment Strategy

- 5.1 The Council's strategy gives priority to the security of its assets before seeking a high interest rate return and can be summarised as follows:

- **Security** (counterparty reliability)r
- **Liquidity** (timescale for return of investment)
- **Yield** (rate of interest)

5.2 The previous sections of this report have indicated that I believe we have a 'calm before the storm' and that, as a consequence, the maturity of the portfolio will be kept relatively short. The problem in generating a reasonable return from the portfolio is the fact that commercial banks/ building societies are able to borrow from the markets and are not interested in small deposits from local authorities.

5.3 This can be demonstrated by the latest rates on offer (as at 31st May 2013) as the information below indicates:

	1 month	2 months	3 months
	%	%	%
Barclays	0.30	0.30	0.35
Nationwide	0.38	0.40	0.44

5.4 The Audit Committee may recall that I have previously reported that the council would not use the government guaranteed Debt Management Office because its rates of interest were far too low. Interestingly the DMO rates have remained constant (0.25%) whilst commercial operations have been significantly lowering their rates (see above Barclay's at 0.30%). In these circumstances the greater security offered by the DMO far outweighs a very small increase in the rate of interest on offer.

5.5 The Council's current investment portfolio is attached at **Appendix 1** and indicates £8.8m with Nat West (as it is 83% government owned) and £5m with Lloyds (again the government has a major interest). This will need to be monitored as the intention of the Treasury is to reduce government ownership within the next two years. It should be noted that the overnight balance with the Co-op is £60k; and a sizeable part of the portfolio (£10m) is with the Debt Management Office with very short maturity periods as it is now being used for immediate cash flow variances.

5.6 The next report to the Audit Committee will be under the aegis of the Shared Services Director of Finance who may take a different view of events. At least I have left a reasonably secure set of counterparties with a short maturity profile so there will be plenty of opportunity to make changes.

6.0 IMPLICATIONS

6.1 Financial Issues

The Head of Strategic Finance comments that the revenue estimates for 2013/ 2014 has assumed £270k of investment interest will be achieved (based upon a 1.0% rate of return). The rate of return may be difficult to achieve in the current climate but the cash return is possible as it will be

dependent upon the drawdown of council finances to meet funding of the capital programme.

6.2 Legal Issues (Monitoring Officer)

The Head of Legal and Property Services comments that there are statutory limitations governing cash fund investments and all proposals within this report ensure continued compliance.

6.3 Potential Risks

Potential Risk	Likelihood	Impact	Overall score
Investment with non approved body	1	3	3
Investment with an approved counterparty that subsequently defaults	1	4	4
Failure to achieve investment interest budget targets	3	2	6
Those risks scoring 9 or above are considered significant and will need specific attention in project management. They will also be added to the service's Risk Register.			

6.4 Staffing & Equalities

None Directly

6.5 Accommodation

None Directly

Loan Ref	Lender	Loan Type	Broker	Profile	lofixedvar	Notice	Start Date	Maturity Dat	Principal	Rate
1005	CLYDESDA	D		V	V		06-Apr-10	- -	-3,000,000.00	0.50
1010	NATWESTS	D		V	V		27-Apr-10	- -	-3,800,000.00	0.50
1025	CO-OP	D		V	V	C	01-Jul-10	- -	-60,000.00	0.38
1062	DEUTSCHE	D		V	V	C	25-Jul-12	- -	-3,000,000.00	0.35
1072	NATWESTS	D		M	F		21-Nov-12	20-Nov-13	-2,000,000.00	1.50
1073	SANTAND	D		V	V	C	28-Nov-12	- -	-5,000,000.00	1.10
1078	NATWESTS	D		V	V	C	30-Apr-13	- -	-3,000,000.00	1.20
1080	LLOYDSTS	D		M	F		14-May-13	14-Aug-13	-2,000,000.00	0.70
1081	LLOYDSTS	D		M	F		15-May-13	15-Nov-13	-2,000,000.00	0.80
1083	LLOYDSTS	D		M	F		20-May-13	20-Nov-13	-1,000,000.00	0.80
1084	DMO	D		M	F		20-May-13	19-Jun-13	-4,000,000.00	0.25
1088	DMO	D		M	F		03-Jun-13	17-Jun-13	-3,000,000.00	0.25
1089	BARCLAYS	D	PREB	M	F		04-Jun-13	05-Aug-13	-2,000,000.00	0.30
1090	NATIONWI	D	STER	M	F		05-Jun-13	05-Sep-13	-2,000,000.00	0.44
1091	DMO	D		M	F		10-Jun-13	03-Jul-13	-3,000,000.00	0.25
									<u>-38,860,000.00</u>	

AS AT
14-Jun-13

Report to: Audit Committee
Date of meeting: 26th June 2013
Report of: Head of Strategic Finance
Title: Draft Statement of Accounts 2012/2013

1.0 **SUMMARY**

1.1 This report includes the draft Statement of Accounts for 2012/2013.

2.0 **RECOMMENDATIONS**

2.1 That the Audit Committee considers the draft Statement of Accounts.

Contact Officer:

For further information on this report please contact: Bernard Clarke, Head of Strategic Finance

telephone extension: 8189 email: bernard.clarke@watford.gov.uk

Report approved by: Manny Lewis, Managing Director.

3.0 DETAILED PROPOSAL

- 3.1 The Accounts and Audit (England) Regulations 2011 makes provision for the Statement of Accounts not to be presented to this Committee until they have been formally audited. Nevertheless it is considered that it would be good practice to provide the draft set of accounts.
- 3.2 It is important however that the Committee understands that there will inevitably be changes to the accounts as part of Grant Thornton's external validation. This should not be seen, however, as a criticism of the accounts process/ compilation. The statutory timetable does not require the final, **audited** accounts to be reported until September 2013.
- 3.3 The Statement of Accounts is very much a technical document which is difficult for the lay person to interpret and therefore to assist the Audit Committee this covering report will provide the main components comprising the Statement. In addition the foreword to the Statement attempts to provide contextual information, strategic outcomes and explanations of the statutory details within Statement and should be considered good practice.

4.0 REVENUE OUTTURN 2012 / 2013

- 4.1 The revenue outturn is summarised within the explanatory Foreword in the table at Paragraph 9.5. Comparisons with the original budget are difficult due to a number of accounting adjustments (in order to comply with International Financial Reporting Standards). The key line therefore is the surplus/ deficit for the year and indicates a surplus of £616k. This however is a little misleading in that there was an anticipation that the Council would transfer £503k into reserves whereas at Outturn this was reduced down to £147k. The true comparative figures therefore are that it was anticipated (when setting the budget for 2012/2013 in February 2012) that there would be a net surplus at year end of £503k. In reality the Outturn realised a surplus of £469k which simplistically indicates the Council's forecasting is in good shape.
- 4.2 The Foreword at Paragraph 9.8 details the main variances that have occurred during the year (comparing Original Estimate to Outturn). Cabinet on 8th July and Budget Panel on 10th July will receive a more detailed report explaining how the outturn has been arrived at combined with various reconciliation statements.
- 4.3 The Audit Committee remit is to consider the formal Statement of Accounts and at its meeting in September greater detail can be provided. As referred to earlier, there is no requirement to report the formal accounts to this meeting of the Committee and it should be appreciated that this paper can only provide the briefest of overviews.

5.0 CAPITAL OUTTURN

- 5.1 The capital outturn for 2012/2013 is referred to at Section 10 of the Foreword and is self explanatory.

6.0 FINANCIAL HEALTH

- 6.1 The financial health of the council can probably be simplistically judged through an examination of the change in its holding of reserves and balances. Within the draft Statement of Accounts, the Movement in Reserves Statement (Page 29) indicates revenue reserves and the general fund balance at year end was £15,125k (£14,656k 2011/2012) a £469k increase. For capital receipts, end of year was £12,246k (£12,872k, 2011/2012) a £626k reduction.
- 6.2 When this is judged against reduced funding from central government, no increase in council tax, and a general depression within the wider economy, the conclusion must be that Watford is in good shape to meet the challenges to come.

7.0 IMPLICATIONS

7.1 Financial

- 7.1.1 The Head of Strategic Finance comments that all financial implications have been included within this report and the accompanying papers.

7.2 Legal Issues (Monitoring Officer)

- 7.2.1 The Head of Legal and Property Services comments that the legal implications are contained in the body of the report.

7.3 Equalities

- 7.3.1 There are no equalities issues arising directly out of this report.

7.4 Potential Risks

Potential Risk	Likelihood	Impact	Overall score
That the Accounts are found to be materially misstated when audited by Grant Thornton	2	3	6
That the Accounts are not audited and signed off by Grant Thornton by 30 September 2013.	1	4	4
That a council tax payer within the area objects to items within the Accounts	1	2	2

Those risks scoring 9 or above are considered significant and will need specific attention in project management. They will also be added to the appropriate Risk Register.

7.5 Staffing

- 7.5.1 There are no staffing implications arising directly out of this report.

7.6 **Accommodation**

7.6.1 There are no accommodation issues arising directly out of this report.

7.7 **Community Safety**

7.7.1 No issues arising directly out of this report

7.8 **Sustainability**

7.8.1 No issues arising directly out of this report

Appendices

Appendix 1 Draft Statement of Accounts

Background Papers

- Detailed final accounts working papers.

File Reference

- None.



PRE AUDIT

STATEMENT OF ACCOUNTS

2012/2013

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INTRODUCTION

Welcome to Watford Borough Council's Statement of Accounts for the year ending 31st March 2013.

The Statement of Accounts is a statutory document providing information on the cost of services provided by Watford Borough Council to the council tax payer detailing how those services were financed. In addition it provides information, within the Balance Sheet on the value of our assets (what we own), and what we are owed and the value of our liabilities (what we owe). It is in essence a statement of how well we have managed your money over the last twelve months.

I hope you find the statement of interest and may I take the opportunity of thanking you for taking time to read it.

*Bernard Clarke CPFA
Head of Strategic Finance*

*Watford Borough Council
Town Hall
Watford
Hertfordshire
WD17 3EX*

STATEMENT OF RESPONSIBILITIES

The *Code of Practice on Local Authority Accounting in The United Kingdom* reflects the requirements of the *Accounts and Audit Regulations 2011*. The Council must provide a Statement of Responsibilities for the Statement of Accounts which sets out the responsibilities of the Council and the Chief Financial Officer for the Accounts.

The Council's Responsibilities

The Council is required to:

- Make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this Council the Chief Financial Officer is the Head of Strategic Finance.
- Manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets.
- Approve the Statement of Accounts.

The Chief Financial Officer's Responsibilities

The Head of Strategic Finance is responsible for the preparation of the Council's Statement of Accounts in accordance with proper practices as set out in the Code of Practice on Local Authority Accounting in the United Kingdom (the Code).

In preparing this Statement of Accounts, the Head of Strategic Finance has:

- selected suitable accounting policies and applied them consistently.
- made judgements and estimates that were reasonable and prudent.
- complied with the local authority Code of Practice.

The Head of Strategic Finance has also:

- kept proper accounting records which were up to date.
- taken reasonable steps for the prevention and detection of fraud and other irregularities.

The Statement of Accounts presents a true and fair view of the financial position of Watford Borough Council as at 31 March 2013 and its income and expenditure for the year ended 31 March 2013.

Signed
Bernard Clarke CPFA
Head of Strategic Finance

Date: 26 June 2013

Signed
Ian Brown
Chairman of Audit Committee

Date: XX September 2013

EXPLANATORY FOREWORD

1.0 Introduction

- 1.1 The purpose of this Foreword is to offer interested parties an easily understandable guide to the most significant matters reported in the Statement of Accounts.
- 1.2 It also however attempts to provide a national context, and the effect upon Watford, as a background to the Council's financial statements.
- 1.3 Finally it also highlights the major outcomes achieved by the Council during 2012/2013 against which our expenditure and income can be judged.
- 1.4 It is hoped that the Foreword is of interest and helps to demonstrate whether our communities' money has been spent wisely.

2.0 Economic Background

- 2.1 The global economic background has been dreadful since the 'financial crash' in 2008. The main causes have been well documented but have included:
 - A situation where financial institutions borrowed far too much money which was then loaned at extremely cheap rates to developers/ speculators who constructed projects that were not sustainable. This typically occurred within the housing market in Spain and Ireland where a glut of property has been built which now lies empty.
 - Accompanying this, there was also a series of company takeovers where the purchasers paid inflated prices for the assets (again backed by cheap funding from financial institutions). The consequence being that banks and building societies were left with massive bad debts in their balance sheets.
 - At the same time, the banks themselves sought to buy out competitors at inflated prices and without carrying out proper 'due diligence'. In the UK for example, RBS took over a Dutch bank, ABN Amro, at a grossly overvalued price. Similarly the Co-operative bank swallowed up the Britannia Building Society and inherited massive commercial bad debts.
 - Cheap rates of borrowing also affected the average household in the UK where money was borrowed to finance everyday expenditure such as holidays, new cars, clothing, cosmetics etc. This money was borrowed largely on the back of the increased value of their homes. A correction in values has led to the return of negative equity. In some cases banks and building societies were loaning money to borrowers well in excess of the values of the properties being purchased.
 - Central Government was not immune to this 'credit frenzy' and in the UK for example, public expenditure far outstripped the ability to pay for it and therefore was funded by increased borrowing. To some extent local authorities were caught up in this frenzy with increased funding from central government encouraging increased expenditure to the general public. At the same time council tax increased significantly over the decade.

EXPLANATORY FOREWORD

- 2.2 Central Banks such as the Bank of England were not in sufficient control of the situation and should have forced interest rates to increase or taken some of the 'cash liquidity' out of circulation. The former Governor of the Bank of England, Mervyn King, once observed the job of a Central Bank is to take away the punchbowl just as a party is getting started. In reality that is exactly what they didn't do.
- 2.3 The consequence when it arrived was extremely painful and has resulted in financial institutions having a massive overhang of commercial and residential debt where liabilities far exceed assets. National Governments have also found that they have borrowed too much and need to reduce public expenditure. Households have not been immune and there has been a need to reduce debt. In many cases however total household disposable income has diminished due to no annual pay increases, inflation running at circa 4% annually since 2008, and an increase in part time and reduced hours working due to industry producing less goods for sale. Whilst savers far exceed borrowers, the current low level of interest rates means that the real value of investments has plummeted and has again affected purchasing power.
- 2.4 For the immediate future this scenario will continue with low interest rates necessary to ensure the most heavily indebted companies and households stay afloat (this is affectionately termed keeping the 'zombies' from administration and repossessions!).

3.0 Effect upon Watford Borough Council

3.1 The effect upon the Council has been significant and varied and has included:

- Central Government has reduced its support to all local authorities. For Watford a 28% reduction in central government general funding has occurred in the period 2011-2014. In reality once the effect of inflation is taken into account then the reduction is significantly more. It is anticipated that further cuts of another 20% will be imposed in the period up to 2018.
- Our community has been affected with disposable income having fallen significantly. At the same time, the numbers of families claiming welfare benefits has increased and has placed more pressures on our budgets. The Council has attempted to soften this situation by freezing levels of council tax (after central government funding, our other main source of income); it has also sought to impose minimal increases in its charges for services provided (but this is not always possible where, for example, increased fuel costs has meant trade refuse charges have had to increase).
- The increasing number of vacant shops has also affected the Council's levels of income as it received £7.312m of rent income in 2012/13, which is a 4.2% reduction compared to the £7.635m of rental income received in 2011/12.
- Finally, the low levels of investment returns has affected the income we receive. In the past our portfolio of investments were earning 4% rates of interest but that has now fallen to an average 1%. So this has put more strain on the Council finances. These low returns also affect the value of the Council's pension fund whereby we are paying out more to our pensioners than we are getting in from pensions contributions and investment interest. This pensions deficit will need to be addressed over the coming years.

EXPLANATORY FOREWORD

3.2 So, with all this depressing news, the Council has had to chart a course which seeks to ensure our financial health is good and we will be in a position to meet further expenditure cuts from central government whilst also meeting our strategic objectives for our community. The next section of this Foreword briefly details how we performed in 2012/2013 and is extracted from the Annual Report that went to all households in April 2013.

4.0 Achievement of Objectives During 2012/2013

4.1 An examination of the use of the financial resources of the Council would be incomplete unless it also measured this funding against the Council's strategic objectives during the same period. Subsequent paragraphs of this section of the Foreword attempts to provide the 'reader' with a flavour of achievement during the year.

4.2 Some of the highlights of the year include:

- approved designs that will significantly improve the Parade end of the High Street and make it more welcoming and attractive to the wider community
- with our Watford Health Campus partners secured a private sector partner (Kier Property) who will work with us to progress the scheme and develop a masterplan that will deliver a new sustainable community in West Watford
- negotiated an exciting way forward for Charter Place that will see Intu Watford (formerly Capital Shopping Centres) build on their commitment to Watford and re-develop the Centre as a retail, leisure and entertainment destination in the heart of the town
- supported the Croxley Rail Link project that is now on target to open in 2016 and provide the town with an excellent new transport link
- achieved a Round 1 HLF Award for Cassiobury Park to develop a Round 2 submission
- achieved approval for our Core Strategy – the key planning documents that will underpin development across the borough and shape the future of the town
- met our targets for recycling and reducing waste sent to landfill
- met our targets for keeping our streets clean and free of litter, graffiti and fly posting
- maintained our three green flags for our parks and open spaces
- achieved purple flag status for the 'top of the town' with our police and business partners and used the success to build on the work we do with them to make our night-time economy both vibrant and safe
- agreed a new Commissioning Framework that supports our relationship with the voluntary and community sector within the borough, recognising the role it plays in delivering services for our residents
- continued to advise and assist residents, including those who are more vulnerable, towards meeting their housing needs

EXPLANATORY FOREWORD

- engaged with our community through a number of channels including a Community Survey and dedicated groups that we established to work with local people on specific issues of importance to them
- continued to achieve significant savings through year 2 of our service prioritisation programme and through year 1 of the Future Council : Roadmap programme
- introduced voice recognition telephony to speed up and improve the experience of contacting us by telephone
- developed a local council tax scheme that will continue to support those residents who need help in paying their bill
- revised our organisational structure as part of our Future Council programme to ensure it reflects our priorities and the challenges and opportunities we face going forward

5.0 Prospects for the Future

5.1 The Statement of Accounts is very much an historic, backwards looking document which indicates how the Council's finances have changed during 2012/2013. Of interest to the reader will be what is the prognosis for the future when measured against the inevitable reductions in public expenditure forecast for the next five years?

5.2 In that respect there are four main component parts:

- i) the Council's own expenditure and income projections. In this regard the Council has been carrying out a systematic review of the way it delivers services. It has reduced back office and management costs and resolved to outsource some services to the private sector. The ultimate aim is to deliver circa £4.5m of expenditure reductions without significantly affecting service delivery. It recognises households are suffering and will seek to avoid large increases in its charges.
- ii) the support it receives from central government. Significant reductions have already been taken into account and it is hoped that the expenditure proposals already identified will be sufficient to compensate for this loss of government support.
- iii) the levels of council tax that is levied upon households is also a major source of income to the council. Over the past four years council tax for Watford Borough Council services has not increased. It would be unrealistic to provide a blanket guarantee that this would continue indefinitely (inflation continues to run at circa 3% currently) but every effort will be made to keep any increase below levels of future inflation.
- iv) finally a key component is the 'financial resilience' of the Council which leads us back to this detailed statement of accounts. In that respect subsequent sections of this Foreword will highlight how the Council fares in the resilience test. A short phrase that would summarise the Council is "being in a very good financial shape" to meet the challenges ahead. I hope you reach the same conclusion.

EXPLANATORY FOREWORD

6.0 The Core Financial Statements

6.1 The accounts that follow this foreword contain four core financial statements:

6.2 Statement of Movements in Reserves

6.3 The Statement of Movements in Reserves is a summary of the changes that have taken place in the bottom half of the Balance Sheet. It analyses the increase or decrease in the net worth of the Council as a result of incurring expenses and generating income and in the movements in the fair value of its assets. It also shows movements in reserves brought about by statutory provisions that, due to accounting requirements, are excluded from the Comprehensive Income and Expenditure Account.

6.4 Comprehensive Income and Expenditure Account

6.5 The Comprehensive Income and Expenditure Statement (CIES) consolidates the gains and losses experienced by the Council during the financial year. These are reconciled to the changes in net worth in the Statement of Movements in Reserves. The CIES has two sections. The first details income and expenditure on services, and the second shows other income and expenditure such as movements in capital values and gains or losses on pension assets and liabilities.

6.6 Balance Sheet

6.7 The Balance Sheet summarises the Council's position at 31 March each year. In its top half it contains the assets it holds or liabilities it has accrued with other parties. As the Council does not have equity, i.e. shareholders, the bottom half shows usable and unusable reserves representing the Council's net worth. Changes in the net worth during the year are reconciled in the Statement of Movements in Reserves.

6.8 Cash Flow Statement

The Cash Flow Statement summarises the flows of cash that have taken place into and out of the Council's bank accounts during the financial year.

7.0 Changes to the Statement of Accounts

7.1 Accounting Policies

7.2 The Financial Statements have been prepared under International Financial Reporting Standards (IFRS). In addition, the Chartered Institute of Public Finance and Accountancy produces a Code of Practice on Local Authority Accounting which reflects the statutory requirements and has been followed in preparing the financial statements.

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- 7.3 There were no major changes to accounting policies in the year.
- 7.4 The Council is required to prepare 'group accounts' where there are significant interests in other organisations. It has carried out a review and determined that no other organisations exist that would require group accounts to be prepared.

7.5 Changes in Functions

- 7.6 No changes in function occurred in 2012/13.
- 7.7 The Council continued to share Revenues and Benefits, Finance, Human Resources and ICT functions with Three Rivers District Council under the governance of a Joint Committee. Separate accounts are published for these activities and the impact on Watford Borough Council included in this Statement of Accounts.

8.0 Contingent Assets and Liabilities

- 8.1 Note 32 to the Core Financial Statements gives details of contingent assets and liabilities. No exceptional or unusual items of income or expenditure have occurred. No material events affecting the accounts occurred after the year end up to 26 June 2013.

9.0 Revenue Activities

9.1 Revenue Out-turn 2012/2013

- 9.2 For accounting purposes, the Council distinguishes between 'revenue' and 'capital' activities. (Capital activities are covered in Section 10). Revenue activities are included in the Comprehensive Income and Expenditure Statement and cover the day to day income and expenditure involved in providing services to the public. The Council holds a General Fund Balance and specific Reserves, shown in the Statement of Movement in Reserves and on the Balance Sheet, which are available to support revenue expenditure if necessary.
- 9.3 The net cost of revenue activities is met by central government grant and by the council tax charge made to residents. This is set each February prior to the start of the financial year and takes into account the General Fund balance, levels of reserves and detailed estimates of income and expenditure. A comparison of outturn figures to budgets, therefore, often provides a good indication of financial stewardship.
- 9.4 It was estimated that there would be a surplus for the year of nil (2011/12: deficit of £0.013m). The actual outturn showed a surplus of £0.616m (2011/12: £0.493m), a variance in the year of £0.616m (2011/12: £0.506m).

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9.5 The table below compares the original budget for the year against the out-turn:

2011/12 Original Net Budget £000	2011/12 Net Outturn £000		2012/13 Original Net Budget £000	2012/13 Net Outturn £000
		Service Area		
473	654	Corporate Services	0	0
8,701	8,277	Community Services	8,200	6,752
6,199	5,734	Environmental Services	6,346	5,926
2,305	2,855	Planning	2,162	3,324
1,360	1,764	Corporate Management	1,492	1,360
(3,576)	(3,211)	Legal and Property Services	(2,721)	(1,091)
30	31	Shared Services Implementation	30	0
5,184	21,791	Strategic Finance	3,352	3,965
(6,095)	(23,063)	Capital, IAS19 and Other Adjustments	(3,964)	(3,431)
14,581	14,832	Net General Fund	14,897	16,805
		Funding		
(8,188)	(8,367)	Council Tax	(8,258)	(8,258)
(205)	(205)	Council Tax Freeze Grant	(411)	(206)
(1,429)	(1,429)	Revenue Support Grant	(1,429)	(103)
(179)	177	Collection Fund surplus	0	(30)
(4,622)	(4,622)	NNDR	(3,785)	(5,316)
0	(1,448)	Capital Adjustments	0	(1,968)
(95)	(95)	Homelessness Grant	0	0
0	(542)	New Homes Bonus	(1,517)	(1,393)
(14,718)	(16,531)	Total Funding	(15,400)	(17,274)
(137)	(1,699)	Net General Fund less total funding	(503)	(469)
(13)	493	Surplus / (deficit) for year	0	616
150	1,206	Transfers To / (From) Reserves	503	(147)
0	0	Change To General Fund Balance	0	0
1,350	1,350	General Fund Balance	1,350	1,350

9.6 The General Fund balance of £1.350m (2011/12: £1.350m) will remain unchanged for the foreseeable future as it is the ultimate 'bail out' fund in the unlikely event that the Council were to get into financial difficulties.

9.7 The level of the Council's Reserves has however increased by the above £0.469m (2011/12: £1.699m).

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9.8 The major variances are:

Favourable

- additional income of £377k was achieved from a variety of areas, such as hostel and bed and breakfast income and recycling.
- additional commercial rent of £305k. Whilst the Harlequin / Intu showed a shortfall in income, all other parts of the portfolio exceeded estimates.
- additional investment interest of £104k due to the amount available to invest being higher than anticipated.
- less building maintenance costs of £390k as more work was capitalised and financed from capital receipts.
- procurement savings of £357k largely as a result of the rationalisation of gas and electricity contracts.
- salaries and agency costs were under spent by £304k, partly due to there being no pay award in 2012/2013.

Adverse:

- additional revenues and benefits costs of £1,078k due to a number of adverse movements combining to produce a disappointing result. This included additional business rate relief awards, reduced income from court costs due to fewer summons days, an increase in staffing costs and an increase in the level of benefit claimants.
- additional voluntary payment to the Pension Fund of £750k just before the year end. As the overall outturn was favourable, it was determined to make a voluntary payment into the Pension Fund in order to start to reduce the current shortfall in funding.

9.9 Future Revenue Expenditure and Funding

9.10 The Council ensures that its corporate, service and financial planning is closely linked so that resources are properly allocated to its priorities. The Council's aims and objectives are included within its Corporate Plan and reflected within the resource allocation process incorporated within the Medium Term Financial Strategy. The Corporate Plan is supported by individual Service Plans and there is a performance management framework which measures how the Council is performing against these plans. This information is available on the Council's website.

9.11 The Medium-Term four year Financial Strategy (MTFS) is reviewed at key times during the year and is informed by the monthly Finance Digest monitoring process. The Strategy assumes reductions in government grant and business rate redistribution of 12% (£0.653m) for 2013/14 and further percentage reductions thereafter. This may well prove to be optimistic when the MTFS is reviewed in July 2013 with larger cuts expected. Council tax has not increased for Watford Borough Council services for the past three years and the MTFS currently assumes a 2.5% year on year increase for the two years 2015/2017.

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10.0 Capital Activities

10.1 Capital Out-turn 2012/13

10.2 Capital expenditure is incurred on assets that benefit the community over a number of years. Capital expenditure for 2012/13 is shown below:-

2011/12			2012/13		
Current Budget £000	Actual Out-turn £000		Current Budget £000	Actual Out-turn £000	Variance (under) / overspend £000
4,937	5,144	Key Projects	1,271	1,479	208
321	267	Environmental Services	542	204	(338)
269	279	Community & Leisure Services	31	36	5
779	779	Housing Services	406	406	0
48	48	Parking Services	13	8	(5)
1,603	1,556	Asset Management	674	802	128
102	102	Information, Communication & Technology (ICT)	56	23	(33)
164	196	Shared Services - ICT	132	193	61
413	413	Corporate / Service Project Management	552	552	0
1,331	1,282	Section 106 Funded Schemes	1,227	1,253	26
9,967	10,066	Total	4,904	4,956	52

10.3 Key capital projects include the Cardiff Road Health Campus, contribution to Croxley Rail Link, Charter Place redevelopment, Cultural Quarter and a Green Spaces Strategy. In addition to the above the Council also spent £1.253m (2011/12: £1.282m) on improvements to green areas which have been funded from Section 106 developer contributions. Investment within Watford is seen as a key priority if the Council is to move forward and has been totally financed from internal resources (mainly capital receipts) and government grant as at 31st March 2013.

10.4 From 2013/14, up to £10m of external borrowing may occur in order to progress the Health Campus development project.

10.5 Future Capital Expenditure and its Funding

10.6 The Council plans to spend £34.8m on future capital schemes up to 31 March 2016. The majority of this funding will be derived from current and future holdings of capital receipts. The Council has an active asset disposal programme to ensure funding will be available.

10.7 Borrowing Facilities and Capital Borrowing

10.8 The Council on 21st March 2012 approved the ability to borrow up to £10m to facilitate the total regeneration of the Health Campus project, the repayment of such loans being made from development receipts. Other than this project all past and future capital expenditure has / will use internal resources without recourse to borrowing.

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10.9 The Council applies the 'Prudential Code for Capital Finance'. The Code is designed to ensure that all external borrowing is within prudent and sustainable levels, that capital expenditure plans are affordable, that treasury management decisions are taken in accordance with good practice and that the Council is accountable by providing a clear and transparent framework. The Council takes into account all sources of future income and the potential calls on the use of that income.

11.0 Pensions

11.1 The Council has disclosed its full liabilities to the Hertfordshire Pension Fund and this is covered within note 31 to the Statement of Accounts and is in accordance with International Accounting Standard 19. The balance sheet shows a net liability to the Fund at 31 March 2013 of £66.347m and has increased from £57.499m at 31 March 2012 and reflects actuarial losses due largely to reduced investments returns. There are statutory arrangements for funding the deficit that protect the Council's financial position and which should improve due to changes announced to local government pensions arrangements and a hoped for increase in the wider investment market.

12.0 Conclusion

12.1 The Council's Overall Financial Position

12.2 The Council's Medium Term Financial Strategy has a primary focus to produce a sustainable budget (where expenditure and income are in balance) over a four year timescale. This includes council tax increases at or below the rate of inflation and a prudent level of reserves and balances. Reductions in government grant means that significant savings have had to be identified. The Council is aiming to continue to achieve efficiency savings rather than cut levels of service.

12.3 In the current financial climate, the Council monitors on a regular basis the financial and budgetary risks that it faces. At the date of issue of this Statement of Accounts, no significant impairment has been made to assets although provisions for bad debts have been increased to reflect the increased probability that debtors may default.

12.4 In the longer term the Council will also have to address the impact on the revenue account of reduced interest income as capital receipts are used to fund capital expenditure.

12.5 In the meantime, reserves & balances are healthy. The General Fund balance & available usable earmarked reserves totalled £15,125m (2011/12: £14.656m) representing 102% (2011/12: 101%) of the 2012/13 budget requirement. The Council held £12,246m (2011/12: £12,872m) in capital receipts available to meet its capital programme aspirations.

12.6 The Council is constantly looking to improve its financial management and internal control. The Annual Governance Statement shows the steps the Council is taking to achieve this and to address the challenges brought about by changes to business rates, the local support to council tax and the introduction of benefit caps and universal credit.

13.0 Further Information

13.1 This Statement of Accounts is one way in which the Council tries to demonstrate that it is making good use of public funds and providing value for money. Further information is included within the Medium Term Financial Strategy and monthly Finance Digest, both of which are available on the Council's website or in hard copy by request.

Bernard Clarke CPFA
Head of Strategic Finance
26 June 2013

1.0 Scope of Responsibility

- 1.1 Watford Borough Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for. The council also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness. A key aspect of this responsibility is the identification and management of risk.
- 1.2 Further, Watford has approved and adopted a code of corporate governance which is consistent with the principles of the CIPFA / Solace Framework 'Delivering Good Governance in Local Government'. It is also in accordance with the requirements of the Accounts and Audit (England) Regulations 2011.
- 1.3 This Governance Statement explains how Watford Borough Council has recognised key challenges and the processes it has put in place to maintain services with considerably less money. It also explains how the Council is attempting, through considerable financial investment, to safeguard the future prosperity of its area.
- 1.4 Underpinning the Governance Statement is a framework which ensures corporate ownership at the very highest levels of management and is dynamic in responding to all governance issues as they occur. A key component of the Governance framework is the underlying system of internal control which is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness.

2.0 Strategic Aims and Objectives

- 2.1 The governance framework enables the Council's key objectives to be met and these can be summarised as follows:

VISION:

A successful town in which people are proud to live, work, study and visit.

OUR OBJECTIVES:

- Making Watford a better place to live in
- To provide the strategic lead for Watford's sustainable economic growth
- Promoting an active, cohesive and well informed town
- Operating the Council efficiently and effectively

- 2.2 Underpinning these over arching priorities are a series of measurable (SMART) objectives so that every member of staff and our community can feel fully engaged in the process. The council also plays a major role in the Local Strategic Partnership, **One Watford**, which is made up of key stakeholders such as Hertfordshire County Council, Police and Crime Commissioner for Hertfordshire, Herts Valleys Clinical Commissioning Group, the Chamber of Commerce, Watford and Three Rivers Trust, Watford Community Housing Trust, and John Lewis plc.

3.0 Decision Making Structures

- 3.1 Watford Borough Council has a directly elected Mayor, which means that the community elect the person to lead the council at four yearly intervals. The Mayor is supported by a Cabinet that plays a key role in determining the overall budget and policy framework of the Council. Each member of the Cabinet has a portfolio for which they are responsible and can make decisions within their area of responsibility.
- 3.2 The major check upon executive decisions taken by the Mayor and Cabinet is the Council and key decisions such as setting the annual budget and establishing the Constitutional Framework can only be approved by Council. Prior to Council approval, a detailed scrutiny process through a Budget Panel ensures all proposals are given rigorous challenge.
- 3.3 In addition the Council has an overarching Overview and Scrutiny Committee which, amongst other responsibilities, oversees the work of Budget Panel and any task groups set up to scrutinise a particular service area. There are also five further committees covering development control, licensing, audit, functions and standards.
- 3.4 At an officer level, the senior management (with effect from July 2013) will comprise the Managing Director and Heads of Service. Financial control will primarily be the responsibility of a shared Director of Finance with neighbouring Three Rivers District Council. This combined management will comprise the Leadership Team who meets fortnightly to review and progress the key objectives of the council.
- 3.5 Overall financial control is monitored on a monthly basis by Leadership Team and the Budget Scrutiny Panel, and quarterly by Cabinet. Budget preparation is influenced by the Council's Medium Term Financial Strategy which forecasts budget pressures and available resources over a four year period. This MTFS is reported quarterly to Cabinet and Budget Panel where variations to the strategy are approved. The council has the ultimate responsibility for approving the annual budget. The final accounts at the end of a financial year are subject to formal approval by the Audit Committee (but is also reported to Cabinet and Budget Panel).

4.0 The Governance Framework

- 4.1 The Council has approved a Code of Corporate Governance which identifies community focus, service delivery arrangements, structures and processes, risk management, internal control arrangements and standards of conduct and is detailed within the Council's Constitution. This sets out how the council takes decisions, roles and responsibilities of members and officers, codes of conduct and procedure rules and also sets out the rights of citizens.
- 4.2 Council, Cabinet and committee / scrutiny meetings are open to the public and written reports are available to the public through the council's website. Information is only treated as confidential when it is necessary to do so for legal / commercial reasons.

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- 4.3 The Council publishes its Corporate Plan annually, which sets out key service improvement priorities for the medium term, with targets for performance and deadlines for achievement. This has been informed by public consultation on a range of topics, particularly around priority setting, and a detailed analysis of the Watford context based on information derived from sources such as Census 2011 and the Indices of Multiple Deprivation. Progress on the Plan is reported to the public through a quarterly magazine, About Watford, and includes an 'annual report' on the Council's achievements compared to its initial targets.
- 4.4 Councillors are assisted in their policy and decision-making roles by the advice of staff with suitable qualifications and experience, under the leadership of the Managing Director. All reports requiring a decision from members include comments on financial, legal, equalities, sustainability, community safety and other appropriate issues such as potential risks to non achievement, all of which ensures that comprehensive advice is provided prior to decisions being taken.
- 4.5 The scrutiny function within a local authority provides a necessary check upon the role of the Executive and is a key component of corporate governance. At Watford it is co-ordinated through the Overview and Scrutiny Committee, which can review Cabinet decisions and service performance, the Council has recently set up an Outsourced Services Task Group as a standing scrutiny panel to scrutinise the activities of functions undertaken by external providers on the council's behalf. In addition the Standards Committee considers member conduct and the Budget Panel considers financial issues in a non political forum. Finally, the Audit Committee reviews the overall governance arrangements including the service related control and risk management environment. The Audit Committee also considers the response to Freedom of Information requests, and the Ombudsman's annual report as well as annual accounts and treasury management (investment) policies.
- 4.6 The Council's protocols and procedures are reviewed and updated on a regular basis for standing orders, financial regulations, a scheme of delegation and supporting procedure notes/ manuals clearly defining how decisions are taken and the process and controls required to manage risks. Compliance with established policies, procedures, laws and regulations is achieved through a combination of training events, written policy and procedural documentation, authorisation procedures, managerial supervision, review by internal and external audit and use of the disciplinary procedure where appropriate.
- 4.7 Codes of Conduct defining the standards of behaviour for members, staff, our partners and the community have been developed and communicated and are available on the Council's website. These include:
- Members Code of Conduct
 - Code of Conduct for staff
 - Anti fraud and corruption policy (including whistle blowing and anti bribery)
 - Money Laundering detection guidance
 - Members and officer protocols
 - Regular performance appraisals, linked to service and corporate objectives.
 - Service standards that define the behaviour of officers
 - A Standards Committee which has a key role in promoting and maintaining high standards of conduct for members.
 - Officers are subject to the standards of any professional bodies to which they belong.

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- 4.8 The Head of Democracy and Governance (from July 2013) is the Council's Monitoring Officer and her duties include: maintaining the council's Constitution; reporting on any potential or actual illegality or maladministration; and giving advice to the Mayor and councillors on the Constitution or issues of maladministration, financial impropriety or probity.
- 4.9 The Shared Director of Finance (from July 2013) is the statutory Chief Finance Officer. Her duties include: overall responsibility for financial administration; reporting on any actual or potential instances of illegality in expenditure, including unlawful loss or deficiency or illegal items of account; and giving advice to the council on financial planning.

5.0 Performance Management

- 5.1 Performance management follows very much a 'cascade' principle. The Council approves its Corporate Plan annually (although it covers a rolling four year perspective) and highlights key aspirations and targets including a series of objectives to be achieved in the year ahead. This Corporate Plan then cascades down to individual services delivery plans, which in turn translates into team and individual work plans. Performance is monitored on a quarterly basis through Heads of Service, Leadership, Cabinet Members and Overview and Scrutiny Committee. Performance reviews also include consideration of complaints and progress against the Council's equalities agenda.
- 5.2 The Council keeps residents and stakeholders informed of its progress through a quarterly publication called 'About Watford' which is delivered to every household and covers key issues, events and challenges. At the end of every financial year the March edition includes an Annual Report which informs the community of progress in the achievement of the Corporate Plan.

6.0 Data Quality and Risk Management

- 6.1 The need to develop policies and guidance on data quality and assurance is essential in order to promote consistency and awareness across the organisation. To that end, the Council has a senior member of staff who acts as the Senior Information Risk Officer. There is also a council wide Data Quality Champions Group which meets periodically and adopts a risk based approach to data quality. Guidance documents include a Data Quality Policy; an Information Security Policy; a Data Asset Register: and management training modules all of which are on the intranet.
- 6.2 The governance framework is dependent upon the underlying system of internal control which is designed to manage risk to a reasonable level. The Council's approach to risk management is governed by its Risk Management Strategy which is updated annually and approved by Leadership Team and the Audit Committee. This Strategy underpins the Strategic Risk Register which was planned to be updated in June 2013 (now July 2013) and covers major issues that will affect the achievement of the council's key objectives. This Risk Register is at a strategic/ high level and is complemented by detailed project and service area registers. This process is overseen by the Risk Management and Business Continuity Steering Group which meets four times a year and ensures a consistent approach to risk management across the Council.

- 6.3 Business continuity and emergency planning are other key aspects within the corporate governance framework and again falls within the remit of the Risk Management corporate group. There is however a need to review the current disaster recovery procedures to establish if they continue to be fit for purpose and this is scheduled to be carried out in 2013/2014.
- 6.4 The risk management section within the Partnership Framework has been revised and all committee reports contain a 'risk implications' section as an aid to decision taking. There is however a need to ensure an effective risk identification process occurs where the Council has outsourced the provision of services to a private sector partner.

7.0 Shared Services with Three Rivers District Council

- 7.1 Watford Borough Council has been a leading authority in developing a shared service for revenues, benefits, ICT, financial services, and human resources with the neighbouring district council. In order to monitor and control this arrangement a Shared Services Joint Committee has been formed and comprises members from both Councils.
- 7.2 The Joint Committee is required to produce its own statutory Statement of Accounts which are subject to audit by Watford Borough Council's external auditors. This process clearly provides a degree of comfort to both constituent authorities that good governance practices are being followed. The internal audit service (provided through the Shared Internal Audit Service, a local internal audit partnership) also allocates a significant number of audit days to the validation of the control environment.
- 7.3 Reliance upon external and internal audit scrutiny is insufficient however and the constituent bodies have put in place:
- a detailed joint agreement which includes all aspects of best practice, financial administration and risk management.
 - detailed estimates to be approved by the constituent authorities prior to each financial year and budget monitoring information provided to the constituent authorities on a regular basis.
 - the Joint Committee to receive detailed quarterly performance management monitoring reports.
 - the draft Statutory Statement of Accounts to be considered and approved by the Joint Committee.
 - consideration of all audit reports affecting shared services.

8.0 Community Engagement

- 8.1 Corporate governance includes informing our community of the plans and aspirations of the council and is primarily communicated through its published Corporate Plan and the regular editions of 'About Watford'. The directly elected Mayor, Dorothy Thornhill MBE, takes the lead in ensuring there is open and effective community leadership and provides a focal point for individuals, communities, business and voluntary organisations to engage with the Council. The Mayor is also the Chair of the borough's Local Strategic Partnership, One Watford, which developed the Sustainable Community Strategy through extensive consultation and engagement and which is communicated through its own website and that of the Council.

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- 8.2 The Council has established twelve neighbourhood forums, which mirror the borough's ward boundaries and each have a devolved budget of £2,500. These are organised and managed by the relevant local councillors as part of their commitment to community leadership and engagement.
- 8.3 The Council has established clear channels of communication with all sections of the community and other stakeholders. It provides citizens and business with information about the council and its spending through a leaflet that is distributed with council tax and business rate bills and the publication of a summary of its key financial information through the Council magazine 'About Watford'.
- 8.4 A range of consultation and engagement projects are undertaken annually. This includes a regular 'Community Survey' with the borough's Citizens' Panel, which incorporates the Council's annual budget survey. The Citizens Panel has been completely refreshed to ensure it is representative of the Watford community. Local residents are also invited to attend the Mayor's annual information seminars, which help build understanding about council finances and the implications for future service delivery. The Watford Compact provides an agreement between the statutory and voluntary sectors in Watford to clarify and strengthen their relationship and to achieve better outcomes for individuals and for the Watford community. All signatories to this document adhere to the national Compact standards.

9.0 The Role of Audit and the Audit Committee

- 9.1 The governance framework and its compliance mechanisms must be distinguished from the role of audit which is to review the effectiveness of the compliance framework, not to be a substitute for it.
- 9.2 The internal audit function is carried out, from 1st April 2013, by the Shared Internal Audit Service (SIAS), a local internal audit partnership hosted by Hertfordshire County Council. This will provide greater independence and resilience and should be considered a positive step in improving governance. Internal Audit carry out a programme of reviews during the year which are based upon a risk assessment including fraud risk. As part of these audits, any failures to comply with legislation, council policy and practice or best practice guidance issued by a relevant body is identified and reported. Circulation of reports to senior officers, reports to the Audit Committee and follow-up procedures ensure action is taken on priority improvements. Progress on implementing internal audit recommendations is reported in quarterly reviews to Audit Committee and to the Leadership Team.
- 9.3 External auditors, Grant Thornton, appointed by the Audit Commission, provide an external review function through the audit of the annual accounts, assessment of value for money, certification of grant claims and the periodic inspection of services such as revenues and benefits. The Annual Audit and Inspection Letter is circulated to all Members and formally reported to Cabinet and the Audit Committee.

9.4 The Audit Committee's terms of reference are consistent with best practice. The Committee approves the annual plan of internal audit, and receives the quarterly and annual reports of the Head of the Shared Internal Audit Service. It approves the Statement of Accounts, the annual governance statement and the review of the effectiveness of the internal audit system. It receives reports on risk management and reviews the operation of treasury management. It also received the annual letter from the Ombudsman and considers regular reports upon Freedom of Information requests.

10.0 Key Challenges/ Risks

10.1 The key challenges / risks facing the Council can be summarised as follows:

- continued reductions in central government funding
- the outsourcing of services to the private sector and other local authority bodies
- the transfer of risk to local authorities for business rates and council tax benefit
- planning for the introduction of universal credit with the part transfer of responsibility to central government
- the continued reduction in the level of senior management which could affect governance controls
- ensuring the investment strategies of the Council deliver future prosperity and financial returns.
- the effect of demographic changes upon future service delivery
- the cost of future pensions liabilities increases due to reduced investment returns and people living longer

The Council's approach to dealing with these challenges are set out in succeeding paragraphs of this Governance Statement.

10.2 Central government is compelled to reduce public expenditure in order to balance its books. Local authorities have suffered significant losses of central funding and this is anticipated to continue until 2018. The scale of such funding (after the effects of inflation) is likely to approach a 50% cumulative reduction in external support. Council tax increases will be constrained and cannot cover this shortfall in government funding and it will, therefore, be necessary to reduce the council's cost base. The Council is committed to delivering value for money and has developed a financial planning process to identify service efficiencies. This has resulted in £2.6m of efficiencies over the three year period 2011/2014 and has been achieved in part through reducing management costs.

10.3 This work has been further developed with the production of a 'Roadmap' to identify what the Council will look like in the future and which seeks to anticipate and manage change. Service reviews have commenced and will be used to identify a further £2m of efficiencies which includes exposing some services to external providers. As a consequence, the ICT shared service (with Three Rivers District Council) is to be outsourced to Capita Secure Information Solutions; also the waste, street cleansing, recycling, parks and open spaces services will be outsourced to Veolia Environmental Services UK. The combined saving in future years to Watford from outsourcing these two services is likely to provide an annual saving of circa £900k.

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- 10.4 This level of saving is encouraging but exposes the council to a second key risk/ challenge namely how to monitor both the achievement of these financial savings and the effect upon day to day service delivery. Key performance indicators are included within both contracts and will be monitored by client teams which in turn will be accountable to Leadership Team / Cabinet Members / the Overview and Scrutiny Committee / Outsourced Services Scrutiny Panel and the Shared Services Joint Committee.
- 10.5 Further, in its search for public expenditure savings, central government has been transferring risk to local authorities. Business rates collected by councils had formerly been paid over to central government and subsequently received back according to need. This has now changed whereby changes to the business rates base will affect local authorities and central government on an equal basis. For some authorities this may provide increased income, but for others the reverse will happen and the risk of a shortfall in funding has increased. Similarly, central government has imposed a 10% cut on council tax benefit payments and has transferred that shortfall in funding to local authorities to try and make good. In both instances, Watford will need to monitor the implications and to seek to minimise the impact for its finances and its client base.
- 10.6 The need for further expenditure reductions will be required and the council seeks to ensure continuous improvement through:
- work carried out as part of the annual budget process
 - project appraisal and formal project management for all improvement projects and major investment programmes.
 - undertaking best value/ value for money and managerial reviews
 - implementing the recommendations of Internal Audit
 - implementing the recommendations of external auditors and inspectors
 - the adoption of best practice where cost-effective
 - increasing use of technology to deliver services that customers want
 - market testing of services where appropriate
 - consultation with the public and staff
 - partnership working with companies and other public bodies
 - setting challenging targets for improvement
- 10.7 Further strategies to reduce the council's cost base have included reducing the levels of senior management and has resulted in the deletion of the two executive director posts, the sharing of the Director of Finance role (with neighbouring Three Rivers District Council), and the deletion of the Executive Director, Services post. This has cascaded down and resulted in further management and support officer reductions. From a governance perspective it is important that the 'control environment' and levels of risk do not increase as a consequence and will need to be monitored closely during 2013/2014.

10.8 The Council has an ambitious programme of capital investment which involves significant partnership working with the private sector. The regeneration of Charter Place has resulted in Intu PLC taking control and financing its future redevelopment and will involve the management of the centre and the Market facility in the short term. In return the council has obtained funding for future improvements and guarantees for improved levels of commercial rent income. The monitoring of this project will require vigilance in the years ahead. The council has entered into a partnership with Kier Construction (through a Local Asset Backed Vehicle) and a simultaneous agreement with the West Hertfordshire Hospitals NHS Trust to deliver the Health Campus project.

This includes the opportunity to deliver new Hospital facilities, improved access by way of a new road, increased parking provision, around 560 residential units, office space and an increased retail offer. The project is not without risk and involves significant up front financial investment by the Council. A key governance issue for the future will be to ensure that the Council is not disadvantaged in comparison with its private sector partner.

10.9 The Council needs to anticipate the effect of demographic changes and the Census 2011 shows that Watford's population has increase by 13.3% (to 90,301 persons) during the 10 year period 2001 to 2011. This will affect the provision of services and will include the effect upon housing, education, social care, transport and volumes of welfare claimants. Both Watford and Hertfordshire County Council constantly evaluate the impact that demographic changes will necessitate.

10.10 Demographic and employment changes will also impact upon Watford Council's Pensions Fund as it is adversely affected by the fact that former (and current) employees are living longer and will continue to drawdown pensions far longer than previously occurred. Combined with this, investment returns have not been favourable whilst interest rates remain depressed. An actuarial review of the value of the Pension Fund will be known in December 2013 and will probably present the Council with a key challenge in funding any pensions shortfall. The council's Medium Term Financial Strategy which covers the period 2013/ 2017 will need to factor in any financial effects arising out of the actuarial review.

11.0 Review of effectiveness

11.1 In accordance with recent external audit guidance, the review of the effectiveness of the governance framework will focus upon significant weaknesses and the 'big picture'. If issues have not been highlighted then that is because current governance arrangements have proved fit for purpose.

11.2 The review of effectiveness is informed by the work of the executive managers within the authority who have responsibility for the development and maintenance of the governance environment, the Head of Shared Internal Audit Services annual report and also by comments made by the external auditors and other review agencies and inspectorates. The Mayor and Portfolio Holders maintain a continuous review of the Council's policies, activities and performance of officers both through quarterly reviews and on a day to day basis.

ANNUAL GOVERNANCE STATEMENT

- 11.3 The governance of special projects has raised a number of issues relating to procurement and evaluation of financial and service offers. In these cases external specialist advice has been sought in order to protect the Council's interests. These projects include the Watford Health Campus, Charter Place re-development, and market testing of waste, refuse, street cleansing, parks and open spaces. The ICT service for Watford and Three Rivers has recently been outsourced to Capita SIS with effect from 21st May 2013.
- 11.4 The increasing threat of cyber crime presents Watford with one of its greatest challenges and this has been evaluated through a comprehensive report to the Audit Committee (and Joint Shared Services Committee) upon ICT security/ vulnerabilities. This report was also provided to Capita SIS as part of its due diligence process and a detailed progress plan has been produced to correct potential weaknesses within ICT security. Progress on this plan is reported to Watford's Audit Committee at every meeting.
- 11.5 The Annual Report of the Head of Shared Internal Audit Services has been reported to the Audit Committee at its meeting on 26th June 2013 and included the following statement...."Audit Opinion: Based on the internal audit work undertaken we give satisfactory assurance on the adequacy and effectiveness of the internal control environment". The Annual Report continues: " there have been no significant new concerns arising from the majority of the audits undertaken in 2012/2013 that necessitate an adverse overall opinion. However updates on some of the concerns reported in the previous Annual Report have been included in 2012/2013, in Section 3 of this report". The majority of these concerns relate to the ICT environment where a significant number of improvements have been made and the ICT outsourced contract has included financial resources to programme all outstanding issues.
- 11.6 For the future, there is however a need to organise training for the Audit Committee in 2013/2014 to ensure it has the expertise to properly supervise and challenge the governance arrangements across the Council. A training session for members of Watford and Three Rivers Audit Committees is to be held in the autumn of 2013/2014.
- 11.7 The 'Key Challenges/ Risks' section of the Governance Statement identifies a number of major issues faced by Watford over the immediate future and will require a systematic strategy to review how existing governance effectiveness will be maintained and has been summarised within the next section of this Statement.

ANNUAL GOVERNANCE STATEMENT

12.0 Significant Governance Issues

The 'normal' running of Council business has and can be controlled through the governance framework detailed at sections 4 to 9 of this report. Specific issues identified within the 2011/2012 Governance Statement have largely been resolved and are updated at the end of this Governance Statement.

The Annual Governance Statement for 2012/2013 does however identify additional risks that the Council needs to address by way of individual action plans with measurable milestones and timescales and include:

No.	Issue	Action	Lead	Update
1	Continued reductions in Central Government funding will place pressures upon the delivery of services	The MTFs will be updated quarterly and planned efficiencies through the Council's Road Map will be monitored	Shared Director of Finance and Leadership Team	Quarterly updates have been planned
2	The outsourcing of ICT and waste, street cleansing, recycling, parks and open spaces can result in an unacceptable fall in levels of service.	Detailed key performance indicators have been included within contract documentation and need to be rigorously monitored	Head of Cultural and Client Services	Monthly monitoring in place Outsourced Scrutiny Panel to receive performance reports
3	Welfare Benefit changes and the preparation for Universal Credit needs to ensure no unacceptable impact upon benefit recipients	Monitoring of existing client base needs to identify where distortions occur. Testing of current ICT systems need to ensure a seamless transfer of caseloads to central government	Head of Shared Services Revenues and Benefits	Quarterly monitoring and reporting to the Shared Services Joint Committee will occur Monthly updates to be provided to Leadership Team
4	Deletion of senior management posts may result in a breakdown in governance processes.	Transfer of responsibilities to named officers should ensure future accountability	Managing Director and Leadership Team	Quarterly monitoring through Leadership, Portfolio Holders and internal audit reports to Audit Committee Extensive work undertaken to review delegations / responsibilities where appropriate to ensure effective management of highlighted areas is identified and actioned

ANNUAL GOVERNANCE STATEMENT

No.	Issue	Action	Lead	Update
5	Ensuring investment partnerships at the Health Campus and Charter Place achieve planned objectives	Detailed development agreements are in place and will be monitored through Partnership Boards	Managing Director and Elected Mayor	Quarterly monitoring through the Major Projects Board should occur
6	The effect of demographic changes need to be identified at an early stage	The composition of the Council's client base is kept under continuous review. Pressures upon services such as housing and welfare entitlement will be known	Leadership Team	Quarterly monitoring will consider any implication upon existing service provision
7	The Council's Pension Fund needs to be adequately funded in order to meet current and future liabilities	In December 2013 the triennial review of the Pension Fund will be reported by the Actuary. The Council will need to respond to the main features of that report	Shared Director of Finance	The Medium Term Financial Strategy will need to factor in making additional annual provision if necessary. The use of ad hoc payments into the Fund should also be considered

13.0 Statement from the Elected Mayor and Managing Director

13.1 We propose over the coming year to keep a close focus upon the key governance issues identified as part of the 2012/2013 review and are satisfied that the identified actions and reporting mechanisms will ensure no adverse outcomes will occur. We will monitor their implementation and operation periodically during the year with a formal review as part of the 2013/2014 Annual Governance Statement.

Signed
Mayor

Date: XX September 2013

Signed
Managing Director

Date: XX September 2013

STATEMENT OF MOVEMENT IN RESERVES

	General Fund Balance £000	Earmarked Reserves £000	Capital Receipts Reserve £000	Total Usable Reserves £000	Unusable Reserves £000	Total Authority Reserves £000
Balance at 1 April 2011	(1,350)	(11,655)	(19,413)	(32,418)	(115,818)	(148,236)
Movement in Reserves during 2011/12						
(Surplus) or deficit on provision of services	9,401	0	0	9,401	0	9,401
Other Comprehensive Expenditure and Income	11,648	0	0	11,648	0	11,648
Total Comprehensive Expenditure and Income (CI&E)	21,049	0	0	21,049	0	21,049
Adjustments between accounting basis & funding basis under regulations						
<u>Adjustments primarily involving the Capital Adjustment Account and Revaluation Reserve:</u>						
Charges for depreciation of long-term assets	(2,248)	0	0	(2,248)	2,248	0
Revaluation losses on long-term assets	(9,322)	0	0	(9,322)	9,322	0
(Surplus) / Deficit on revaluation of long-term assets	1,317	0	0	1,317	(1,317)	0
Capital grants & contributions applied	1,634	0	0	1,634	(1,634)	0
Revenue expenditure funded from capital under statute	(2,170)	0	0	(2,170)	2,170	0
Lease mitigation	154	0	0	154	(154)	0
<u>Adjustments primarily involving the Capital Receipts Reserve</u>						
Use of capital receipts reserve to finance new capital expenditure	0	0	8,384	8,384	(8,384)	0
Unattached capital receipts	1,640	0	(1,843)	(203)	203	0
<u>Adjustments primarily involving the Collection Fund Adjustment Account:</u>						
Collection Fund adjustment in accordance with statutory requirements	(177)	0	0	(177)	177	0
<u>Adjustments primarily involving the Accumulated Absences Reserve:</u>						
Accrued employee benefits adjustment in accordance with statutory requirements	15	0	0	15	(15)	0
<u>Adjustments primarily involving the Pensions Reserve:</u>						
Employer's pension contributions and direct payments to pensioners payable in the year	2,877	0	0	2,877	(2,877)	0
Actuarial (gains) / losses on pension fund assets / liabilities	(12,965)	0	0	(12,965)	12,965	0
Reversal of items relating to retirement benefits debited or credited to the CI&E	(3,507)	0	0	(3,507)	3,507	0
<u>Adjustments primarily involving the Financial Instruments Adjustment Account:</u>						
Differences between amounts payable/receivable to be recognised under statutory provisions relating to soft loans	1	0	0	1	(1)	0
Net increase / decrease before transfers to earmarked reserves	(1,702)	0	6,541	4,839	16,210	21,049

STATEMENT OF MOVEMENT IN RESERVES

-continued

	General Fund Balance £000	Earmarked Reserves £000	Capital Receipts Reserve £000	Total Usable Reserves £000	Unusable Reserves £000	Total Authority Reserves £000
Transfers to/from earmarked reserves						
Budget Carry Forward Reserve	(49)	49	0	0	0	0
Car Parking Zones Reserve	219	(171)	0	48	(48)	0
Charter Place Tenants Reserve	(197)	197	0	0	0	0
Climate Change Reserve	(19)	19	0	0	0	0
Economic Impact Reserve	289	(289)	0	0	0	0
Housing Benefit Subsidy Reserve	629	(629)	0	0	0	0
Invest to Save Reserve	(74)	74	0	0	0	0
LA Business Growth Incentive Reserve	(54)	56	0	2	(2)	0
Le Marie Centre Repairs Reserve	(1)	1	0	0	0	0
New Homes Bonus Reserve	542	(542)	0	0	0	0
Pension Funding Reserve	75	(75)	0	0	0	0
Performance Reward Grant	72	(72)	0	0	0	0
Recycling Reserve	(6)	6	0	0	0	0
Vehicle Replacement Reserve	275	(275)	0	0	0	0
Transfers to/from earmarked reserves	1,701	(1,651)	0	50	(50)	0
Increase / Decrease in 2011/12	0	(1,651)	6,541	4,890	16,160	21,050
Balance as at 31 March 2012	(1,350)	(13,306)	(12,872)	(27,528)	(99,658)	(127,186)

STATEMENT OF MOVEMENT IN RESERVES

-continued

	General Fund Balance £000	Earmarked Reserves £000	Capital Receipts Reserve £000	Total Usable Reserves £000	Unusable Reserves £000	Total Authority Reserves £000
Balance at 1 April 2012	(1,350)	(13,306)	(12,872)	(27,528)	(99,658)	(127,186)
Movement in Reserves during 2012/13						
(Surplus) or deficit on provision of services	(4,652)	0	0	(4,652)	0	(4,652)
Other Comprehensive Expenditure and Income	7,614	0	0	7,614	0	7,614
Total Comprehensive Expenditure and Income (CI&E)	2,962	0	0	2,962	0	2,962
Adjustments between accounting basis & funding basis under regulations						
<u>Adjustments primarily involving the Capital Adjustment Account and Revaluation Reserve:</u>						
Charges for depreciation of long-term assets	(2,301)	0	0	(2,301)	2,301	0
Revaluation losses on long-term assets	5,525	0	0	5,525	(5,525)	0
(Surplus) / Deficit on revaluation of long-term assets	405	0	0	405	(405)	0
Capital grants & contributions applied	1,958	0	0	1,958	(1,958)	0
Revenue expenditure funded from capital under statute	(1,587)	0	0	(1,587)	1,587	0
Lease mitigation	218	0	0	218	(218)	0
<u>Adjustments primarily involving the Capital Receipts Reserve</u>						
Use of capital receipts reserve to finance new capital expenditure	0	0	3,157	3,157	(3,157)	0
Transfer from Deferred Capital Receipts Reserve on receipt of cash	0	0	(1,384)	(1,384)	1,384	0
Unattached capital receipts	1,147	0	(1,147)	0	0	0
<u>Adjustments primarily involving the Collection Fund Adjustment Account:</u>						
Collection Fund adjustment in accordance with statutory requirements	29	0	0	29	(29)	0
<u>Adjustments primarily involving the Accumulated Absences Reserve:</u>						
Accrued employee benefits adjustment in accordance with statutory requirements	22	0	0	22	(22)	0
<u>Adjustments primarily involving the Pensions Reserve:</u>						
Employer's pension contributions and direct payments to pensioners payable in the year	3,509	0	0	3,509	(3,509)	0
Actuarial (gains) / losses on pension fund assets / liabilities	(8,019)	0	0	(8,019)	8,019	0
Reversal of items relating to retirement benefits debited or credited to the CI&E	(4,338)	0	0	(4,338)	4,338	0
<u>Adjustments primarily involving the Financial Instruments Adjustment Account:</u>						
Differences between amounts payable/receivable to be recognised under statutory provisions relating to soft loans	1	0	0	1	(1)	0
Net increase / decrease before transfers to earmarked reserves	(469)	0	626	157	2,805	2,962

STATEMENT OF MOVEMENT IN RESERVES

-continued

	General Fund Balance £000	Earmarked Reserves £000	Capital Receipts Reserve £000	Total Usable Reserves £000	Unusable Reserves £000	Total Authority Reserves £000
Transfers to/from earmarked reserves						
Budget Carry Forward Reserve	(67)	67	0	0	0	0
Capital Fund Reserve	287	(287)	0	0	0	0
Car Parking Zones Reserve	22	(22)	0	0	0	0
Charter Place Tenants Reserve	(96)	96	0	0	0	0
Climate Change Reserve	(12)	12	0	0	0	0
High Street Innovation	100	(100)	0	0	0	0
Economic Impact Reserve	329	(329)	0	0	0	0
Insurance Fund Reserve	(100)	100	0	0	0	0
Invest to Save Reserve	(165)	165	0	0	0	0
LA Business Growth Incentive Reserve	(28)	28	0	0	0	0
Local Development Framework Reserve	(80)	80	0	0	0	0
Multi-Storey Car Park Repair Reserve	(2)	2	0	0	0	0
Performance Reward Grant Reserve (capital)	191	(191)	0	0	0	0
Performance Reward Grant Reserve (revenue)	(60)	60	0	0	0	0
Vehicle Replacement Reserve	150	(150)	0	0	0	0
Transfers to/from earmarked reserves	469	(469)	0	0	0	0
Increase / Decrease in 2012/13	0	(469)	626	157	2,805	2,962
Balance as at 31 March 2013	(1,350)	(13,775)	(12,246)	(27,371)	(96,853)	(124,224)

This statement shows the movement in the year on the different reserves held by the Council, analysed into 'usable reserves' (i.e. those that can be applied to fund expenditure or reduce local taxation) and other reserves. For usable reserves it shows an end of year position of £27.371m compared to an opening position of £27.528m. The surplus or (deficit) on the Provision of Services line shows the true economic cost of providing the Council's services, more details of which are shown in the Comprehensive Income and Expenditure Statement. These are different from the statutory amounts required to be charged to the General Fund balance for council tax setting. The net increase / (decrease) before transfers to Earmarked Reserves line shows the statutory General Fund Balance before any discretionary transfers to, or from, earmarked reserves undertaken by the Council.

COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT

2011/12				Note	2012/13		
GROSS EXPEND- ITURE £000	GROSS INCOME £000	NET EXPEND- ITURE £000			GROSS EXPEND- ITURE £000	GROSS INCOME £000	NET EXPEND- ITURE £000
			Central Services to the Public:				
1,347	(309)	1,038	Local Taxation Collection		1,323	(218)	1,105
935	(363)	572	Other Central Services		1,017	(299)	718
			Cultural and Related Services:				
5,056	(376)	4,680	Leisure Services		4,427	(384)	4,043
1,537	(22)	1,515	Other Services		1,324	(33)	1,291
			Environmental and Regulatory Services:				
614	(230)	384	Cemeteries and Crematoria		588	(241)	347
3,097	(455)	2,642	Environmental Health		3,102	(486)	2,616
4,831	(1,489)	3,342	Waste Collection and Disposal		4,979	(1,510)	3,469
3,894	(696)	3,198	Planning and Economic Development		4,546	(1,059)	3,487
2,469	(2,461)	8	Highways and Transport Services		2,545	(2,545)	0
43,101	(41,675)	1,426	Other Housing Services		46,851	(44,136)	2,715
4,194	(190)	4,004	Corporate and Democratic Core		3,655	(252)	3,403
162	(162)	0	Central Support Services		232	(232)	0
125	0	125	Non-distributed Costs		138	0	138
71,362	(48,428)	22,934	Cost of Services		74,727	(51,395)	23,332
			Other Operating (Income) & Expenditure				
		0	(Gains) / losses on disposal of long-term assets				(445)
		(1,640)	Unattached capital receipts				(1,147)
			Financing & Investment (Income) & Expenditure				
		63	Interest payable and similar charges				93
		1,314	Pension interest costs & expected return on assets				2,164
		(436)	Interest receivable and similar income				(412)
		(5,205)	(Surplus) or deficit on trading undertakings not included in Net Cost of Services	9			(5,346)
		8,833	(Income) or expenditure in relation to investment properties and changes in their fair value				(5,716)
		69	Other Investment (Income) / expenditure				100
			Taxation & Non-Specific Grant Income				
		(8,189)	Council Tax Income				(8,288)
		(4,622)	Non-domestic Rates Redistribution	8			(5,316)
		(2,066)	Non-ringfenced Government Grants	8			(1,496)
		(1,654)	Capital Grants and Contributions	8			(2,175)
		9,401	(Surplus) / Deficit on Provision of Services	7			(4,652)
		(1,317)	(Surplus) / deficit on revaluation of non-current assets				(405)
		12,965	Actuarial (gain)/loss on pension fund assets/liabilities	31			8,019
		11,648	Other Comprehensive (Income) and Expenditure				7,614
		21,049	Total Comprehensive (Income) and Expenditure				2,962

This statement shows the accounting cost in the year of providing services in accordance with generally accepted accounting policies, rather than the amount to be funded from taxation. Authorities raise taxation to cover expenditure in accordance with regulations; this may be different from the accounting cost. The taxation position is shown in the Movement in Reserves Statement.

BALANCE SHEET

31 Mar 12			Note	31 Mar 13	
£000	£000			£000	£000
		Property, Plant and Equipment			
40,840		Land and Buildings	17	40,236	
5,383		Vehicles, Plant and Equipment	17	5,966	
2,238		Infrastructure Assets	17	2,130	
2,045		Heritage Assets	18	2,045	
	50,506				50,377
		Other Long-Term Assets			
106,529		Investment Properties	19	113,309	
1,160		Surplus Assets	19	900	
1,373		Long-Term Debtors	22	1,480	
	109,062				115,689
	159,568	LONG-TERM ASSETS			166,066
		CURRENT ASSETS			
885		Assets Held for Sale	23	0	
28		Inventories	24	36	
7,532		Short Term Debtors	25	8,280	
29,112		Short Term Investments	35	28,111	
722		Cash and Cash Equivalents	26	425	
	38,279				36,852
	197,847	TOTAL ASSETS			202,918
		CURRENT LIABILITIES			
(5,218)		Short Term Creditors	28	(6,364)	
(1,500)		Short Term Borrowing	26	(479)	
	(6,718)				(6,843)
	191,129	TOTAL ASSETS LESS CURRENT LIABILITIES			196,075
		LONG-TERM LIABILITIES			
(6,094)		Government Grants & Other Contributions in Advance	29	(5,138)	
(350)		Deferred Liabilities	29	(166)	
0		Provisions	30	(200)	
(57,499)		Liability related to Defined Benefit Pension Scheme	31	(66,347)	
	(63,943)				(71,851)
	127,186	NET ASSETS			124,224

BALANCE SHEET

-continued

31 Mar 12			Note	31 Mar 13	
£000	£000			£000	£000
		FINANCED BY:			
		USABLE RESERVES			
12,872		Capital Receipts Reserve	33b	12,246	
13,306		Earmarked Reserves	33c	13,775	
1,350		General Fund Balance	33d	1,350	
	27,528				27,371
		UNUSABLE RESERVES			
(111)		Accumulated Absences Reserve	34b	(89)	
144,644		Capital Adjustment Account	34c	151,477	
2		Collection Fund Adjustment Account	34d	31	
(450)		Deferred Capital Payments	34e	(294)	
2,572		Deferred Capital Receipts	34f	1,555	
(76)		Financial Instruments Adjustment Account	34g	(75)	
(57,499)		Pensions Reserve	31	(66,347)	
10,576		Revaluation Reserve	34i	10,595	
	99,658				96,853
	<u>127,186</u>	TOTAL RESERVES			<u>124,224</u>

The Balance Sheet shows the value as at the balance sheet date of the assets and liabilities recognised by the Council. The net assets of the Council (assets less liabilities) are matched by the reserves held by the Council. Reserves are reported in two categories. The first category are usable reserves, i.e. those reserves that the Council may use to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitations on their use. The second category of reserves is those that the Council is not able to use to provide services. This category of reserves includes reserves that hold unrealised gains and losses (for example the Revaluation Reserve), where amounts would only become available to provide services if the assets are sold; and reserves that hold timing differences shown in the Movement in Reserves Statement line 'Adjustments between accounting basis and funding basis under regulations'.

Signed

Date: XX September 2013

Chief Financial Officer

Signed

Date: XX September 2013

**Ian Brown
Chairman of Audit Committee**

CASH FLOW STATEMENT

2011/12			Note	2012/13	
£000	£000			£000	£000
9,401		Net (surplus) or deficit on the provision of services		(4,652)	
(12,165)		Adjustments to net surplus or deficit on the provision of services for non cash movements	27	2,631	
2,013		Adjustments for items that are included in the net surplus or deficit on the provision of services that are investing and financing activities	27	3,830	
	(751)				1,809
63		Interest element of finance lease payments		93	
(436)		Interest received		(412)	
	(373)				(319)
	(1,124)	Net cash flows from Operating Activities			1,490
		Investing and Financing Activities			
3,377		Purchase of Long Term Assets	20	2,577	
(2,762)		Purchase of short term and long term investments	35	(1,001)	
6,689		Other payments for investing activities	20	2,378	
(203)		Proceeds from the sale of Long Term Assets	33b	(1,384)	
(4,156)		Capital grants received		(1,971)	
(154)		Other payments for capital element of finance leases		(218)	
(1,640)		Other receipts from investing activities	33b	(1,147)	
	1,151				(766)
	27	Net increase/(decrease) in cash and cash equivalents			724
	(805)	Cash and Cash equivalents at the beginning of the reporting period			(778)
	(778)	Cash and Cash equivalents at the end of the reporting period	26		(54)

The cash flow statement shows the changes in cash and cash equivalents of the Council during the reporting period. The statement shows how the Council generates and uses the cash and cash equivalents by classifying cash flows as operating, investing and financing activities. The amount of net cash flows arising from operating activities is a key indicator of the extent to which the operations of the Council are funded by way of taxation and grant income or from the recipients of services provided by the Council. Investing activities represent the extent to which cash outflows have been made for resources which are intended to contribute to the Council's future service delivery. Cash flows arising from finance activities are useful in predicting claims on future cash flows by providers of capital (i.e. borrowing) to the Council.

NOTES TO THE CORE FINANCIAL STATEMENTS

1 Accounting Policies

1.01 General Principles

The Statement of Accounts summarises the Council's transactions for the 2012/13 financial year and its position at the year-end of 31 March 2013. The Council is required to prepare an annual Statement of Accounts by The Accounts and Audit (England) Regulations 2011, which require these to be prepared in accordance with proper accounting practices. These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2012/13 and the CIPFA Service Reporting Code of Practice 2012/13 (SERCOP), supported by International Financial Reporting Standards (IFRS) [and statutory guidance issued under section 12 of the 2003 Act]. The accounting convention adopted in the Statement of Accounts is principally historical cost, modified by the revaluation of certain categories of non-current assets and financial instruments.

1.02 Accruals of Income and Expenditure

Activity is accounted for in the year that it takes place, not simply when cash payments are made or received. In particular:

- revenue from the sale of goods is recognised when the Council transfers the significant risks and rewards of ownership to the purchaser and it is probable that economic benefits or service potential associated with the transaction will flow to the Council
- 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
- supplies are recorded as expenditure when they are consumed — where there is a gap between the date supplies are received and their consumption, they are carried as inventories on the Balance Sheet
- expenses in relation to services received (including services provided by employees) are recorded as expenditure when the services are received rather than when payments are made
- interest receivable on investments and payable on borrowings is accounted for respectively as income and expenditure on the basis of the effective interest rate for the relevant financial instrument, rather than the cash flows fixed or determined by the contract
- where revenue and expenditure have been recognised, but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Where debts may not be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected

1.03 Cash and Cash Equivalents

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are investments that mature in three months or less from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value.

In the Cash Flow Statement, cash and cash equivalents are shown net of bank overdrafts that are repayable on demand and form an integral part of the Council's cash management.

NOTES TO THE CORE FINANCIAL STATEMENTS

1.04 Exceptional Items

When items of income and expense are material, their nature and amount is disclosed separately, either on the face of the Comprehensive Income and Expenditure Statement or in the notes to the accounts, depending on how significant the items are to an understanding of the Council's financial performance.

1.05 Prior Period Adjustments, Changes in Accounting Policies and Estimates and Errors

Prior period adjustments may arise as a result of a change in accounting policies or to correct a material error. Changes in accounting estimates are accounted for prospectively, i.e. in the current and future years affected by the change and do not give rise to a prior period adjustment.

Changes in accounting policies are only made when required by proper accounting practices or the change provides more reliable or relevant information about the effect of transactions, other events and conditions on the Council's financial position or financial performance. Where a change is made, it is applied retrospectively (unless stated otherwise) by adjusting opening balances and comparative amounts for the prior period, as if the new policy had always been applied.

Material errors discovered in prior period figures are corrected retrospectively by amending opening balances and comparative amounts for the prior period.

1.06 Charges to Revenue for Non-Current Assets

Services, support services and trading accounts are debited with the following amounts to record the cost of holding fixed assets during the year:

- depreciation attributable to the assets used by the relevant service
- revaluation and impairment losses on assets used by the service where there are no accumulated gains in the Revaluation Reserve against which the losses can be written off
- amortisation of intangible fixed assets attributable to the service

The Council is not required to raise council tax to fund depreciation, revaluation and impairment losses or amortisations. Depreciation, revaluation and impairment losses and amortisations are therefore funded, by way of an adjusting transaction, with the Capital Adjustment Account in the Movement in Reserves Statement.

1.07 Employee Benefits

Benefits Payable During Employment

Short-term employee benefits are those due to be settled within 12 months of the year-end. They include such benefits as wages and salaries, paid annual leave and paid sick leave, bonuses and non-monetary benefits (e.g. cars) for current employees and are recognised as an expense for services in the year in which employees render service to the Council. An accrual is made for the cost of holiday entitlements (or any form of leave, eg time off in lieu) earned by employees but not taken before the year-end which employees can carry forward into the next financial year. The accrual is made at the salary rates applicable in the following accounting year, being the period in which the employee takes the benefit. The accrual is charged to Surplus or Deficit on the Provision of Services, but then reversed out through the Movement in Reserves Statement so that holiday benefits are charged to revenue in the financial year in which the holiday absence occurs.

NOTES TO THE CORE FINANCIAL STATEMENTS

Termination Benefits

Termination benefits are amounts payable as a result of a decision by the Council to terminate an officer's employment before the normal retirement date or an officer's decision to accept voluntary redundancy and are charged on an accruals basis to the Non-Distributed Costs line in the Comprehensive Income and Expenditure Statement when the Council is demonstrably committed to the termination of the employment of an officer, or group of officers, or making an offer to encourage voluntary redundancy.

Where termination benefits involve the enhancement of pensions, statutory provisions require the General Fund Balance to be charged with the amount payable by the Council to the pension fund or pensioner in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, appropriations are required to and from the Pensions Reserve to remove the notional debits and credits for pension enhancement termination benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year-end.

Post Employment Benefits

Employees of the Council are members of the Local Government Pension Scheme, administered by Hertfordshire County Council. The scheme provided defined benefits to members (retirement lump sums and pensions), earned as employees who worked for the Council.

The Local Government Pension Scheme

- the Local Government Scheme is accounted for as a defined benefits scheme
- the liabilities of Hertfordshire County Council Pension Fund attributable to the Council are included in the Balance Sheet on an actuarial basis using the projected unit method — i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates, etc, and projections of projected earnings for current employees
- liabilities are discounted to their value at current prices, using a discount rate of 4.8% (based on the indicative rate of return on high quality corporate bonds)
- the assets of Hertfordshire County Council (HCC) Pension Fund attributable to the Council are included in the Balance Sheet at their bid value as required by International Accounting Standard (IAS)19. The assets are:
 - Equities
 - Bonds
 - Property
 - Cash

The bid value of assets for the Fund are provided by the Administering Authority, Hertfordshire County Council.

The change in the net pensions liability is analysed into seven components:

- current service cost — the increase in liabilities as a result of years of service earned this year — allocated in the Comprehensive Income and Expenditure Statement to the services for which the employees worked
- past service cost — the increase in liabilities arising from current year decisions which relate to years of service earned in earlier years — debited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non-Distributed Costs

NOTES TO THE CORE FINANCIAL STATEMENTS

- interest cost — the expected increase in the present value of liabilities during the year as they move one year closer to being paid — debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement
- expected return on assets — the annual investment return on the fund assets attributable to the Council, based on an average of the expected long-term return credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement
- gains or losses on settlements and curtailments — the result of actions to relieve the Council of liabilities or events that reduce the expected future service or accrual of benefits of employees — debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non-Distributed Costs
- actuarial gains and losses — changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions — debited to the Pensions Reserve
- contributions paid to the HCC pension fund — cash paid as employer's contributions to the pension fund in settlement of liabilities; not accounted for as an expense

In relation to retirement benefits, statutory provisions require the General Fund Balance to be charged with the amount payable by the Council to the pension fund or directly to pensioners in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, this means that there are appropriations to and from the Pensions Reserve to remove the notional debits and credits for retirement benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year end. The negative balance that arises on the Pensions Reserve thereby measures the beneficial impact to the General Fund of being required to account for retirement benefits on the basis of cash flows, rather than as benefits earned by employees.

Discretionary Benefits

The Council also has restricted powers to make discretionary awards of retirement benefits in the event of early retirements. Any liabilities estimated to arise as a result of an award to any member of staff are accrued in the year of the decision to make the award and accounted for using the same policies as are applied to the Local Government Pension Scheme.

1.08 Events After the Balance Sheet Date

Events after the Balance Sheet date are those events, both favourable and unfavourable, that occur between the end of the reporting period and the date when the Statement of Accounts is authorised for issue. Two types of events can be identified:

- those that provide evidence of conditions that existed at the end of the reporting period — the Statement of Accounts is adjusted to reflect such events
- those that are indicative of conditions that arose after the reporting period — the Statement of Accounts is not adjusted to reflect such events, but where a category of events would have a material effect, disclosure is made in the notes of the nature of the events and their estimated financial effect

Events taking place after the date of authorisation for issue are not reflected in the Statement of Accounts.

NOTES TO THE CORE FINANCIAL STATEMENTS

1.09 Financial Instruments

Financial Liabilities

Financial liabilities are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value and are carried at their amortised cost. The Council currently has no long-term external debt.

Financial Assets

Financial assets are classified into two types:

- Loans and receivables — assets that have fixed or determinable payments but are not quoted in an active market.
- Available-for-sale assets — assets that have a quoted market price and/or do not have fixed or determinable payments.

Loans and Receivables

Loans and receivables are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value. They are subsequently measured at their amortised cost. Annual credits to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. For most of the loans that the Council has made, this means that the amount presented in the Balance Sheet is the outstanding principal receivable (plus accrued interest) and interest credited to the Comprehensive Income and Expenditure Statement is the amount receivable for the year in the loan agreement.

However, the Council has made a few loans to voluntary organisations at less than market rates (soft loans). When soft loans are made, a loss is recorded in the Comprehensive Income and Expenditure Statement (debited to the appropriate service) for the present value of the interest that will be foregone over the life of the instrument, resulting in a lower amortised cost than the outstanding principal. Interest is credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement at a marginally higher effective rate of interest than the rate receivable from the voluntary organisations, with the difference serving to increase the amortised cost of the loan in the Balance Sheet.

Statutory provisions require that the impact of soft loans on the General Fund Balance is the interest receivable for the financial year — the reconciliation of amounts debited and credited to the Comprehensive Income and Expenditure Statement to the net gain required against the General Fund Balance is managed by a transfer to, or from, the Financial Instruments Adjustment Account in the Movement in Reserves Statement.

Where assets are identified as impaired because of a likelihood arising from a past event that payments due under the contract will not be made, the asset is written down and a charge made to the relevant service (for receivables specific to that service) or the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The impairment loss is measured as the difference between the carrying amount and the present value of the revised future cash flows discounted at the asset's original effective interest rate.

Any gains and losses that arise on the derecognition of an asset are credited or debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

NOTES TO THE CORE FINANCIAL STATEMENTS

1.10 Government Grants and Contributions

Whether paid on account, by instalments or in arrears, government grants and third party contributions and donations are recognised as due to the Council when there is reasonable assurance that:

- the Council will comply with the conditions of the payment
- the grants or contributions will be received

Amounts recognised as due to the Council are not credited to the Comprehensive Income and Expenditure Statement until conditions attached to the grant or contribution have been satisfied. Conditions are stipulations that specify that the future economic benefits or service potential embodied in the asset acquired using the grant or contribution are required to be consumed by the recipient as specified, or future economic benefits or service potential must be returned to the transferor.

Monies advanced as grants and contributions for which conditions have not been satisfied are carried in the Balance Sheet as creditors. When conditions are satisfied, the grant or contribution is credited to the relevant service line (attributable revenue grants and contributions) or Taxation and Non-Specific Grant Income (non-ringfenced revenue grants and all capital grants) in the Comprehensive Income and Expenditure Statement.

Where capital grants are credited to the Comprehensive Income and Expenditure Statement, they are reversed out of the General Fund Balance in the Movement in Reserves Statement. Where the grant has yet to be used to finance capital expenditure, it is posted to the Capital Grants Unapplied reserve. Where it has been applied, it is posted to the Capital Adjustment Account. Amounts in the Capital Grants Unapplied Reserve are transferred to the Capital Adjustment Account once they have been applied to fund capital expenditure.

1.11 Intangible Assets

Expenditure on non-monetary assets that do not have physical substance but are controlled by the Council as a result of past events (e.g. software licences) is capitalised when it is expected that future economic benefits or service potential will flow from the intangible asset to the Council.

Internally generated assets are capitalised where it is demonstrable that the project is technically feasible and is intended to be completed (with adequate resources being available) and the Council will be able to generate future economic benefits or deliver service potential by being able to sell or use the asset. Expenditure is capitalised where it can be measured reliably as attributable to the asset and is restricted to that incurred during the development phase (research expenditure cannot be capitalised).

Expenditure on the development of websites is not capitalised if the website is solely or primarily intended to promote or advertise the Council's goods or services.

Intangible assets are measured initially at cost. Amounts are only revalued where the fair value of the assets held by the Council can be determined by reference to an active market. In practice, no intangible asset held by the Council meets this criterion, and they are therefore carried at amortised cost. The depreciable amount of an intangible asset is amortised over its useful life to the relevant service line(s) in the Comprehensive Income and Expenditure Statement. An asset is tested for

NOTES TO THE CORE FINANCIAL STATEMENTS

impairment whenever there is an indication that the asset might be impaired — any losses recognised are posted to the relevant service line(s) in the Comprehensive Income and Expenditure Statement. Any gain or loss arising on the disposal or abandonment of an intangible asset is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement.

Where expenditure on intangible assets qualifies as capital expenditure for statutory purposes, amortisation, impairment losses and disposal gains and losses are not permitted to have an impact on the General Fund Balance. The gains and losses are therefore reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account and (for any sale proceeds greater than £10,000) the Capital Receipts Reserve.

1.12 Inventories and Long Term Contracts

Inventories are included in the Balance Sheet at either cost or net realisable value.

Long term contracts are accounted for on the basis of charging the Surplus or Deficit on the Provision of Services with the value of works and services received under the contract during the financial year.

1.13 Investment Property

Investment properties are those that are used solely to earn rentals and/or for capital appreciation. The definition is not met if the property is used in any way to facilitate the delivery of services or production of goods or is held for sale.

Investment properties are measured initially at cost and subsequently at fair value, based on the amount at which the asset could be exchanged between knowledgeable parties at arm's-length. Properties are not depreciated but are revalued annually according to market conditions at the year-end. Gains and losses on revaluation are posted to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The same treatment is applied to gains and losses on disposal.

Rentals received in relation to investment properties are credited to the Financing and Investment Income line and result in a gain for the General Fund Balance. However, revaluation and disposal gains and losses are not permitted by statutory arrangements to have an impact on the General Fund Balance. The gains and losses are therefore reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account and the Capital Receipts Reserve.

1.14 Leases

Leases are classified as finance leases where the terms of the lease transfer substantially all the risks and rewards incidental to ownership of the property, plant or equipment from the lessor to the lessee. All other leases are classified as operating leases.

Where a lease covers both land and buildings, the land and buildings elements are considered separately for classification.

Arrangements that do not have the legal status of a lease but convey a right to use an asset in return for payment are accounted for under this policy where fulfilment of the arrangement is dependent on the use of specific assets.

NOTES TO THE CORE FINANCIAL STATEMENTS

The Council as Lessee

Finance Leases

Property, plant and equipment held under finance leases is recognised on the Balance Sheet at the commencement of the lease at its fair value measured at the lease's inception (or the present value of the minimum lease payments, if lower). The asset recognised is matched by a liability for the obligation to pay the lessor. Initial direct costs of the Council are added to the carrying amount of the asset. Premiums paid on entry into a lease are applied to writing down the lease liability. Contingent rents are charged as expenses in the periods in which they are incurred.

Lease payments are apportioned between:

- a charge for the acquisition of the interest in the property, plant or equipment — applied to write down the lease liability; and
- a finance charge (debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement)

Property, Plant and Equipment recognised under finance leases is accounted for using the policies applied generally to such assets, subject to depreciation being charged over the lease term if this is shorter than the asset's estimated useful life (where ownership of the asset does not transfer to the Council at the end of the lease period).

The Council is not required to raise council tax to cover depreciation or revaluation and impairment losses arising on leased assets. Instead, a prudent annual contribution is made from revenue funds towards the deemed capital investment in accordance with statutory requirements. Depreciation and revaluation and impairment losses are therefore substituted by a revenue contribution in the General Fund Balance, by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement.

Operating Leases

Rentals paid under operating leases are charged to the Comprehensive Income and Expenditure Statement as an expense of the services benefitting from use of the leased property, plant or equipment. Charges are made on a straight-line basis over the life of the lease, even if this does not match the pattern of payments (e.g. there is a rent-free period at the commencement of the lease).

The Council as Lessor

Finance Leases

Where the Council grants a finance lease over a property or an item of plant or equipment, the relevant asset is written out of the Balance Sheet as a disposal. At the commencement of the lease, the carrying amount of the asset in the Balance Sheet (whether Property, Plant and Equipment or Assets Held for Sale) is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. A gain, representing the Council's net investment in the lease, is credited to the same line in the Comprehensive Income and Expenditure Statement also as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal), matched by a lease (long-term debtor) asset in the Balance Sheet.

NOTES TO THE CORE FINANCIAL STATEMENTS

Lease rentals receivable are apportioned between:

- a charge for the acquisition of the interest in the property — applied to write down the lease debtor (together with any premiums received); and
- finance income (credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement)

The gain credited to the Comprehensive Income and Expenditure Statement on disposal is not permitted by statute to increase the General Fund Balance and is required to be treated as a capital receipt. Where a premium has been received, this is posted out of the General Fund Balance to the Capital Receipts Reserve in the Movement in Reserves Statement. Where the amount due in relation to the lease asset is to be settled by the payment of rentals in future financial years, this is posted out of the General Fund Balance to the Deferred Capital Receipts Reserve in the Movement in Reserves Statement. When the future rentals are received, the element for the capital receipt for the disposal of the asset is used to write down the lease debtor. At this point, the deferred capital receipts are transferred to the Capital Receipts Reserve.

The written-off value of disposals is not a charge against council tax, as the cost of fixed assets is fully provided for under separate arrangements for capital financing. Amounts are therefore appropriated to the Capital Adjustment Account from the General Fund Balance in the Movement in Reserves Statement.

Operating Leases

Where the Council grants an operating lease over a property or an item of plant or equipment, the asset is retained in the Balance Sheet. Rental income is credited to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Credits are made on a straight-line basis over the life of the lease, even if this does not match the pattern of payments (e.g. there is a premium paid at the commencement of the lease). Initial direct costs incurred in negotiating and arranging the lease are added to the carrying amount of the relevant asset and charged as an expense over the lease term on the same basis as rental income.

1.15 Overheads and Support Services

The costs of overheads and support services are charged to those that benefit from the supply or service in accordance with the costing principles of the CIPFA Service Reporting Code of Practice 2012/13 (SERCOP). The total absorption costing principle is used — the full cost of overheads and support services are shared between users in proportion to the benefits received, with the exception of:

- Corporate and Democratic Core — costs relating to the Council's status as a multi-functional, democratic organisation
- Non-Distributed Costs — the cost of discretionary benefits awarded to employees retiring early and impairment losses chargeable on Assets Held for Sale

These two cost categories are defined in SERCOP and accounted for as separate headings in the Comprehensive Income and Expenditure Statement, as part of Net Expenditure on Continuing Services.

1.16 Property, Plant and Equipment

Assets that have physical substance and are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes and that are expected to be used during more than one financial year are classified as Property, Plant and Equipment.

NOTES TO THE CORE FINANCIAL STATEMENTS

Recognition

Expenditure on the acquisition, creation or enhancement of Property, Plant and Equipment is capitalised on an accruals basis, provided that it is probable that the future economic benefits or service potential associated with the item will flow to the Council and the cost of the item can be measured reliably. Expenditure that maintains but does not add to an asset's potential to deliver future economic benefits or service potential (i.e. repairs and maintenance) is charged as an expense when it is incurred.

Measurement

Assets are initially measured at cost, comprising:

- the purchase price
- any costs attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management

The Council does not capitalise borrowing costs incurred whilst assets are under construction.

The cost of assets acquired other than by purchase is deemed to be its fair value, unless the acquisition does not have commercial substance (i.e. it will not lead to a variation in the cash flows of the Council). In the latter case, where an asset is acquired via an exchange, the cost of the acquisition is the carrying amount of the asset given up by the Council.

Donated assets are measured initially at fair value. The difference between fair value and any consideration paid is credited to the Taxation and Non-Specific Grant Income line of the Comprehensive Income and Expenditure Statement, unless the donation has been made conditionally. Until conditions are satisfied, the gain is held in the Donated Assets Account. Where gains are credited to the Comprehensive Income and Expenditure Statement, they are reversed out of the General Fund Balance to the Capital Adjustment Account in the Movement in Reserves Statement.

Assets are then carried in the Balance Sheet using the following measurement bases:

- Infrastructure, community assets and assets under construction — depreciated historical cost
- Dwellings — fair value, determined using the basis of existing use value for social housing (EUV-SH)
- All other assets — fair value, determined as the amount that would be paid for the asset in its existing use (Existing Use Value — EUV)

Where there is no market-based evidence of fair value because of the specialist nature of an asset, depreciated replacement cost (DRC) is used as an estimate of fair value.

Where non-property assets that have short useful lives or low values (or both), depreciated historical cost basis is used as a proxy for fair value.

Assets included in the Balance Sheet at fair value are revalued sufficiently regularly to ensure that their carrying amount is not materially different from their fair value at the year-end, but as a minimum every five years. Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains. Exceptionally, gains might be credited to the Comprehensive Income and Expenditure Statement where they arise from the reversal of a loss previously charged to a service.

NOTES TO THE CORE FINANCIAL STATEMENTS

When decreases in value are identified:

- where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains)
- where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line(s) in the Comprehensive Income and Expenditure Statement

The Revaluation Reserve contains revaluation gains recognised since 1 April 2007 only, the date of its formal implementation. Gains arising before that date have been consolidated into the Capital Adjustment Account.

Impairment

Assets are assessed at each year-end as to whether there is any indication that an asset may be impaired. Where indications exist and any possible differences are estimated to be material, the recoverable amount of the asset is estimated and, where this is less than the carrying amount of the asset, an impairment loss is recognised for the shortfall.

When impairment losses are identified:

- where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains)
- where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line(s) in the Comprehensive Income and Expenditure Statement.

Where an impairment loss is reversed subsequently, the reversal is credited to the relevant service line(s) in the Comprehensive Income and Expenditure Statement, up to the amount of the original loss, adjusted for depreciation that would have been charged if the loss had not been recognised.

Depreciation

Depreciation is provided for on all Property, Plant and Equipment assets by the systematic allocation of their depreciable amounts over their useful lives. An exception is made for assets without a determinable finite useful life (i.e. freehold land and certain Community Assets) and assets that are not yet available for use (i.e. assets under construction).

Depreciation is calculated on the following bases:

- Land and buildings — straight-line allocation over the useful life of the property as estimated by the valuer
- Vehicles — straight-line over the estimated life of the vehicle
- Plant, furniture and equipment — 25% on a reducing balance basis
- Infrastructure — straight-line allocation over 25 years.
- Finance leases — straight-line over the term of the lease

Where an item of Property, Plant and Equipment asset has major components whose cost is significant in relation to the total cost of the item, the components are depreciated separately.

NOTES TO THE CORE FINANCIAL STATEMENTS

Revaluation gains are also depreciated, with an amount equal to the difference between current value depreciation charged on assets and the depreciation that would have been chargeable based on their historical cost being transferred each year from the Revaluation Reserve to the Capital Adjustment Account.

Disposals and Non-current Assets Held for Sale

When it becomes probable that the carrying amount of an asset will be recovered principally through a sale transaction rather than through its continuing use, it is reclassified as an Asset Held for Sale. The asset is revalued immediately before reclassification and then carried at the lower of this amount and fair value less costs to sell. Where there is a subsequent decrease to fair value less costs to sell, the loss is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Gains in fair value are recognised only up to the amount of any previously losses recognised in the Surplus or Deficit on Provision of Services. Depreciation is not charged on Assets Held for Sale.

If assets no longer meet the criteria to be classified as Assets Held for Sale, they are reclassified back to non-current assets and valued at the lower of their carrying amount before they were classified as held for sale; adjusted for depreciation, amortisation or revaluations that would have been recognised had they not been classified as Held for Sale, and their recoverable amount at the date of the decision not to sell.

Assets that are to be abandoned or scrapped are not reclassified as Assets Held for Sale.

When an asset is disposed of or decommissioned, the carrying amount of the asset in the Balance Sheet (whether Property, Plant and Equipment or Assets Held for Sale) is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. Receipts from disposals (if any) are credited to the same line in the Comprehensive Income and Expenditure Statement also as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal). Any revaluation gains accumulated for the asset in the Revaluation Reserve are transferred to the Capital Adjustment Account.

Amounts received for a disposal in excess of £10,000 are categorised as capital receipts. Capital receipts are required to be credited to the Capital Receipts Reserve, and can then only be used for either new capital investment or set aside to reduce the Council's underlying need to borrow (the capital financing requirement). Receipts are appropriated to the Reserve from the General Fund Balance in the Movement in Reserves Statement.

The written-off value of disposals is not a charge against council tax, as the cost of fixed assets is fully provided for under separate arrangements for capital financing. Amounts are appropriated to the Capital Adjustment Account from the General Fund Balance in the Movement in Reserves Statement.

1.17 Heritage Assets

Heritage Assets are held with the objective of increasing knowledge, understanding and the appreciation of the Council's history and local area. Heritage Assets are recognised and measured (including the treatment of revaluation gains and losses) in accordance with the Council's accounting policies on property, plant and equipment. However, some of the measurement rules are relaxed in relation to heritage assets as detailed below.

NOTES TO THE CORE FINANCIAL STATEMENTS

The Heritage Assets are relatively static and acquisitions, donations and disposals are rare. Where acquisitions do occur, they are initially recognised at cost and donations are recognised at valuation ascertained by insurance officers, museum curators or external valuers. Proceeds from the disposal of Heritage Assets are accounted for in accordance with the Council's general policies relating to the disposals of property, plant and equipment. The Council has a rolling programme of major repair and restoration of its heritage assets and therefore the assets are deemed to have indefinite lives and the Council does not consider it necessary to charge depreciation.

The Council's collection of Heritage Assets, which includes works of art, musical equipment, sculptures, statues, war memorials and civic regalia, are reported at insurance valuations, which are based on market values, internal or external valuations. These insurance valuations are reviewed and updated on an annual basis. The carrying amounts of heritage assets are reviewed where there is evidence of impairment or where an item has suffered physical deterioration or breakage. Any impairment is recognised and measured in accordance with the Council's general policy on impairment.

1.18 Provisions, Contingent Liabilities and Contingent Assets

Provisions

Provisions are made where an event has taken place that gives the Council a legal or constructive obligation that probably requires settlement by a transfer of economic benefits or service potential, and a reliable estimate can be made of the amount of the obligation. For instance, the Council may be involved in a court case that could eventually result in the making of a settlement or the payment of compensation.

Provisions are charged as an expense to the appropriate service line in the Comprehensive Income and Expenditure Statement in the year that the Council becomes aware of the obligation, and are measured at the best estimate at the balance sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties.

When payments are eventually made, they are charged to the provision carried in the Balance Sheet. Estimated settlements are reviewed at the end of each financial year — where it becomes less than probable that a transfer of economic benefits will now be required (or a lower settlement than anticipated is made), the provision is reversed and credited back to the relevant service.

Where some or all of the payment required to settle a provision is expected to be recovered from another party (e.g. from an insurance claim), this is only recognised as income for the relevant service if it is virtually certain that reimbursement will be received if the Council settles the obligation.

Contingent Liabilities

A contingent liability arises where an event has taken place that gives the Council a possible obligation whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Council. Contingent liabilities also arise in circumstances where a provision would otherwise be made but either it is not probable that an outflow of resources will be required or the amount of the obligation cannot be measured reliably.

NOTES TO THE CORE FINANCIAL STATEMENTS

Contingent liabilities are not recognised in the Balance Sheet but disclosed in a note to the accounts.

Contingent Assets

A contingent asset arises where an event has taken place that gives the Council a possible asset whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Council.

Contingent assets are not recognised in the Balance Sheet but disclosed in a note to the accounts where it is probable that there will be an inflow of economic benefits or service potential.

1.19 Reserves

The Council sets aside specific amounts as reserves for future policy purposes or to cover contingencies. Reserves are created by appropriating amounts out of the General Fund Balance in the Movement in Reserves Statement. When expenditure to be financed from a reserve is incurred, it is charged to the appropriate service in that year to score against the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement. The reserve is then appropriated back into the General Fund Balance in the Movement in Reserves Statement so that there is no net charge against council tax for the expenditure.

Certain reserves are kept to manage the accounting processes for non-current assets, financial instruments, retirement and employee benefits and do not represent usable resources for the Council — these reserves are explained in the relevant policies.

1.20 Revenue Expenditure Funded from Capital under Statute

Expenditure incurred during the year that may be capitalised under statutory provisions but that does not result in the creation of a non-current asset has been charged as expenditure to the relevant service in the Comprehensive Income and Expenditure Statement in the year. Where the Council has determined to meet the cost of this expenditure from existing capital resources or by borrowing, a transfer in the Movement in Reserves Statement from the General Fund Balance to the Capital Adjustment Account then reverses out the amounts charged so that there is no impact on the level of council tax.

1.21 Value Added Tax (VAT)

VAT payable is included as an expense only to the extent that it is not recoverable from Her Majesty's Revenue and Customs. VAT receivable is excluded from income.

2 Accounting Standards that Have Been Issued but Have Not Yet Been Adopted

The following accounting policy changes have not yet been adopted but are expected to be included within Appendix C to the 2013/14 Code of Practice:

- Amendments to IAS 1 Presentation of Financial Statements (other comprehensive income, June 2011)
- Amendments to IFRS 7 Financial Instruments: Disclosures (offsetting financial assets and liabilities, December 2011)
- Amendments to IAS 12 Income Taxes (deferred tax: recovery of underlying assets, December 2010)
- Amendments to IAS 19 Employee Benefits (June 2011)
- IFRS 13 Fair Value Measurements (May 2011)

3 Critical Judgements in Applying Accounting Policies

In applying the accounting policies set out in Note 1, the Council has to make certain judgements about complex transactions or those involving uncertainty about future events. The critical judgement in the Statements of Accounts is that there is a high level of uncertainty about future levels of funding for local government. However, the Council has determined that this uncertainty is not yet sufficient to provide an indication that the assets of the Council might be impaired as a result of a need to close facilities and reduce levels of service provision.

4 Prior Period Adjustments

There are no prior period adjustments included in the statements.

5 Events After the Reporting Period

The draft Statement of Accounts was authorised for issue by the Head of Strategic Finance on 26 June 2013. Events taking place after this date are not reflected in the financial statements or notes. Where events taking place before this date provided information about conditions existing at 31 March 2013, the figures in the financial statement and notes have been adjusted in all material respects to reflect the impact of this information.

Non-adjusting Event - Non Domestic Rates Appeals

When new arrangements for the retention of business rates came into effect on 1 April 2013, local authorities assumed the liability for refunding ratepayers who have successfully appealed against the rateable value of their properties on the rating list, including amounts paid over to central government in 2012/13 and prior years.

Watford Borough Council's share of these liabilities is estimated to be £1.424m.

6 Assumptions Made About the Future and Other Major Sources of Uncertainty

The Statements of Accounts contains estimated figures that are based on assumptions made by the Council about the future that are otherwise uncertain. Estimates are made taking in to account historical experience, current trends and other relevant factors. However, because balances cannot be determined with certainty, actual results could be materially different from the assumptions and estimates.

NOTES TO THE CORE FINANCIAL STATEMENTS

The items in the Council's Balance Sheet at 31 March 2013 for which there is significant risk of material adjustment in the forthcoming financial year are as follows:

Item	Uncertainties	Effect if Actual Results Differ From Assumptions
Property, Plant and Equipment	Assets are depreciated over useful lives that are dependent on assumptions about the level of repairs and maintenance that will be incurred in relation to the individual assets. The current economic climate makes it possible that the Council will be unable to sustain its current spending on repairs and maintenance, bringing in to doubt the useful lives assigned to assets.	If the useful life of assets is reduced, depreciation increases and the carrying amount of the assets falls.
Pensions Liability	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in the retirement ages, mortality rates and expected returns on pension assets. A firm of consulting actuaries is engaged to provide the Council with expert advice about the assumptions to be applied.	The effects of these individual assumptions can have a major impact on the pension liability calculation. During 2012/13, The Council's actuaries advised that the net pensions liability had increased by £8.848m as a result of estimates and assumptions being updated.
Arrears	At 31 March 2013, the Council had a short term sundry debtor balance of £5.933m. A review of significant balances suggested a provision of £4.310m was appropriate. However, in the current economic climate it is not certain that such an allowance would be sufficient.	If collection rates were to deteriorate an increasing level of doubtful debts would require an additional amount to be set aside as a bad debt provision or additional bad debt write offs.

7 Amounts Reported for Resource Allocation Decisions

The analysis of income and expenditure by service on the face of the Comprehensive Income and Expenditure Statement is that specified by the CIPFA Service Reporting Code of Practice 2012/13 (SERCOP). However decisions about resource allocation are taken by the Council's Cabinet on the basis of Finance Digest budget reports analysed across directorates. These reports are produced several times a year to inform senior management and members about the current and forecasted financial position of the Council. They are prepared on a different basis from the accounting policies used in the financial statement. In particular:

- Estimated charges are made in relation to capital expenditure, whereas different actual amounts for depreciation, revaluation and impairment gains and losses are charged to the Comprehensive Income and Expenditure Statement at the year end
- The cost of retirement benefits is based on cash flows (Payment of employer's pensions contributions rather than current service cost of benefits accrued at the year end)
- Expenditure on some support services is budgeted for centrally and not charged to directorates

NOTES TO THE CORE FINANCIAL STATEMENTS

Finance Digest - Actuals

2011/12 Finance Digest £000		2012/13 Finance Digest £000
	Service Area	
654	Corporate Services	0
8,277	Community Services	6,752
5,734	Environmental Services	5,926
2,855	Planning	3,324
1,764	Corporate Management	1,360
(3,211)	Legal and Property Services	(1,091)
31	Shared Services	4,107
21,791	Strategic Finance	(141)
(23,063)	Capital, IAS19 and Other Adjustments	(3,431)
14,832	Net General Fund	16,806
	Funding	
(8,367)	Council Tax	(8,258)
(205)	Council Tax Freeze Grant	(206)
(1,429)	Revenue Support Grant	(103)
(1,448)	Non-Specific Grant To Fund Capital	(744)
177	Collection Fund surplus movement	(30)
(4,622)	NNDR	(5,316)
(95)	Homelessness Grant	0
(542)	New Homes Bonus	(1,394)
0	S106 Contributions	(1,224)
(16,531)	Total Funding	(17,275)
(1,699)	Net General Fund less total funding	(469)
1,699	Transfers To / (From) Reserves	469
0	Change To General Fund Balance	0

NOTES TO THE CORE FINANCIAL STATEMENTS

Reconciliation of Directorate Income and Expenditure to Cost of Services in the Comprehensive Income and Expenditure Statement

This reconciliation shows how the figures in the analysis of directorate income and expenditure within the Finance Digest (FD) relate to the amounts included in the Comprehensive Income and Expenditure Statement (CI&E).

2011/12			Subjective Analysis	2012/13		
Finance Digest £000	Not Inc. In FD £000	CI&E £000		Finance Digest £000	Not Inc. In FD £000	CI&E £000
(15,384)	0	(15,384)	Fees, Charges and Other Service Income	(15,928)	0	(15,928)
(436)	0	(436)	Interest and Investment Income	(411)	(1)	(412)
(8,366)	0	(8,366)	Income From Council Tax	(8,258)	0	(8,258)
(49,185)	0	(49,185)	Government grants and Contributions	(50,303)	(1,998)	(52,301)
(735)	735	0	Transfer from reserves	(788)	788	0
(74,106)	735	(73,371)	Total Income	(75,688)	(1,211)	(76,899)
19,106	0	19,106	Employee Expenses	19,426	(25)	19,401
(684)	0	(684)	IAS19 Adjustments	0	(1,332)	(1,332)
51,473	0	51,473	Other Service Expenses	55,443	0	55,443
(408)	0	(408)	Support Service Recharges	(552)	0	(552)
2,460	0	2,460	Depreciation, Amortisation and Impairment	0	2,242	2,242
63	0	63	Interest Payments	98	0	98
(338)	11,100	10,762	Other Items in Budget Monitoring	265	(3,318)	(3,053)
2,434	(2,434)	0	Transfer to reserves	391	(391)	0
74,106	8,666	82,772	Total Expenditure	75,071	(2,824)	72,247
0	9,401	9,401	(Surplus)/Deficit on Provision of Services / General Fund Movement	(617)	(4,035)	(4,652)

NOTES TO THE CORE FINANCIAL STATEMENTS

8 Grant Income

The Council credited the following grants, contributions and donations to the Comprehensive Income and Expenditure Statement in 2012/13:

2011/12 £000		2012/13 £000
	Credited To Taxation and Non-Specific Grant Income	
205	Council Tax Freeze Grant	206
67	Events Market	0
0	High Street Innovation Fund	100
95	Homelessness Grant	0
0	Housing Planning Delivery Grant	160
150	Leisure Grant	280
542	New Homes Bonus	1,393
4,622	Non-domestic Rates redistribution	5,316
127	Other Local Authorities	14
72	Performance Reward Grant	191
2	Recycling	0
1,429	Revenue Support Grant	103
1,031	Section 106 Contributions	1,224
8,342		8,987
	Credited To Services	
0	Arts Council - Lottery	40
80	Building Safer Communities	42
0	Capital Funding	60
15	CCTV	15
22	Cemeteries	23
712	Council Tax Benefit Administration Grant	680
0	Disabled Facility Grant	279
39,999	DWP Housing Benefit Grant	42,161
93	Elections	10
24	Housing - Homelessness	297
43	Housing and Planning Delivery Grant	0
124	Housing Private Sector	0
59	Miscellaneous Highways	67
0	New Burdens	120
21	Other Grants	50
15	Parks Development	30
47	Performance and Engagement	14
85	Play Rangers	0
0	Police & Crime Commissioner	76
29	Sports Development	17
51	Street Cleansing	55
28	Taxi Marshall Scheme	40
416	Waste Management	433
41,863		44,509
50,205	Total	53,496

NOTES TO THE CORE FINANCIAL STATEMENTS

The Council has received a number of grants and contributions that have yet to be recognised as income as they have conditions attached to them that will require the monies to be returned to the giver if the conditions are not met. The balances at the year end are as follows:

2011/12 £000		2012/13 £000
582	Other Government Grants	262
5,512	Section 106	4,875
6,094	Total	5,137

9 Trading Operations

The Council has established trading units where the services provided are required to operate in a commercial environment. These operations include commercially let trading estate units, shop units and a non-livestock trading market.

The income and expenditure relating to these operations are shown below:

2011/12				2012/13		
Expend- iture £000	Income £000	Net Income £000		Expend- iture £000	Income £000	Net Income £000
1,912	(7,137)	(5,225)	Property	1,500	(6,935)	(5,435)
518	(498)	20	Market	466	(377)	89
2,430	(7,635)	(5,205)	Total	1,966	(7,312)	(5,346)

10 External Audit Costs

The Council has incurred the following costs in relation to the audit of the Statement of Accounts, certification of grant claims and statutory inspections.

2011/12 £000		2012/13 £000
114	Fees payable to the audit commission with regard to external audit services carried out by the appointed auditor for the year, Grant Thornton	62
22	Fees payable to Grant Thornton for the certification of grant claims and returns for the year	46
136	Total	108

NOTES TO THE CORE FINANCIAL STATEMENTS

11 Members' Allowances

The Local Authorities (Members' Allowances) (England) Regulations 2003 provide for the circumstances in which allowances are payable to members and the maximum amounts payable in respect of certain allowances.

The total of Members' Allowances paid in the year was £442,000 (2011/12: £434,000).

Further information on Members' Allowances can be obtained from the Council's Democratic Services section.

12 Officers' Remuneration

The Council is required to disclose the number of employees in the accounting period whose remuneration fell in each bracket of a scale in multiples of £5,000, starting with £50,000. The relevant details are as follows:

2011/12 No. of employees	Remuneration Band	2012/13 No. of employees
7	£50,000 - £54,999	8
1	£55,000 - £59,999	1
0	£60,000 - £64,999	0
5	£65,000 - £69,999	4
1	£70,000 - £74,999	1
0	£75,000 - £79,999	1
1	£80,000 - £84,999	1
0	£85,000 - £89,999	0
0	£90,000 - £94,999	0
2	£95,000 - £99,999	1
0	£100,000 - £104,999	0
0	£105,000 - £109,999	0
0	£110,000 - £114,999	0
0	£115,000 - £119,999	0
0	£120,000 - £124,999	0
0	£125,000 - £129,999	0
0	£130,000 - £134,999	0
1	£135,000 - £139,999	1
18	Total	18

The number of officers whose total remuneration exceeded £50,000 has remained the same in 2012/13.

NOTES TO THE CORE FINANCIAL STATEMENTS

The following tables provide additional detail for senior officers remuneration where salary for the establishment post falls between £50,000 and £150,000.

2011/12	Salary Including Fees and Allowances	Compensation For Loss of Office	Total Remun'n excluding Pension Contrib'n	Pension Contribution	Total Remuneration
Post	£	£	£	£	£
Managing Director	135,105	0	135,105	36,208	171,313
Executive Director - Services	98,941	0	98,941	26,507	125,448
Executive Director - Resources	98,906	77,435	176,341	26,507	202,848
Head of Legal & Property Services	72,456	0	72,456	19,366	91,822
Head of Strategic Finance	80,905	0	80,905	0	80,905
Head of Environmental Services	67,051	0	67,051	17,916	84,967
Head of Human Resources	66,915	0	66,915	17,916	84,831
Head of Planning & Transportation	66,895	0	66,895	17,916	84,811
Head of Community Services	66,858	0	66,858	17,918	84,776
Head of Information, Communication & Technology	65,948	0	65,948	0	65,948
Total	819,980	77,435	897,415	180,254	1,077,669

2012/13	Salary Including Fees and Allowances	Compensation For Loss of Office	Total Remun'n excluding Pension Contrib'n	Pension Contribution	Total Remuneration
Post	£	£	£	£	£
Managing Director	135,105	0	135,105	36,208	171,313
Executive Director - Services	99,704	119,291	218,995	26,507	245,502
Executive Director - Resources	0	0	0	0	0
Head of Legal & Property Services	72,256	0	72,256	19,365	91,621
Head of Strategic Finance	82,256	20,899	103,155	0	103,155
Head of Environmental Services	66,851	0	66,851	17,916	84,767
Head of Human Resources	66,858	0	66,858	17,918	84,776
Head of Planning & Transportation	66,871	0	66,871	17,916	84,787
Head of Community Services	66,857	0	66,857	17,918	84,775
Head of Information, Communication & Technology	76,680	0	76,680	0	76,680
Total	733,438	140,190	873,628	153,748	1,027,376

NOTES TO THE CORE FINANCIAL STATEMENTS

13 Termination Benefits

The Council terminated the contracts of a number of employees in 2012/13, incurring liabilities of £395,171 (2011/12: £559,415). Of this total, £262,593 (2011/12: £489,797) was payable in the form of compensation for loss of office and £132,578 (2011/12: £69,618) in enhanced pension benefits as part of the Council's rationalisation of Services.

The numbers of exit packages with total cost per band and total cost of the compulsory and other redundancies are set out in the table below:

2011/12 Total number of exit packages	2011/12 Total cost of exit packages	Cost Band		2012/13 Total number of exit packages	2012/13 Total cost of exit packages
11	71,862	£0	- £20,000	8	35,783
9	232,906	£20,001	- £40,000	2	53,104
2	94,168	£40,001	- £60,000	1	58,608
1	77,435	£60,001	- £80,000	0	0
1	83,044	£80,001	- £100,000	1	82,374
0	0	£100,001	- £150,000	0	0
0	0	£150,001	- £120,000	1	165,302
24	559,415	Total		13	395,171

14 Related Party Transactions

The Council is required to disclose material transactions with related parties – bodies or individuals that have the potential to control or influence the Council or to be controlled or influenced by the Council. Disclosure of these transactions allows readers to assess the extent to which the Council might have been constrained in its ability to operate independently or might have secured the ability to limit another party's ability to bargain freely with the Council.

a) Central Government & Other Local Bodies

Central Government has effective control over the general operations of the Council – it is responsible for providing the statutory framework within which the Council operates, provides the majority of its funding in the form of grants and prescribes the terms of many of the transactions that the Council has with other parties (e.g. Housing Benefits).

Details of grant funding transactions with Government Departments and Agencies are set out in Note 8 to the Core Financial Statements.

The Council paid precepts to Hertfordshire County Council and Hertfordshire Police Authority, further details of which are included in the Collection Fund Accounts.

NOTES TO THE CORE FINANCIAL STATEMENTS

b) Members and Chief Officers

The Council is one of five Districts (the others being Dacorum, Hertsmere, St Albans, and Three Rivers) that oversee the operation of the West Hertfordshire Crematorium. Watford provides the Honorary Clerk to the Joint Committee (the Managing Director, Manny Lewis, undertakes this role). Councillor Ian Brown is the Council's Member representative on the Joint Committee. In 2012/13, as in 2011/12, no contribution towards the running of the Crematorium was required from the Council. The Crematorium's practice is to meet all running costs from its own income, and build up reserves to meet future capital improvement costs. Should a deficiency contribution from Watford Borough be necessary, the contribution would be calculated in proportion to its population. The net current assets of the Joint Committee as at 31 March 2013 were £5.26m (31 March 2012: £5.14m). However, Watford's share of the net assets excludes property acquired or constructed for the purpose of Cremation which belong to and are vested in the Authority where the Crematorium is sited.

Councillors Kareen Hastrick and Derek Scudder are members of the Citizens Advice Bureau (CAB) Management Board and Council representatives. Councillor George Derbyshire is also a member of the CAB. The board was paid an amount of £174,222 in grant and £39,095 in rent support during 2012/13 (£174,192 and £47,891 for grant and rent respectively in 2011/12). Councillor Derek Scudder is on the management board of the Watford Sheltered Workshop who lease a premises from Watford rent free and also on the Board of the Milton Keynes Sustainable Energy Agency.

Councillor George Derbyshire is a Director and Council representative on the Watford Palace Theatre Trust. The Trust received £257,728 in grant aid and £32,500 in rent support from the Council in 2012/13 (£257,728 and £32,500 respectively in 2011/12).

Following the transfer of the housing stock, Councillor Kareen Hastrick is a Council representative on the Board of the Watford Community Housing Trust. Also, Councillors Ian Brown and Jan Brown are Directors of the Watford Charity Centre Limited (The Le Marie Centre) who lease a property from the Council.

Mayor Dorothy Thornhill is the Council's representative on the National LGA, on the LGA Environment Board, on the Inter Authorities Health Partnership Board, Herts Anti Poverty Partnership and Chair of LSP One Watford. She is also General Assembly Member of Safer Watford, Vice President of Watford Football Club and Patron of WFC Educational Trust which is negotiating a lease for the Meriden Community Centre.

Councillor Mark Watkin, Councillor Jackie Connal and Councillor Nasreen Shah are on the Board of the Watford Multi-Cultural Community Centre as Council representatives. The Head of Community Services has a relative who is a senior officer for Hightown Praetorian Housing Association which is one of Watford Borough Council's Housing and Regeneration Initiative (HARI) partners.

Councillors Nigel Bell and Mo Mills are trustees of the West Watford Community Association who received a grant from the Council.

In addition, a small number of Council Members and Officers have made declarations of personal interests in voluntary and other organisations, which are grant aided or otherwise financed by the Council, which are not disclosed separately in this note as the sums involved are not considered material.

NOTES TO THE CORE FINANCIAL STATEMENTS

c) Hertfordshire Pension Fund

The details of the transactions with the Council's pension fund are provided in Note 31 to the Core Financial Statements.

15 Partnership Working

Since April 2009, Watford Borough Council and Three Rivers District Council have been participating in Joint Services, provided by the Joint Shared Services Committee. During 2012/13 the services that have been provided jointly are Human Resources, Finance, Revenue and Benefits, and the ICT function. These services are jointly provided with an aim to making efficiencies for both Authorities.

The net expenditure of the shared services is apportioned between the Councils based on the Shared Service Agreement. The table below shows the total expenditure and income of the Joint Committee of which Watford Borough Council's share is £4.113million.

2011/12				2012/13		
Gross Expenditure £000	Gross Income £000	Net Cost £000		Gross Expenditure £000	Gross Income £000	Net Cost £000
			Services			
1,400	(1)	1,399	Local Tax Collection	1,436	0	1,436
1,567	0	1,567	Housing Benefits	1,724	0	1,724
3,703	(5)	3,698	Central Support Services	3,583	(7)	3,576
6,670	(6)	6,664	Net Cost of Services / Operating Expenditure	6,743	(7)	6,736
		(2,597)	Income from Three Rivers District Council			(2,623)
		(4,067)	Income from Watford Borough Council			(4,113)
		0	(Surplus) / Deficit for the year			0

16 Intangible Assets

Intangible long-term assets are non-financial assets which do not have a physical substance but are identified and controlled by the Council through legal rights, e.g. IT software, and which bring benefits to the Council for more than one year.

During 2012/13 no capital expenditure was recorded in this category.

NOTES TO THE CORE FINANCIAL STATEMENTS

17 Property, Plant and Equipment

a) Information on Assets Held

The Property of the Council comprises:

31 Mar 12 No. / area		31 Mar 13 No. / area
	Property, Plant and Equipment	
1	Museum	1
5	Community Centres	5
1	Assembly Hall	1
2	Play Facilities	2
2	Theatres	2
3	Council Offices	3
2	Depot	2
4	Car Parks	4
2	Cemeteries	2
2	Leisure Pools	2
	Community Assets (see note below)	
915 acres	Parks and Open Spaces	915 acres
9	Allotments	9

Community Assets are held for the community in perpetuity. They are often assets that have been in the community for a long period, and little if any record exists of their original cost. The assets are not expected to be sold and have a nominal value in the accounts of £1 per asset, giving a total value of £93 for the 93 assets held by the Council (2011/12: £93).

NOTES TO THE CORE FINANCIAL STATEMENTS

b) Movement of Property, Plant and Equipment

	Land & Buildings £000	Vehicles, Plant & Equipment £000	Infra- structure £000	Total £000
Cost or valuation				
At 1 April 2011	45,427	13,175	2,655	61,257
Additions - Capital Programme	1,630	1,491	244	3,365
Additions - Finance Leases	0	154	0	154
Revaluation increases / (decreases) recognised in the Revaluation Reserve	(430)	0	0	(430)
Revaluation increases / (decreases) recognised in the Surplus / Deficit on the provisions of services	(955)	0	0	(955)
Derecognition - Disposals	0	0	0	0
Derecognition - Other	(2,226)	(1,972)	(286)	(4,484)
Assets reclassified (to) / from Held for Sale	(194)	0	0	(194)
Other movements in cost or valuation	0	0	0	0
At 31 March 2012	43,252	12,848	2,613	58,713
Accumulated Depreciation & Impairment				
At 1 April 2011	(4,407)	(8,278)	(543)	(13,228)
Depreciation Charge	(969)	(1,159)	(118)	(2,246)
Depreciation written out to the Revaluation Reserve	0	0	0	0
Depreciation written out to the surplus / deficit on the provision of services	0	0	0	0
Impairment losses / (reversals) recognised in the Revaluation Reserve	283	0	0	283
Impairment losses / (reversals) recognised in the Surplus / Deficit on the Provision of Services	455	0	0	455
Derecognition - Disposals	0	0	0	0
Derecognition - Other	2,226	1,972	286	4,484
Other movements in depreciation and impairment	0	0	0	0
At 31 March 2012	(2,412)	(7,465)	(375)	(10,252)
Balance Sheet Value at 31 March 2012	40,840	5,383	2,238	48,461
Balance Sheet Value at 1 April 2011	41,020	4,897	2,112	48,029

NOTES TO THE CORE FINANCIAL STATEMENTS

	Land & Buildings £000	Vehicles, Plant & Equipment £000	Infra- structure £000	Total £000
Cost or valuation				
At 1 April 2012	43,252	12,848	2,613	58,713
Additions - Capital Programme	789	1,765	23	2,577
Additions - Finance Leases	0	0	0	0
Revaluation increases / (decreases) recognised in the Revaluation Reserve	195	52	0	247
Revaluation increases / (decreases) recognised in the Surplus / Deficit on the provisions of services	(770)	82	0	(688)
Derecognition - Disposals	0	0	0	0
Derecognition - Other	0	(650)	0	(650)
Assets reclassified (to) / from Held for Sale	0	0	0	0
Other movements in cost or valuation	0	0	0	0
At 31 March 2013	43,466	14,097	2,636	60,199
Accumulated Depreciation & Impairment				
At 1 April 2012	(2,412)	(7,465)	(375)	(10,252)
Depreciation Charge	(855)	(1,315)	(131)	(2,301)
Depreciation written out to the Revaluation Reserve	0	(1)	0	(1)
Depreciation written out to the surplus / deficit on the provision of services	0	0	0	0
Impairment losses / (reversals) recognised in the Revaluation Reserve	37	0	0	37
Impairment losses / (reversals) recognised in the Surplus / Deficit on the Provision of Services	0	0	0	0
Derecognition - Disposals	0	0	0	0
Derecognition - Other	0	650	0	650
Other movements in depreciation and impairment	0	0	0	0
At 31 March 2013	(3,230)	(8,131)	(506)	(11,867)
Balance Sheet Value at 31 March 2013	40,236	5,966	2,130	48,332
Balance Sheet Value at 1 April 2012	40,840	5,383	2,238	48,461

c) Revaluations

The Council carried out a rolling programme that ensures that all Property, Plant and Equipment required to be measured at fair value is revalued at least every five years. Valuations are carried out internally and the basis of valuations is in accordance with the methodologies and bases for estimation set out in the professional standards of the Royal Institution of Chartered Surveyors. All assets have been valued individually, with the final statements of account reconciled to the valuation certificates. The basis of valuing individual classes of assets owned by the Council is detailed in Note 1 to the Core Financial Statements.

NOTES TO THE CORE FINANCIAL STATEMENTS

The following table illustrates the scope of the revaluation work undertaken and demonstrates the Council's rolling revaluation programme.

	Land & Buildings £000	Vehicles, Plant & Equipment £000	Infra- structure £000	Total £000
Carried at historical cost	0	14,097	2,636	16,733
Valued at current value as at:				
31/03/2013	2,679	0	0	2,679
31/03/2012	12,078	0	0	12,078
31/03/2011	25,796	0	0	25,796
31/03/2010	2,226	0	0	2,226
31/03/2009	279	0	0	279
31/03/2008	408	0	0	408
Total Cost or Valuation	43,466	14,097	2,636	60,199

d) Information About Depreciation Methodologies

Depreciation has been provided for all assets with a finite useful life. The basis for depreciating assets is detailed in the Statement of Accounting Policies. Freehold land, investment properties, Surplus Assets and Heritage Assets are not depreciated. On all other assets where depreciation has been provided, assets have been depreciated on the following basis:

Buildings	Straight-line over the useful life of the property as estimated by the valuer
Vehicles	Straight-line over the estimated life of the vehicle
Plant, Furniture & Equipment	25% on a reducing balance basis
Infrastructure	Straight-line over 25 years
Finance Leases	Straight-line over the term of the lease

NOTES TO THE CORE FINANCIAL STATEMENTS

18 Heritage Assets

The Council's Heritage Assets are reported in the Balance Sheet at insurance valuations which are based on market values. These insurance values are reviewed and updated annually. The Council has a rolling programme of repair of its Heritage Assets and regularly reviews the conditions of its assets. The Council keeps a register of all its Heritage Assets and records the nature, condition and location of each asset.

	Musical Instrument £000	Statues, Sculptures & War Memorials £000	Works of art £000	Civic Regalia £000	Total £000
Cost or valuation					
At 1 April 2011	400	368	700	200	1,668
Additions	0	12	0	0	12
Disposals	0	0	0	0	0
Revaluations increases / (decreases)	0	365	0	0	365
At 31 March 2012	400	745	700	200	2,045

	Musical Instrument £000	Statues, Sculptures & War Memorials £000	Works of art £000	Civic Regalia £000	Total £000
Cost or valuation					
At 1 April 2012	400	745	700	200	2,045
Additions	0	0	0	0	0
Disposals	0	0	0	0	0
Revaluations increases / (decreases)	0	0	0	0	0
At 31 March 2013	400	745	700	200	2,045

NOTES TO THE CORE FINANCIAL STATEMENTS

19 Investment Properties and Surplus Assets

a) Information on Assets Held

The Investment Properties and Surplus Assets of the Council comprise:

31 Mar 12 No. / area		31 Mar 13 No. / area
209	Commercial Properties	209
1	Old Woolworths Store	1
1	Business Park	1
250,000 sq.ft	Charter Place Shopping Area	250,000 sq.ft
1	Market	1
7% of net profit	Share in Harlequin Shopping Centre	7% of net profit
1	Cardiff Road Industrial Estate	1
2	Surplus Assets	2

b) Movement of Investment Properties and Surplus Assets

	Investment Properties £000	Surplus Assets £000	Total £000
Cost or valuation			
At 1 April 2011	109,873	2,045	111,918
Additions	4,520	0	4,520
Revaluation increases / (decreases) recognised in the Surplus /			
Deficit on the provisions of services	(7,864)	0	(7,864)
Derecognition - Disposals	0	0	0
Derecognition - Other	0	0	0
Assets reclassified (to) / from Held for Sale	0	(885)	(885)
Other movements in cost or valuation	0	0	0
At 31 March 2012	106,529	1,160	107,689
Balance Sheet Value at 31 March 2012	106,529	1,160	107,689
Balance Sheet Value at 1 April 2011	109,873	2,045	111,918

NOTES TO THE CORE FINANCIAL STATEMENTS

	Investment Properties £000	Surplus Assets £000	Total £000
Cost or valuation			
At 1 April 2012	106,529	1,160	107,689
Additions	791	0	791
Revaluation increases / (decreases) recognised in the Surplus / Deficit on the provisions of services	5,989	(260)	5,729
Derecognition - Disposals	0	0	0
Derecognition - Other	0	0	0
Assets reclassified (to) / from Held for Sale	0	0	0
Other movements in cost or valuation	0	0	0
At 31 March 2013	113,309	900	114,209
Balance Sheet Value at 31 March 2013	113,309	900	114,209
Balance Sheet Value at 1 April 2012	106,529	1,160	107,689

c) Accounted for in Comprehensive Income and Expenditure Statement

The following items of income and expense have been accounted for in the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

2011/12 £000		2012/13 £000
7,635	Rental income from Investment Property	7,312
(2,430)	Direct operating expenses arising from Investment property	(1,966)
5,205	Net income / (expenditure)	5,346

There are no restrictions on the Council's ability to realise the value inherent in its investment property or on the Council's right to the remittance of income and the proceeds of disposal. The Council has no contractual obligations to purchase, construct or develop investment property or repairs, maintenance or enhancement.

NOTES TO THE CORE FINANCIAL STATEMENTS

d) Revaluations

The following table illustrates the scope of the revaluation work undertaken and demonstrates the Council's rolling revaluation programme.

	Investment Properties £000	Surplus Assets £000	Total £000
Valued at current value as at:			
31/03/2013	76,509	0	76,509
31/03/2012	12,154	0	12,154
31/03/2011	10,569	0	10,569
31/03/2010	12,561	0	12,561
31/03/2009	2,247	0	2,247
31/03/2008	170	0	170
Total Cost or Valuation	114,210	0	114,210

20 Capital Expenditure & Financing, Commitments and Changes in Estimates

a) Capital Expenditure and Financing

The total amount of capital expenditure incurred in the year is shown in the table below, together with the resources that have been used to finance it. Where capital expenditure is to be financed in future years by charges to revenue as assets are used by the Council, the expenditure results in an increase in the Capital Financing Requirement (CFR), a measure of the capital expenditure incurred historically by the Council that has yet to be financed. The CFR is analysed in the second part of this note.

2011/12 £000		2012/13 £000
3,527	Opening Capital Financing Requirement	3,425
	Capital Investment	
3,377	Property, Plant and Equipment	2,577
4,519	Investment Properties	791
2,170	Revenue Expenditure Funded from Capital Under Statute	1,587
10,066		4,955
	Sources of Finance	
(8,384)	Capital receipts	(3,157)
(1,632)	Government grants and other contributions	(1,798)
(50)	Reserves	0
(10,066)		(4,955)
(102)	Minimum Revenue Provision	(218)
0	Voluntary Contributions to Reduce the Capital Finance Requirement	(399)
3,425	Closing Capital Financing Requirement	2,808

NOTES TO THE CORE FINANCIAL STATEMENTS

b) Commitments Under Capital Contracts

At 31 March 2013 the Council had contractual commitments totalling £1.124 million (31 March 2012: £1.415 million) relating to the following capital schemes for which the Council has in place the necessary funding. The major commitments are:

Commitments 31 Mar 12 £000		Period over which expenditure will take place	Commitments 31 Mar 13 £000
607	Playing Fields and open spaces (Land & Buildings)	2013-14	298
149	Repairs to Council Buildings (Land & Buildings)	2013-14	300
0	Watford Cultural Quarter (Land & Buildings)	2013-14	217
125	Renovation Grants (Land & Buildings)	2013-14	0
379	Other Capital Projects (Investment Properties)	2013-14	186
155	Cardiff Road Health Campus (Investment Properties)	2013-14	123
1,415	Total		1,124

21 Leases

a) Council as Lessee

i) Operating Lease

The Council entered into a number of operating leases with three significant lease arrangements relating to operational land and buildings, vehicles and plant and equipment. The total amount paid under these arrangements in 2012/13 was £106,149 (2011/12: £104,632) as follows:

2011/12 £000		2012/13 £000
30	Operational Land and Buildings	30
75	Vehicles, Plant and Equipment	76
105	Total	106

NOTES TO THE CORE FINANCIAL STATEMENTS

The future minimum payments due under non-cancellable leases in future years are:

2011/12				2012/13		
Land & Buildings £000	Vehicles, Plant & Equipment £000	Total £000		Land & Buildings £000	Vehicles, Plant & Equipment £000	Total £000
0	19	19	Not later than one year Later than one year and not later than five years Later than five years	0	35	35
0	47	47		30	39	69
30	0	30		0	0	0
30	66	96	Total Liability	30	74	104

ii) Finance Leases

Vehicle Plant and Equipment includes vehicles and machinery that have been acquired in 2012/13 under finance leases for delivery of services at a fair value of £50,000 (2011/12: £154,000). The following table shows the values of assets held under finance by the Council accounted for under Vehicle Plant and Equipment:

2011/12 £000		2012/13 £000
Vehicles, Plant and Equipment		
527	Book value at 1 April	321
154	Additions	50
(360)	Depreciation	(92)
321	Book value at 31 March	279

The Council is committed to making minimum payments under the leases comprising settlement of the long-term liability for the interest in the property acquired by the Council and finance costs that will be payable by the Council in future years while the liability remains outstanding. The minimum lease payments are made up of the following amounts:

31 Mar 12 £000		31 Mar 13 £000
Finance lease liabilities (net present value of minimum lease payments):		
284	Annual Payments	181
70	Finance costs payable in future years	39
354	Minimum lease payments	220

NOTES TO THE CORE FINANCIAL STATEMENTS

The minimum lease payments will be payable over the following periods:

31 Mar 12 £000		31 Mar 13 £000
	Vehicles, Plant and Equipment	
4	Not later than one year	32
350	Later than one year and not later than five years	188
354	Total	220

The aggregate finance charges made under these finance leases during the year amounted to £32,890 (2011/12: £35,600). This amount has been charged to the Income & Expenditure Account as interest payable and similar charges.

b) Council as Lessor

i) Operating Leases

The Council leases out various investment property under operating leases. The gross value of assets which were held under operating leases was £111.731 million (31 March 2012: £105.381 million). The total rental received under these lease agreements and credited to services was £7.312 million (2011/12: £7.635 million).

ii) Finance Leases

The Council has leased out property on finance leases. The Council has a gross investment in the lease made up of minimum lease payments expected to be received over the remaining term and the residual value anticipated for the property when the lease comes to an end. The minimum lease payments compromise settlement of the long term debtor for the interest in the property acquired by the lessee and finance income that will be earned by the Council in future years whilst the debtor remains outstanding. The gross investment is made up of the following amounts:

2011/12 £000		2012/13 £000
340	Finance Lease Debtor - Long Term	425
340	Gross Investment in the Lease	425

NOTES TO THE CORE FINANCIAL STATEMENTS

22 Debtors - Long Term

Long-term debtors are debtors which fall due after a period of at least one year and are analysed as follows:

31 Mar 12 £000		31 Mar 13 £000
237	Watford Irish Association	0
12	Loan to YMCA	11
1,021	Rent to Mortgage	1,044
340	Finance Leases as Lessor	425
1,610		1,480
(237)	less: provision for bad debts / impairment	0
1,373	Total	1,480

23 Assets Held For Sale

Current Assets Held For Sale are those being actively marketed where there is an expectation that they will be sold within one year of the balance sheet date.

2011/12 Total £000		2012/13		
		Current £000	Long- Term £000	Total £000
	Cost or valuation			
0	At 1 April	885	0	885
194	Assets reclassified from operational land and buildings	0	0	0
885	Assets reclassified from surplus assets	0	0	0
(194)	Disposals	(885)	0	(885)
885	At 31 March	0	0	0

During the year, the two Assets Held For Sale, which were Callowland and Gammons Farm, were disposed of.

NOTES TO THE CORE FINANCIAL STATEMENTS

24 Inventories

The following inventories were held as at 31st March 2013:

31 Mar 12 £000		31 Mar 13 £000
5	Watford Museum (Saleable Items)	20
9	Printing Section (Paper, inks, etc.)	11
14	Fuel Stock	5
28	Total	36

There was no work-in-progress as at 31st March 2013.

25 Debtors - Short Term

An analysis of debtors falling due within one year is shown below:

31 Mar 12 £000		31 Mar 13 £000
1,990	Government Departments	3,396
2,937	Local Authorities	3,010
0	Public Corporations	1
6,691	Sundry Debtors	5,933
223	Payments in Advance	250
11,841		12,590
(4,309)	less: provision for bad debts / impairment	(4,310)
7,532	Total	8,280

NOTES TO THE CORE FINANCIAL STATEMENTS

26 Cash, Cash Equivalents and Short Term Borrowing

The balance of cash, cash equivalents and short term borrowing is made up of the following elements:

31 Mar 12 £000		31 Mar 13 £000
	Current Assets	
3	Cash held by the Council	4
719	Bank current accounts	421
722		425
	Current Liabilities	
(1,500)	Short term borrowing	(479)
(778)	Total	(54)

27 Adjustments to Net Surplus or Deficit on the Provision of Services for Non Cash Movements and Investing and Financing Activities

2011/12 £000 £000			2012/13 £000 £000	
		Adjustments for non-cash transactions		
(11,952)		Adjustments involving the Capital Adjustment Account and Revaluation Reserve	3,813	
(177)		Adjustments involving the Collection Fund Adjustment Account	29	
15		Adjustments involving the Accumulated Absences Reserve	22	
(630)		Net charges made for retirement benefits in accordance with IAS19	(829)	
(237)		Movement in Provisions	37	
	(12,981)			3,072
		Items on an accruals basis		
(12)		Increase / (Decrease) in Inventories	8	
(4,770)		Increase / (Decrease) in Debtors and Payments in Advance	748	
5,436		(Increase) / Decrease in Creditors and Receipts in Advance	(1,146)	
162		Other Accruals	(51)	
	816			(441)
		Investing and Financing Activities		
(63)		Interest payable and similar charges	(93)	
436		Interest receivable	412	
0		Adjustments involving Reserves	2,364	
1,640		Adjustments involving the Capital Receipts Reserve	1,147	
	2,013			3,830
	(10,152)	Total		6,461

NOTES TO THE CORE FINANCIAL STATEMENTS

28 Creditors - Short Term

An analysis of creditors falling due within one year is shown below:

31 Mar 12 £000		31 Mar 13 £000
383	Government Departments	617
782	Local Authorities	1,739
0	Public Corporations	15
3,612	Sundry Creditors	3,740
441	Receipts in Advance	253
5,218	Total	6,364

29 Creditors - Long Term

An analysis of creditors falling due in one year or more is shown below:

31 Mar 12 £000		31 Mar 13 £000
350	Deferred Liabilities (obligations under finance leases)	166
6,094	Government Grants and Other Contributions Unapplied	5,138
6,444	Total	5,304

30 Provisions

Provisions are accumulated funds held where the Council has an obligation which is likely to lead to a payment but the exact amount and timing of the payment is unknown.

31 Mar 12 £000		31 Mar 13 £000
0	Property Searches	100
0	Municipal Mutual Insurance	100
0	Total	200

Property Searches

The Council is a defendant in proceedings brought by a group of Property Search Companies for refunds of fees paid to the Council to access land charges data. In the current litigation the Council faces a claim of £130k plus interest and costs. A second group of Property Search Companies are also seeking to claim refunds although no proceedings have yet been issued. The second group of Property Search Companies have also intimated that they may bring a claim against all English and Welsh local authorities for alleged anti-competitive behaviour. It is not clear what the value of any such claim would be as against the Council. It is possible that additional claimants may come forward to submit claims for refunds, but none has been intimated at present.

Municipal Mutual Insurance

Under Watford Borough Council's agreement with its previous insurer Municipal Mutual Insurance (MMI), the Council is exposed to the possibility of having to repay all or part of its claims already settled, or to be settled, by MMI. At 31 March 2013 the Council was informed by MMI's administrators that the maximum potential repayment stood at £52,000. This figure represents 15% of the total amount of claims paid by MMI to 31 March 2013, less the first £50,000 which is excluded from any levy.

31 Defined Benefit Pension Scheme

Participation in Pension Scheme

As part of the terms and conditions of employment of its officers, the Council makes contributions towards the cost of post employment benefits. Although these benefits will not actually be payable until employees retire, the Council has a commitment to make the payments that need to be disclosed at the time that employees earn their future entitlement.

The Council participates in the Local Government Pension Scheme administered locally by Hertfordshire County Council. This is a funded defined benefit final salary scheme, meaning that the Council and employees pay contributions into a fund, calculated at a level intended to balance the pensions liabilities with investment assets.

Transactions relating to Retirement Benefits

The Council recognises the cost of retirement benefits in the reported cost of services when they are earned by employees, rather than when the benefits are eventually paid as pensions. However, the charge that is required to be made against council tax is based on the cash payable in the year, so the real cost of post employment / retirement benefits is reversed out of the General Fund via the Movement in Reserves Statement. The following transactions have been made in the Comprehensive Income and Expenditure Account and the General Fund Balance via the Movement in Reserves Statement during the year:

NOTES TO THE CORE FINANCIAL STATEMENTS

2011/12 £000		2012/13 £000
	Comprehensive Income and Expenditure Statement (CI&E)	
	<i>Cost of Services:</i>	
1,998	current service cost	2,158
22	past service costs	16
94	settlements and curtailments	0
	<i>Financing and Investment Income and Expenditure</i>	
7,001	interest cost	6,740
(5,687)	expected return on assets in the scheme	(4,576)
3,428	Total Post Employment Benefit Charged to the Surplus or Deficit on the Provision of Services	4,338
	Other Post Employment Benefit Charged to the CI&E	
12,965	actuarial gains and losses	8,019
16,393	Total Post Employment Benefit Charged to the CI&E	12,357
	Movement in Reserves Statement	
(16,393)	reversal of net charges made to the Surplus or Deficit for the Provision of Services for post employment benefits in accordance with the Code	(12,357)
2,877	employers' contributions payable to the scheme	3,509
2,877	Actual amount charged against the General Fund Balance for pensions in the year	3,509

The cumulative amount of actuarial gains and losses recognised in the Comprehensive Income and Expenditure Statement to the 31 March 2013 is a loss of £51.596 million (2011/12: £43.577 million).

Assets and Liabilities in relation to Post-employment Benefits

Reconciliation of present value of the scheme liabilities (defined benefit obligation):

2011/12 £000		2012/13 £000
128,931	Opening balance at 1 April	141,612
1,998	Current service costs	2,158
7,001	Interest cost	6,740
702	Contributions by scheme participants	687
9,002	Actuarial gains and losses	15,761
(6,138)	Benefits paid	(5,261)
22	Past service costs	16
94	Curtailments	0
141,612	Closing Balance at 31 March	161,713

NOTES TO THE CORE FINANCIAL STATEMENTS

Reconciliation of fair value of the scheme assets:

2011/12 £000		2012/13 £000
84,947	Opening balance at 1 April	84,113
5,690	Expected rate of return	4,576
(3,965)	Actuarial gains and losses	7,742
2,877	Employer Contributions	3,509
702	Contributions by scheme participants	687
(6,138)	Benefits paid	(5,261)
84,113	Closing Balance at 31 March	95,366

The expected return on scheme assets is determined by considering the expected returns available on the assets underlying the current investment policy. Expected yields on fixed interest investments are based on gross redemption yields as at the Balance Sheet date. Expected returns on equity investments reflect long-term real rates of return experiences in the respective markets.

The actual return on scheme assets in the year was £12.330 million (2011/12: £1.738 million).

Scheme History

31 Mar 09 £000	31 Mar 10 £000	31 Mar 11 £000	31 Mar 12 £000		31 Mar 13 £000
(102,500)	(160,963)	(128,930)	(141,612)	Present value of liabilities in the Local Government Pension Scheme	(161,713)
64,262	82,269	84,947	84,113	Fair value of assets in the Local Government Pension Scheme	95,366
(38,238)	(78,694)	(43,983)	(57,499)	Surplus / (deficit) in the scheme	(66,347)

The liabilities show the underlying commitments that the Council has in the long run to pay post employment (retirement) benefits. The total liability of £66.347 million (2011/12: £57.499 million) has a substantial impact on the net worth of the Council as recorded in the Balance Sheet. However, statutory arrangements for funding the deficit mean that the financial position of the Council remains healthy.

The deficit on the local government scheme will be made good by increased contributions over the remaining working life of employees (i.e. before payment fall due), as assessed by the scheme actuary.

The total contributions expected to be made to the Local Government Pension Scheme by the council in the year to 31 March 2014 is £2.721 million.

NOTES TO THE CORE FINANCIAL STATEMENTS

Basis for Estimating Assets and Liabilities

Liabilities have been assessed on an actuarial basis using the projected unit method, an estimate of the pensions that will be payable in future years dependent on assumptions about mortality rates, salary levels, etc. The Local Government Pension Scheme and Discretionary Benefits liabilities have been assessed by Hymans Robertson LLP, an independent firm of actuaries, estimates for the County Council Fund being based on the latest full valuation of the scheme as at 1 April 2010.

The principal assumptions used by the actuary were:

31 Mar 12		31 Mar 13
4.8%	Rate of increase in salaries	5.1%
2.5%	Rate of increase in pensions	2.8%
4.8%	Rate for discounting scheme liabilities	4.5%
5.5%	Expected Return on Assets	4.5%
50%	Take-up option to convert annual pension into retirement lump sum	50%
	Mortality Assumptions	
	Longevity at 65 for current pensioners	
21.0	• Men	21.0
23.8	• Women	23.8
	Longevity at 65 for future pensioners	
22.9	• Men	22.9
25.7	• Women	25.7

31 Mar 12 %		31 Mar 13 %
	Long-term expected rate of return on assets	
6.2	Equity investments	4.5
4.0	Bonds	4.5
4.4	Property	4.5
3.5	Cash	4.5

NOTES TO THE CORE FINANCIAL STATEMENTS

The Scheme's assets consist of the following categories, by proportion of the total assets held:

31 Mar 12 %		31 Mar 13 %
69	Investments	71
18	Bonds	18
6	Property	5
7	Other Assets	6
100		100

History of experience Gains and Losses

The actuarial gains identified as movements on the Pensions Reserve in 2012/13 can be analysed into the following categories, measured as a percentage of assets or liabilities at 31 March 2012:

31 Mar 09 %	31 Mar 10 %	31 Mar 11 %	31 Mar 12 %		31 Mar 13 %
(39.7)	13.4	1.8	7.8	Difference between the expected and actual returns on assets	(7.0)
(16.2)	(33.6)	17.5	(6.4)	Experience gains and losses on liabilities	(9.7)

32 Contingent Assets and Liabilities

Contingent Asset - VAT Shelter Agreement with Watford Community Housing Trust

Watford Borough Council employed a VAT structure scheme when the Council's housing stock was transferred to the Watford Community Housing Trust (WCHT). The scheme involves the Council contracting with WCHT for the Trust to deliver works and this enabled the WCHT to recover VAT on those future major works. Both the WCHT and the Council gain by these arrangements. The recovery of VAT on major works will amount to an estimated £18 million, of which the first £1.1 million was paid to Watford Borough Council along with 50% of the remaining £16.9 million. The rate at which this sum is received will depend on the WCHT work programme. However, £0.515 million was received during 2012/13 (2011/12: £1.456 million) leaving a contingent asset of approximately £4.309 million (2011/12: £4.824 million) which will be received in the future.

NOTES TO THE CORE FINANCIAL STATEMENTS

33 Usable Reserves

a) Movement in Usable Reserves

Details of the movements relating to individual usable reserves are shown below:

Balance at 31 Mar 12 £000	Reserve	Net Movement in year £000	Balance at 31 Mar 13 £000	Further Detail Note
12,872	Capital Receipts Reserve	(626)	12,246	33b
13,306	Earmarked Reserves	469	13,775	33c
1,350	General Fund Balance	0	1,350	33d
27,528	Total Net Worth	(157)	27,371	

b) Capital Receipts Reserve

The Usable Capital Receipts Reserve holds capital receipts from the sale of assets which have been received and have not yet been used to finance capital expenditure. The balance on the Reserve is restricted by statute from being used other than to fund future years' expenditure in the approved capital budget or set aside to finance historical capital expenditure.

2011/12 £000		2012/13 £000
19,413	Balance brought forward at 1 April	12,872
	Received in year	
6	Loan repayments	5
194	Proceeds from sale of long-term assets	1,384
1,643	Receipts not related to asset sales	1,142
1,843		2,531
	Applied in year	
(8,384)	Transferred to Capital Adjustment Account to finance new capital expenditure	(3,157)
12,872	Balance carried forward at 31 March	12,246

NOTES TO THE CORE FINANCIAL STATEMENTS

c) Earmarked Reserves

Earmarked Reserves result from events which have allowed funds to be set aside, surpluses generated from trading undertakings, or decisions causing anticipated expenditure to have been postponed or cancelled.

For each Reserve established the Council identifies:

- the reason/purpose of the reserve
- how and when the reserve can be used
- procedures for the management and control of the reserve
- a process and timescale for review to ensure continuing relevance and adequacy

Balance at 31 Mar 12 £000		Appropriations to Reserve £000	Appropriations from Reserve £000	Balance at 31 Mar 13 £000
85	Area Based Grant Reserve	0	0	85
301	Budget Carry Forward Reserve	235	(302)	234
1,896	Capital Fund Reserve	287	0	2,183
575	Car Parking Zones Reserve	58	(36)	597
476	Charter Place Tenants Reserve	6	(102)	380
49	Climate Change Reserve	0	(12)	37
1,310	Development Sites Decontamination Reserve	0	0	1,310
1,537	Economic Impact Reserve	616	(287)	1,866
0	High Street Innovation	100	0	100
113	Homelessness Prevention Reserve	0	0	113
996	Housing Benefit Subsidy Reserve	0	0	996
301	Housing Planning Delivery Grant Reserve	0	0	301
100	Insurance Fund Reserve	0	(100)	0
1,420	Invest to Save Reserve	0	(165)	1,255
641	LA Business Growth Incentive Reserve	0	(28)	613
12	Le Marie Centre Repairs Reserve	0	0	12
423	Leisure Structured Maintenance Reserve	0	0	423
313	Local Development Framework Reserve	0	(80)	233
183	Multi-Storey Car Park Repair Reserve	0	(2)	181
542	New Homes Bonus Reserve	0	0	542
1,375	Pension Funding Reserve	0	0	1,375
0	Performance Reward Grant Reserve (Capital)	191	0	191
120	Performance Reward Grant Reserve (Revenue)	0	(60)	60
13	Recycling Reserve	0	0	13
100	Rent Deposit Guarantee Scheme Reserve	0	0	100
425	Vehicle Replacement Reserve	150	0	575
13,306	Total	1,643	(1,174)	13,775

NOTES TO THE CORE FINANCIAL STATEMENTS

Details of the purpose of each current earmarked reserve are set out below:

Reserve	Purpose
Area Based Grant Reserve	This grant was received to encourage initiatives relating to preventing violent extremism and anti social behaviour.
Budget Carry Forward Reserve	This reserve has been created to 'carry forward' unspent revenue budgets for use in the proceeding financial year.
Capital Fund Reserve	To provide for funding of key capital projects.
Car Parking Zone Reserve	This is a statutory ring-fenced reserve, for future controlled parking related costs.
Charter Place Tenants Reserve	Tenants' contributions to meet major works.
Climate Change Reserve	To fund energy saving initiatives to reduce energy consumption.
Development Sites Decontamination Reserve	To provide for the costs of any decontamination of development sites for which the Council may have liability.
Economic Impact Reserve	To provide resources to offset the impact of the potential downturn of the economy and consequent potential overspends to the Council's budget.
High Street Innovation	To assist with regeneration of Town Centres.
Homelessness Prevention Reserve	To assist with homelessness among young people.
Housing Benefit Subsidy Reserve	This reserve has been created to meet any subsidy clawback by DWP.
Housing Planning Delivery Grant Reserve	This grant was introduced to reward authorities for improved delivery of housing and other planning outcomes.
Insurance Fund Reserve	To provide for unforeseen uninsured losses.
Invest to Save Reserve	To support schemes where initial expenditure will produce longer term savings.
LA Business Growth Incentive Reserve	Government grant received in respect of business rate growth.
Le Marie Centre Repairs Reserve	To help meet the Council's obligation as landlord.
Leisure Structural Maintenance Reserve	To fund future structural maintenance needs not covered within the existing Leisure services contract.
Local Development Framework Reserve	To help fund the costs of the production of the Local Development Plan.
Multi Storey Car Park Repair Reserve	To provide funds towards major structural works.
New Homes Bonus Reserve	Government grant received in respect of new homes built.
Pension Funding Reserve	To meet one off pension costs and redundancy programme.
Performance Reward Grant Reserve	This is grant allocated for use in conjunction with the LSP, based on the achievement of performance targets.
Recycling Reserve	This reserve will help to 'smooth out' fluctuations in recycling income in future years.
Rent Deposit Guarantee Scheme Reserve	To assist in the provision of homelessness accommodation.
Vehicle Replacement Reserve	To provide for the replacement of the Council's refuse freighters.

NOTES TO THE CORE FINANCIAL STATEMENTS

d) General Fund Balance

The General Fund balance are resources available to meet future running costs. The unallocated accumulated balances on the General Fund is set out below:

2011/12 £000		2012/13 £000
1,350	Balance brought forward at 1 April	1,350
1,702	Net increase/(decrease) before transfers to earmarked reserves	469
(1,702)	Transfer (to)/from earmarked reserves	(469)
1,350	Balance carried forward at 31 March	1,350

34 Unusable Reserves

a) Movement in Unusable Reserves

Details of the movements relating to individual unusable reserves are shown below:

Balance at 31 Mar 12 £000	Reserve	Net Movement in year £000	Balance at 31 Mar 13 £000	Further Detail Note
(111)	Accumulated Absences Reserve	22	(89)	34b
144,644	Capital Adjustment Account	6,833	151,477	34c
2	Collection Fund Account	29	31	34d
(450)	Deferred Capital Payments	156	(294)	34e
2,572	Deferred Capital Receipts	(1,017)	1,555	34f
(76)	Financial Instruments Account	1	(75)	34g
(57,499)	Pensions Reserve	(8,848)	(66,347)	31
10,576	Revaluation Reserve	19	10,595	34i
99,658	Total Net Worth	(2,805)	96,853	

NOTES TO THE CORE FINANCIAL STATEMENTS

b) Accumulated Absences Reserve

The Accumulated Absences Reserve absorbs the differences that would otherwise arise on the General Fund Balance from accruing for compensated absences earned but not taken in the year, e.g. annual leave entitlement carried forward at 31 March. Statutory arrangements require that the impact on the General Fund Balance is neutralised by transfers to or from this Reserve.

2011/12 £000		2012/13 £000
(126)	Balance brought forward at 1 April	(111)
15	Employee costs accrued	22
(111)	Balance carried forward at 31 March	(89)

c) Capital Adjustment Account

The Capital Adjustment Account absorbs the timing differences arising from different arrangements for accounting for the consumption of long-term assets and for financing the acquisition, construction or enhancements of those assets under statutory provisions. The Account is debited with the cost of acquisition, construction or enhancement of property, plant and equipment and credited with the amounts set aside by the Council as finance for the costs of acquisition, construction and enhancement of these assets.

2011/12 £000		2012/13 £000
149,139	Balance brought forward at 1 April	144,644
	Reversal of items relating to capital expenditure debited or credited to the CI&E Statement:	
(2,102)	Charges for depreciation and impairment of long-term assets	(2,301)
(9,770)	Revaluation gains / (losses) on Long-term Assets	5,308
(2,170)	Revenue Expenditure Funded from Capital under Statute	(1,587)
(14,042)		1,420
	Capital financing applied in the year:	
8,384	Capital Receipts Reserve	3,157
1,632	Government Grants and Other Contributions	1,798
50	Reserves	0
366	Voluntary revenue contribution for capital financing	458
10,432		5,413
(885)	Transfer to Deferred Capital Receipts relating to Assets Held For Sale	0
144,644	Balance carried forward at 31 March	151,477

The credit balance on the Account shows that capital financing has been set aside at a faster rate than long-term assets have been consumed, and the Council has a nominal surplus when comparing financing to consumption of resources.

NOTES TO THE CORE FINANCIAL STATEMENTS

d) Collection Fund Adjustment Account

The Collection Fund Adjustment Account manages the differences arising from the recognition of council tax income in the Comprehensive Income and Expenditure Statement as it falls due from council tax payers compared with the statutory arrangements for paying amounts between the General Fund from the Collection Fund. For further details see the Collection Fund Notes within the supplementary financial statements.

2011/12 £000		2012/13 £000
178	Balance brought forward at 1 April	2
(176)	Amount by which council tax income credited to CI&E is different from the council tax income calculated for the year in accordance with statutory requirements	29
2	Balance carried forward at 31 March	31

e) Deferred Capital Payments

Deferred capital payments are amounts representing capital payments from the purchase of long-term assets that will be paid by the Council in instalments over an agreed number of years.

2011/12 £000		2012/13 £000
(187)	Balance brought forward at 1 April	(450)
(313)	Deferred capital payments adjustment	0
50	Deferred capital payments relating to finance leases payments	156
(450)	Balance carried forward at 31 March	(294)

f) Deferred Capital Receipts

Deferred capital receipts are amounts representing capital receipts from the sale of long-term assets that will be repaid to the Council in instalments over an agreed number of years. They have arisen from mortgage advances to community groups including the Watford and District Irish Association, which forms part of the mortgages under long term debtors. In addition, equity interest in the rent to mortgage scheme is included in the total deferred credit and amounts to £1.044 million (2011/12: £1.021 million).

2011/12 £000		2012/13 £000
1,738	Balance brought forward at 1 April	2,572
(51)	Deferred capital receipts adjustments	(887)
885	Transfer from the Capital Adjustment Account relating to Assets Held For Sale	(130)
2,572	Balance carried forward at 31 March	1,555

NOTES TO THE CORE FINANCIAL STATEMENTS

g) Financial Instruments Adjustment Account

The Financial Instruments Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for income and expenses relating to certain financial instruments and for bearing losses or benefiting from gains per statutory provisions.

2011/12 £000		2012/13 £000
(77)	Balance brought forward at 1 April	(76)
1	Financing costs written out	1
(76)	Balance carried forward at 31 March	(75)

h) Pension Reserve

The Pension Reserve absorbs the timing differences arising from the different arrangements for accounting for post-employments benefits and for funding benefits in accordance with statutory provisions. For further details see Note 31.

i) Revaluation Reserve

The Revaluation Reserve contains the gains made by the Council arising from increases in the value of its Property, Plant and Equipment. The Balance is reduced when assets with accumulated gains are:

- revalued downwards or impaired and the gains are lost
- used in the provision of services and the gains are consumed through depreciation
- disposed of and the gains are realised

The Reserve contains only revaluation gains accumulated since 1 April 2007, the date that the Reserve was created. Accumulated gains arising before that date are consolidated into the balance on the Capital Adjustment Account.

2011/12 £000		2012/13 £000
9,136	Balance brought forward at 1 April	10,576
1,287	Gains / (Losses) on revaluation of long-term assets	228
(212)	Historical Cost depreciation adjustment	(209)
365	Heritage Asset Revaluations	0
10,576	Balance carried forward at 31 March	10,595

NOTES TO THE CORE FINANCIAL STATEMENTS

35 Disclosure of Nature and Extent of Risk Arising from Financial Instruments

Financial Instruments - Balances

The Balance Sheet includes the following financial instruments:

31 Mar 12 £000		31 Mar 13 £000
	Long Term Liabilities	
(6,094)	Government Grants & Other Contributions Unapplied	(5,138)
(350)	Deferred Liabilities	(166)
	Current Liabilities	
(5,218)	Short Term Creditors	(6,364)
	Long Term Assets	
1,373	Long Term Debtors	1,480
	Current Assets	
7,532	Short Term Debtors	8,280
29,112	Short Term Investments	28,111
26,355	Total	26,203

Fair Value

Long term debtors comprise mortgages and finance leases. Short term creditors and debtors arise from charges to and from the Council for goods and services, and short term investments are those made in cash for less than twelve months. These instruments are carried on the balance sheet at cash value, which represents their fair value. The Council is debt free and has no long term borrowings.

The Council has a 125 year loan to the Y.M.C.A. in respect of accommodation at less than market rate (soft loan). The interest foregone over the life of the loan is recognised in the Financial Instruments Adjustment Account on the Balance Sheet. Interest of £717 (2011/12: £766) is recorded as a gain in the Comprehensive Income and Expenditure Account and reflected as a reduction in the Financial Instruments Adjustment Account.

Key Risks

The Council's activities expose it to a variety of financial risks. The key risks are:

- **Credit risk** the possibility that other parties might fail to pay amounts due to the Council
- **Liquidity risk** the possibility that the Council might not have funds available to meet its commitments to make payments
- **Re-financing risk** the possibility that the Council might be requiring to renew a financial instrument at disadvantageous interest rates or terms
- **Market risk** the possibility that financial loss might arise for the Council as a result of changes in such measures as interest rates movements

NOTES TO THE CORE FINANCIAL STATEMENTS

Overall procedures for managing risk

The Council's overall risk management procedures focus on the unpredictability of financial markets, and are structured to implement suitable controls to minimise these risks. The procedures for risk management are set out through a legal framework in the *Local Government Act 2003* and associated regulations. These require the Council to comply with the CIPFA Prudential Code, the CIPFA Code of Practice on Treasury Management in the Public Services and Investment Guidance issued through the Act. Overall, these procedures require the Council to manage risk in the following ways:

- by formally adopting the requirements of the CIPFA Treasury Management Code of Practice
- by the adoption of a Treasury Policy Statement and treasury management clauses within its financial regulations/standing orders/constitution
- by approving annually in advance prudential and treasury indicators for the following three years limiting:
 - the Council's overall borrowing
 - its maximum and minimum exposures to fixed and variable rates
 - its maximum and minimum exposures to the maturity structure of its debt
 - its maximum annual exposures to investments maturing beyond a year
- by approving an investment strategy for the forthcoming year setting out its criteria for both investing and selecting investment counterparties in compliance with the Government Guidance

These are required to be reported and approved at or before the annual meeting where the Council agrees its budget and sets the council tax, or before the start of the year to which they relate. These items are reported with the annual treasury management strategy which outlines the detailed approach to managing risk in relation to the Council's financial instrument exposure. Actual performance is also reported after each year, as is a mid-year update.

The annual treasury management strategy which incorporates the prudential indicators was approved by the Audit Committee on 20th March 2012 and is available on the Council website. The key issues within the strategy were:

- the Authorised Limit for 2012/13 was set at £10 million (2011/12: £7 million). This is the maximum limit of external borrowings or other long term liabilities
- the Operational Boundary was expected to be £7 million (2011/12: £5 million). This is the expected level of debt and other long term liabilities during the year

These policies are implemented by a central treasury team. The Council maintains written principles for overall risk management, as well as written policies (Treasury Management Practices – TMPs) covering specific areas, such as interest rate risk, credit risk, and the investment of surplus cash. These TMPs are a requirement of the Code of Practice and are reviewed periodically.

Credit risk

Credit risk arises from deposits with banks and financial institutions, as well as credit exposures to the Council's customers.

This risk is minimised through the Annual Investment Strategy, which requires that deposits are not made with financial institutions unless they meet identified minimum credit criteria, in accordance with the Fitch, Moody's and Standard & Poors Credit Ratings Services. The Annual Investment Strategy also considers maximum amounts and time limits in respect of each financial institution. Deposits are not made with banks and financial institutions unless they meet the minimum requirements of the investment criteria outlined above. Details of the Investment Strategy for 2012/13, which was approved by the Audit Committee on 14 March 2012, can be found on the Council's website.

NOTES TO THE CORE FINANCIAL STATEMENTS

The Council's maximum exposure to credit risk in relation to its investments in banks and building societies cannot be assessed generally as the risk of any institution failing to make interest payments or repay the principal sum will be specific to each individual institution. Recent experience has shown that it is rare for such entities to be unable to meet their commitments. A risk of irrecoverability applies to all of the Council's deposits, but there was no evidence at the 31 March 2013 that this was likely to crystallise.

No breaches of the Council's counterparty criteria occurred during the reporting period and the Council does not expect any losses from non-performance by any of its counterparties in relation to deposits.

Customers for goods and services are assessed, taking into account their financial position, past experience and other factors, and individual credit limits are set where appropriate.

Liquidity risk

The Council manages its liquidity position through the risk management procedures above (the setting and approval of prudential indicators and the approval of the treasury and investment strategy reports), as well as through a comprehensive cash flow management system, as required by the CIPFA Code of Practice. This seeks to ensure that cash is available when needed.

The Council has ready access to borrowings from the money markets to cover any day to day cash flow need. It currently has no longer term borrowing requirements. The Council is also required to provide a balanced budget through the Local Government Finance Act 1992, which ensures sufficient monies are raised to cover annual expenditure. There is therefore no significant risk that it will be unable to raise finance to meet its commitments under financial instruments.

The Council does not generally allow credit for its trade debtors, such that £0.098 million (2011/12: £0.420 million) of the £5.934 million (2011/12: £6.691 million) balance is past its due date for payment. The past due amount can be analysed by age as follows:

31 Mar 12 £000		31 Mar 13 £000
250	Less than 3 months	35
10	More than 3 months, less than 1 year	(80)
160	More than 1 year	143
420	Total	98

Refinancing and Maturity risk

The approved treasury indicator limits for the maturity structure of debt and the limits placed on investments placed for greater than one year in duration are the key parameters used to address this risk. The Council's approved treasury and investment strategies address the main risks and the central treasury team address the operational risks within the approved parameters. This includes monitoring the maturity profile of investments to ensure sufficient liquidity is available for the Council's day to day cash flow needs, and the spread of longer term investments provide stability of maturities and returns in relation to the longer term cash flow needs.

NOTES TO THE CORE FINANCIAL STATEMENTS

The Council maintains a significant investment portfolio and currently has no long-term debt outstanding. The longer-term risk to the Council relates to managing the exposure to replacing its investments as they mature.

The maturity analysis of the Council's investments at 31 March 2013 is as follows:-

31 Mar 12 £000		31 Mar 13 £000
29,112	Less than 1 year	28,111
29,112	Total	28,111

Market Risk

Interest Rate Risk

The Council's cash investments are exposed to interest rate movements. For instance, a rise in variable and fixed interest rates would have the effect of increasing the income credited to the Comprehensive Income and Expenditure Statement.

The Council has a number of strategies for managing interest rate risk. The Annual Treasury Management Strategy draws together the Council's prudential and treasury indicators and its expected treasury operations, including an expectation of interest rate movements. From this Strategy a treasury indicator is set which provides maximum limits for fixed and variable interest rate exposure. The central treasury team will monitor market and forecast interest rates within the year to adjust exposures appropriately. For instance during periods of falling interest rates, and where economic circumstances make it favourable, fixed rate investments may be taken for longer periods to secure better long term returns.

If all interest rates had been 1% higher (with all other variables held constant) the financial effect would be:

2011/12 £000		2012/13 £000
305	Increase in interest receivable on investments with consequential change in Income and Expenditure Account	286

The approximate impact of a 1% fall in interest rates would be as above but with the movements being reversed.

Price Risk

The Council has no shareholdings that might expose it to this kind of risk.

Foreign Exchange Risk

The Council has no financial assets or liabilities denominated in foreign currencies and thus has no exposure to loss arising from movements in exchange rates.

COLLECTION FUND

2011/12 £000		Note	2012/13 £000 £000	
	Income			
44,361	Council Tax Payers	CF1	45,144	
6,450	Transfers from the General Fund - Council Tax Benefit	CF1	6,132	
62,504	Business Rate Payers	CF2	63,481	
113,315	Total Income			114,757
	Expenditure			
49,697	Precepts and Demands	CF3	50,128	
	Business Rates			
62,336	Payments to National Pool	CF2	63,314	
168	Cost of Collection		167	
	Bad and Doubtful Debts	CF4		
316	Write-offs		19	
788	Increase in Provision		950	
1,082	Distribution of Previous Year's Surplus		0	
114,387	Total Expenditure			114,578
1,072	(Increase) / Decrease in Collection Fund Balance			(179)
(1,082)	Fund Balance - (Surplus) / Deficit at 1 April			(10)
(10)	Fund Balance - (Surplus) / Deficit at 31 March	CF4		(189)

This account reflects the statutory requirement for the Council, as the billing authority, to maintain a separate Collection Fund. It shows transactions in relation to Non-Domestic Rates and Council Tax and illustrates the way in which these have been distributed to the Government and local authorities.

NOTES TO THE COLLECTION FUND

CF1 Council Tax Payers

The charge for council tax is based on the total number of dwellings in each of eight bands at 1 April 1991 valuations. This is adjusted for dwellings where discounts, exemptions or disabled relief applies and is converted into an "equivalent number of Band D dwellings" where bands below Band D will pay proportionately less than dwellings in higher bands. A further adjustment is made for losses on collection. The table below sets out the calculation of the Council Tax Base for 2012/13.

2011/12 Equivalent Number of Band D Dwellings	Valuation Band	Total Number of Dwellings in Band	Discounts, Exemptions & Disabled Relief	Total Chargeable Dwellings	Conversion Faction (Proportion)	2012/13 Equivalent Number of Band D Dwellings
153.80	A	279	(48.25)	230.75	6/9	153.80
2,473.10	B	3,834	(663.75)	3,170.25	7/9	2,481.30
10,450.70	C	13,472	(1,559.50)	11,912.50	8/9	10,588.90
10,863.00	D	11,998	(1,028.25)	10,969.75	9/9	10,969.80
3,915.40	E	3,460	(250.25)	3,209.75	11/9	3,923.00
2,788.90	F	2,076	(128.25)	1,947.75	13/9	2,813.40
2,827.50	G	1,810	(104.75)	1,705.25	15/9	2,842.10
139.00	H	77	(11.50)	65.50	18/9	131.00
33,611.40 (840.00)		37,006	(3,794.50)	33,231.50		33,903.30 (847.60)
32,771.40	Less: Allowance for losses on collection					33,054.70
734.00	Tax Base for Calculation of Council Tax					758.00
	Add: Adjustment for changes during the year for successful appeals against valuation bandings, new properties, demolitions, disabled persons'					758.00
33,505.40	Council Tax Base for the Year					33,812.70

Each year, the Council needs to collect enough money from local residents to cover the cost of the services it provides which is not funded by government grants and charges for services. It also collects charges for Hertfordshire County Council and the Hertfordshire Police. The total is divided by the tax base for the purposes of calculating the council tax to arrive at an average Band D tax per dwelling. The Council set an average council tax charge for Band D dwellings of £1,516.49 (2011/12: £1,516.49, no change).

Specific reductions in charges - council tax benefits - were made in accordance with government regulations for persons on lower incomes. This reduced the gross amount of council tax due from council tax payers (derived from multiplying the council tax base for the year by the average Band D charge) as follows:

2011/12 £000		2012/13 £000
50,811	Gross Council Tax Charge	51,276
(6,450)	Less: Council Tax Benefits	(6,132)
44,361	Income from Council Tax Payers	45,144

NOTES TO THE COLLECTION FUND

CF2 Business Rate Payers

In line with the Local Government Act 2003, from 1 April 2005, all business premises are subject to a tax known as National Non-Domestic Rates (NNDR). The tax is calculated using local rateable values which are then multiplied by a uniform rate.

The Council was responsible for collecting the total amount of NNDR payable, less certain reliefs and other deductions, and paying this into a national pool managed by central government who then re-distributed the pool back to local authorities based on a standard amount per head of the local adult population.

The relevant rateable value and multiplier data is shown below:

2011/12 £ / p		2012/13 £ / p
£164,469,825	Total Non-domestic Rateable Value at 31 March	£161,536,315
43.3	National Non-domestic Rate Multiplier - Standard	45.8
42.6	National Non-domestic Rate Multiplier - Small Business	45.0

Small Business Rate Relief came into effect on 1 April 2005. It is generally available to ratepayers who have only one business property with a rateable value of less than £18,000.

CF3 Precepts and Demands

The breakdown of precepts and demands on the Collection Fund are detailed below:

2011/12 £000		2012/13 £000
36,665	Precepts: Hertfordshire County Council	36,983
4,844	Hertfordshire Police	4,887
8,188	Demand: Watford Borough Council	8,258
49,697	Total	50,128

NOTES TO THE COLLECTION FUND

CF4 Distribution of Balances

Based on the precepts and demands made in 2012/13, balances relating to the collection fund have been apportioned between the local authorities and are reflected on their balance sheets as follows:

2011/12 Total £000		Herts County Council £000	Herts Police £000	Watford Borough Council £000	2012/13 Total £000
4,564	Gross Arrears	3,781	499	844	5,124
(836)	Less: Prepayments	(532)	(70)	(119)	(721)
3,728	Net Arrears	3,249	429	725	4,403
2,588	Provision for Doubtful Debts	2,610	345	583	3,538
(10)	Collection Fund Balance (Surplus)	(140)	(18)	(31)	(189)

The surplus on the Collection Fund is distributed in the subsequent year as an adjustment to the council tax charge.

GLOSSARY OF TERMS AND ABBREVIATIONS

Accounting Period

The period of time covered by the accounts, normally a period of 12 months commencing on 1 April. The end of the accounting period is the Balance Sheet date.

Accruals

Sums included in the final accounts of the Council to cover income or expenditure attributable to the accounting period for which payment has not been received/made in the financial year. Local authorities accrue for both revenue and capital expenditure.

Amortisation

The term used to refer to the charging of the value of a transaction or asset (usually related to intangible Long Term Assets) to the Income and Expenditure Account over a period of time, reflecting the value to the Council; similar to the depreciation charge for tangible Long Term Assets.

Billing Authority

A local authority responsible for collecting Council Tax and National Non-Domestic Rates.

Capital Expenditure

Spending which produces or enhances an asset, like land, buildings, roads, vehicles, plant and machinery, and intangible assets such as computer software. Definitions are set out in Section 40 of the Local Government and Housing Act 1989. Any expenditure which does not fall within the definition must be charged to a revenue account.

Capital Receipts

The proceeds from the sale of Long Term Assets such as land and buildings. Capital receipts can be used to repay any outstanding debt on Long Term Assets or to finance new capital expenditure, within rules set down by government. Capital receipts cannot, however, be used to finance revenue expenditure.

Chartered Institute of Public Finance and Accountancy (CIPFA)

The professional accountancy body concerned with local authorities and the public sector.

Code of Practice on Local Authority Accounting in the United Kingdom (the Code)

The annual Code of Practice, produced by CIPFA, which specifies the principles and practices of accounting required to give a 'true and fair' view of the financial position and transactions of a Local Authority.

Collection Fund

The Collection Fund is a statutory fund set up under the provisions of the Local Government Finance Act 1988. It includes the transactions of the charging Authority in relation to Non-Domestic Rates and Council Tax, and illustrates the way in which the fund balance is distributed to preceptors and the General Fund.

Contingent Assets/Liabilities

Potential gains and losses for which a future event will establish whether a liability exists and for which it is inappropriate to set up a debtor or provision in the accounts.

Depreciation

The measure of the wearing out, consumption or other reduction in the useful life of a Long Term Asset.

GLOSSARY OF TERMS AND ABBREVIATIONS

Earmarked Reserves

These are funds set aside for a specific purpose, or a particular service, or type of expenditure.

Finance Lease

Arrangement whereby the lessee is treated as the owner of the leased asset, and is required to include such assets within Long Term Assets on the balance sheet.

Financial Reporting Standard (FRS)

A statement of accounting practice issued by the Accounting Standards Board.

Group Accounts

Group Accounts are prepared using consistent accounting policies which will require authorities to align their financial statements more closely with International Financial Reporting Standards.

Watford Borough Council has not used acquisitions or mergers accounting methodologies following consideration of the level of involvement with companies, voluntary organisations and other public bodies to determine if there is a requirement to undertake group accounts. There are no subsidiaries, associates or joint ventures.

Heritage Assets

Heritage Assets are held with the objective of increasing knowledge, understanding and the appreciation of the Council's history and local area.

IFRS

International Financial Reporting Standards.

Investment Property

Investment properties are those that are used solely to earn rentals and/or for capital appreciation. The definition is not met if the property is used in any way to facilitate the delivery of services or production of goods or is held for sale.

Investments

Deposits for with approved institutions.

Infrastructure Assets

Expenditure on works of construction or improvement but which have no tangible value, such as construction of, or improvement to, highways.

Long Term Assets – Tangible

Tangible assets (i.e. land and buildings) that yield benefits to the Council and the services it provides for a period of more than one year.

Long Term Assets – Intangible

Assets which are of benefit to the organisation, but have no physical presence such as software licences.

Long Term Debtors

Amounts due to the Council more than one year after the Balance Sheet date.

GLOSSARY OF TERMS AND ABBREVIATIONS

National Non-Domestic Rates (NNDR)

Under the arrangements for uniform business rates, which came into effect on 1 April 1990, the Council collected Non-Domestic Rates for its area based on local rateable values, multiplied by nationally set rates. The total amount, less certain reliefs and deductions, was paid to a central pool managed by the Government, which in turn, paid back to Authorities their share of the pool based on a standard amount per head of the local adult population.

New arrangements for the distribution of NNDR came into force on 1 April 2013.

Operational Assets

Long Term Assets held by the Council and used or consumed in the delivery of its services.

Operating Lease

An arrangement whereby the risks and rewards of ownership of the leased asset remain with the leasing company.

Pension Fund

An employees' pension fund maintained by an authority, or a group of authorities, in order primarily to make pension payments on retirement of participants. It is financed from contributions from the employing authority, the employee and investment income.

Precept

The amount by which a Precepting Authority (e.g. a County Council) requires from a Billing Authority (e.g. a District Council) to meet its expenditure requirements.

Profit on the Sale of Long Term Assets

The book value of an asset sold is compared to the net proceeds to calculate the profit or loss on the transaction.

Provisions

Sums set aside to meet future expenditure where a specific liability is known to exist but cannot be measured accurately.

Revenue Expenditure Funded From Capital Under Statute

Capital expenditure which is allowable by statute to be funded from capital resources but which does not fall within the Code of Practice definition of Long Term Assets. Examples include grants and similar advances made to other parties to finance capital investment.

Revenue Support Grant

This funding is a Government Grant provided by the Department for Communities and Local Government (DCLG), which is based on the Government's assessment as to what should be spent on local services. The amount provided by the DCLG is fixed at the beginning of each financial year.

Surplus Assets

Long Term Assets held by an organisation but not directly occupied, used or consumed in the delivery of services, or held as an investment.

INDEPENDENT AUDITORS' REPORT AND CERTIFICATE

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