

Three Rivers & Watford Shared Services Joint Committee

Annual Report to Those Charged With Governance (ISA 260)

12 September 2011



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1. Executive summary

Purpose of this report

This report has been prepared for the benefit of discussion between Grant Thornton UK LLP and the [Committee] of [Three Rivers & Watford Shared Services Joint Committee] (the Joint Committee). The purpose of this report is to highlight the key issues arising from the Joint Committee's financial statements for the year ending 31 March 2011.

This report meets the mandatory requirements of International Standard on Auditing 260 (ISA 260) to report the outcome of the audit to 'those charged with governance', designated as the Committee. The requirements of ISA 260, and how we have discharged them, are set out in more detail at Appendix A.

The Joint Committee is responsible for the preparation of financial statements which record its financial position as at 31 March 2011, and its income and expenditure for the year then ended. We are responsible for undertaking an audit and reporting whether, in our opinion, the Joint Committee's financial statements present a true and fair view of the financial position.

Under the Audit Commission's Code of Audit Practice we are also required to reach a formal conclusion on whether the Joint Committee has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Audit conclusions

Financial statements opinion

We were presented with draft core financial statements on 30 June 2011, in order to meet the 30 June 2011 deadline. The draft financial statements with accompanying notes were presented to the auditors on 14 July 2011. A complete set of working papers were provided in a electronic format during the course of the audit.

The financial statements have been compiled in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2010/11 (the Code), based on International Financial Reporting Standards (IFRS).

We have not identified any audit adjustments, subject to the completion of the audit of the accounts, that impact on the Joint Committee's income and expenditure position (comprehensive income and expenditure statement).

The key messages arising from our audit of the Joint Committee's financial statements are:

- the capacity and deliverability of the shared finance function should be assessed going forward to ensure that all deadlines are met; and,
- a robust review of the savings programme is needed given that the Joint Committee has to deliver the same service for £600,000 less in 2011/12.

We anticipate providing an unqualified opinion on the Joint Committee's financial statements, following approval by the Audit Committee on 12 September 2011.

Further details of the outcome of the financial statements audit are given in section 2.

Value for Money Conclusion

In providing the opinion on the financial statements we are required to reach a conclusion on the adequacy of the Joint Committee's arrangements for ensuring economy, efficiency and effectiveness in its use of resources (the Value for Money Conclusion).

We have completed our assessment of the arrangements the Joint Committee has in place and we are delighted to submit an unqualified value for money conclusion.

Further details of the outcome of our value for money review are given in section 3.

The way forward

Matters arising from the financial statements audit have been discussed with the Head of Finance. We have made a small number of recommendations, which are set out in the action plan at Appendix C. This has been discussed and agreed with the Head of Finance and the senior finance team.

Use of this report

This report has been prepared solely for use by the Joint Committee to discharge our responsibilities under ISA 260, and should not be used for any other purpose. We assume no responsibility to any other person. This report should be read in conjunction with the Statement of Responsibilities and the Joint Committee's Letter of Representation.

Acknowledgements

We would like to record our appreciation for the assistance and co-operation provided to us during our audit by the Joint Committee's staff.

Grant Thornton UK LLP
12 September 2011

2. Key audit issues

Status of the audit

We carried out our audit in accordance with the proposed timetable and deadlines communicated to you in our Audit Approach Memorandum. Our audit is mostly complete although we are finalising our procedures in the following areas (key areas highlighted in blue):

- **audit of comprehensive income and expenditure account and related notes;**
- **audit of the balance sheet and related notes;**
- **audit of the cash flow statement**
- confirmation from legal representatives of any outstanding legal action;
- review of the final version of the financial statements;
- obtaining and reviewing the Joint Committee's letter of representation;
- review of the final version of the Annual Governance Statement; and
- updating our post balance sheet events review, to the date of signing the accounts

We anticipate providing an unqualified opinion on the Joint Committee's financial statements, following approval by the **Joint** Committee on 12 September 2011.

Matters arising from the financial statements audit

Following certification by the Joint Committee's Responsible Finance Officer on 30 June 2011, we were presented with the core draft financial statements for audit, the complete statement of accounts with related notes to the accounts were presented for audit on 14 July 2011.

Finance Team capacity

The Joint Committee's arrangements for provision of information to auditors were not as smooth as they could be. The support arrangements, in the absence of the Finance manager being in a position to dedicate the required time to produce the papers, require further strengthening, which exerts undue pressure on the achievement of the national deadline. The response time was impacted due to the Finance manager having to respond to outstanding audit requests on Three Rivers DC and Watford BC

The finance team are preparing the accounts for both Three Rivers DC, Watford BC and the Three Rivers and Watford Shared services for the first time in 2010/11, the same team produced the accounts for Three Rivers DC and Three Rivers and Watford Shared services only in the prior year.

Matters arising from the financial statements audit (continued)

Segmental Reporting

Under the requirements of the Code based on IFRS, Joint Committees are required to disclose their business operating segments. An operating segment is a separately identifiable component of the Joint Committee, which earns revenues and incurs expenses, and whose operating results are regularly reviewed by the Joint Committee's chief operating decision maker ("CODM"), to assess the segment's performance and allocate resources. The Joint Committee has correctly prepared the segmental reporting note.

Misstatements

Misstatements that were identified by the management team during the course of the audit and subsequently adjusted are to be provided to the joint committee.

The auditor is required to communicate all uncorrected misstatements, other than those considered to be clearly trivial, to the entity's management and to request that management corrects them

Evaluation of key controls

Internal Controls

We have placed reliance on the work undertaken on key financial controls at Watford Borough Council and Three Rivers District Council ('the Councils') for the purpose of designing our programme of work for the financial statements audit. The audit of the key controls of the councils' financial systems found the controls in place to be robust and there was no amendment of the programme of work for the financial statements audit.

Review of IT

We have placed reliance on the work undertaken on IT controls at Watford Borough Council and Three Rivers District Council ('the Councils') for the purpose of designing our programme of work for the financial statements audit.

We performed a high level review of the general IT control environment as part of the overall review of the internal control system and concluded that although there are some significant weaknesses within the IT arrangements they do not adversely impact on our opinion on the financial statements.

Review of internal audit

We periodically review the Internal Audit function for compliance with requirements of the 2006 CIPFA Internal Audit Standards. We have placed reliance on our detailed review of the internal audit functions of Three Rovers DC and Watford BC and concluded that Internal Audit met these requirements.

Management of the risk of fraud

We have placed reliance on the assurances from the Director of Corporate Resources and Governance of Three Rivers DC and the Head of Strategic Finance at Watford BC and the respective Chairs of the Audit Committee of the Councils in respect of processes in place to identify and respond to the risk of fraud at the Joint Committee.

From these enquiries we have established that the Councils consider there are adequate processes in place to mitigate against the risk of fraud occurring at the Councils and that those charged with governance have sufficient oversight over these processes to give them the assurances they require in this area.

Annual Governance Statement (AGS)

We have examined the Joint Committee's arrangements and processes for compiling the AGS. In addition, we read the AGS and considered whether the statement is in accordance with our knowledge of the Joint Committee.

We have concluded that the Joint Committee places reliance on the arrangements in place at Watford BC and Three Rivers DC, which were reported to have satisfactory arrangements in place to produce robust Annual Governance Statements and provide a strong audit trail for the Chief Executive and Leader to sign the statement.

Improvements were suggested to the Three Rivers DC AGS regarding the disclosure of significant control risks completion of the Action to date column and separate disclosure of the risk surrounding IT.

Next steps

The Joint Shared Services Committee is required to recommend to Joint Committee the financial statements for the year ended 31 March 2011. In forming **its** conclusions the Committee's attention is drawn to the adjustments to the financial statements and the required Letter of Representation

3. Value for money

Value for money conclusion

In order for us to provide a positive conclusion, the Joint Committee needs to demonstrate proper arrangements in place for securing economy, efficiency and effectiveness in its use of resources.

The Audit Commission Code of Audit Practice 2010 describes the Joint Committee's responsibilities to put in place proper arrangements to:

- secure economy, efficiency and effectiveness in its use of resources
- ensure proper stewardship and governance
- review regularly the adequacy and effectiveness of these arrangements.

For the year ended 31 March 2011 we are required to give our conclusion based on the following two criteria specified by the Audit Commission:

- the Joint Committee has proper arrangements in place for securing financial resilience
- the Joint Committee has proper arrangements for challenging how it secures economy, efficiency and effectiveness

Matters arising from the review of Value for Money

Key outcomes from our local programme of work are detailed below. Where we have identified areas of weakness in the Joint Committee's arrangements, recommendations to support improvements have been made and are detailed in Appendix C of this report.

Securing Financial Resilience

We have completed a review to assess whether the Joint Committee has robust systems and processes in place to effectively manage its financial risks and opportunities and secure a stable financial position. We also have considered whether the Joint Committee's financial position should enable it to continue to operate for the foreseeable future.

To support our conclusion against this criteria we have undertaken a review which considered the Joint Committee's arrangements against three key areas:

- Strategic financial planning
- Financial governance
- Financial control

We have placed reliance on the financial resilience work performed at the two Council's in order to provide our conclusion.

The main issue surrounding the financial resilience of the shared service function is that the service is currently not providing the savings that were originally anticipated when first set up. A comparison of expenditure against the revised budget of £6.873m delivered a £146,000 overspend. However, when the original budget was submitted in December 2009, the original budget was set at £6.457m and comparison against the actual expenditure of £7.019m results in a £500,000 overspend for 2010/11.

The shared service budget for 2011/12 has been set at £6.415m, which results in the shared service having to deliver a challenging £600,000 of savings on the 2010/11 actual cost without impacting service performance.

The overspend will not impact on our conclusion on the financial resilience of the joint committee but it is a matter that should be closely monitored in the forthcoming year. A recommendation has been raised at Appendix C.

Securing Economy, Efficiency and Effectiveness

We have reviewed whether the Joint Committee has prioritised its resources to take into account budget constraints and whether it has achieved cost reductions and improved productivity and efficiencies.

Our overall conclusion is that arrangements are adequate although further work will be needed to significantly enhance IT arrangements and to fully realise the shared service benefit from the shared services arrangement currently in place.

Follow Up of prior year assessment

There were no areas that were deemed inadequate last year regarding the Joint Committee's arrangements.

Overall conclusion

The overall conclusion is that we are able to issue an unqualified opinion.

Appendices

A. The reporting requirements of ISA 260

Purpose of report

The purpose of this report is to highlight the key issues affecting the results of the Joint Committee and the preparation of the Joint Committee's financial statements for the year ended [31 March 2011].

The document is also used to report to management to meet the mandatory requirements of International Standard on Auditing (UK and Ireland) 260.

We would like to point out that the matters dealt with in this report came to our attention during the conduct of our normal audit procedures which are designed primarily for the purpose of expressing our opinion on the financial statements of the Joint Committee.

This report is strictly confidential, and although it has been made available to management to facilitate discussions, it may not be taken as altering our responsibilities to the Joint Committee arising under the terms of our audit engagement.

The contents of this report should not be disclosed with third parties without our prior written consent.

Responsibilities of the directors and auditors

The directors are responsible for the preparation of the financial statements and for making

available to us all of the information and explanations we consider necessary. Therefore, it is essential that the directors confirm that our understanding of all the matters in this report is appropriate, having regard to their knowledge of the particular circumstances.

Clarification of the roles and responsibilities with respect to internal controls

The Shared Service's management is responsible for the identification, assessment, management and monitoring of risk, for developing, operating and monitoring the system of internal control and for providing assurance to the Joint Committee that it has done so.

The Joint Committee is required to review the Joint Committee's internal financial controls. In addition, the Joint Committee is required to review all other internal controls and approve the statements included in the annual report in relation to internal control and the management of risk.

The Joint Committee should receive reports

ISAUK 260 requires communication of:

- relationships that have a bearing on the independence of the audit firm and the integrity and objectivity of the engagement team
- nature and scope of the audit work
- significant findings from the audit

from management as to the effectiveness of the systems they have established as well as the conclusions of any testing conducted by internal audit or ourselves.

We have applied our audit approach to document, evaluate and assess your internal controls over the financial reporting process in line with the requirements of auditing standards.

Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of testing, we identify any control weaknesses, we will report these to you.

In consequence, our work cannot be relied upon to disclose defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify.

We would be pleased to discuss any further work in this regard with the Joint Committee.

Independence and robustness

Ethical standards require us to give you full and fair disclosure of the matters relating to our independence. In this context we ensure that:

- the appointed audit partner and audit manager are subject to rotation every seven years;
- Grant Thornton, its partners and the audit team have no family, financial, employment, investment or business relationship with the Joint Committee;
- our fees paid by the Joint Committee do not represent an inappropriate proportion of total fee income for either the firm, office or individual partner; and
- at all times during the audit, we will maintain a robustly independent position in respect of key judgement areas

Audit and non-audit services

Services supplied to the Joint Committee for the year ended 31 March 2011 are as follows:

	£
Audit services	
Statutory audit	10,000

Audit quality assurance

Grant Thornton's audit practice is currently monitored by the Audit Inspection Unit, an arm of the Financial Reporting Joint Committee which has responsibility for monitoring the firm's public interest audit engagements.

The audit practice is also monitored by the Quality Assurance Directorate of the ICAEW. Grant Thornton also conducts internal quality reviews of engagements.

Furthermore, audits of public interest bodies are subject to the Audit Commission's quality review process.

We would be happy to discuss further the firm's approach to quality assurance.

B. Audit adjustments

Adjustment type

Misstatement - A change in the value of a balance presented in the financial statements

Classification - The movement of a balance from one location in the accounts to another

Disclosure - A change in the way in which a balance is disclosed or presented in an explanatory note

Adjustments to the financial statements

Adjustment type	£000	Account balance	Impact on financial statements
		To be provided	

Unprocessed adjustments to the financial statements

Adjustment type2022	£000	Account balance	Impact on financial statements
		To be provided	

C. Action plan

Priority

High - Significant effect on control system

Medium - Effect on control system

Low - Best practice

Rec No.	Recommendation	Priority	Management Comments	Implementation date and responsibility
1	Strengthen the financial reporting to include actions developed in response to the reported variances on the comparison of expenditure to budget.	Medium		



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