

Watford Borough Council







Audit plan 2011/12

December 2011



An overview of your 2011/12 Audit Plan

This is our audit plan for the financial year 2011-12 for Watford Borough Council (the Council). It sets out the work that we will carry out in discharging our responsibilities to give an opinion on the Council's financial statements and a conclusion on the Council's arrangements for achieving Value for Money (VfM).

| | |
|---|--|
| <p>We set an indicative fee in April 2011. In setting this fee, we assumed that the general level of risk in relation to the audit would not be significantly different from that identified for 2010/11. Following the completion of the 2010/11 audit we have updated our accounts audit risk assessment.</p> |  <p>See Accounts audit</p> |
| <p>The new approach to local Value for Money audit work was introduced by the Audit Commission in 2010/11. In 2011/12 we will continue to give our value for money conclusion based on two reporting criteria specified by the Audit Commission.</p> |  <p>See Value for money audit</p> |
| <p>As in previous years, we will use specialists from across Grant Thornton to support our work and ensure that you are getting the required levels of expertise from us.</p> |  <p>See Engagement team</p> |
| <p>We have used the published 2011/12 Audit Commission scale of fee for the Council as our proposed fee. The planned fee remains as per the Indicative Fee letter (issued in April 2011).</p> |  <p>See Audit fee</p> |
| <p>You will receive a number of reports and plans from us throughout the year which will provide you with the detailed conclusions of our work culminating in the issue of our Annual Audit Letter to the Council.</p> |  <p>See Outputs and timeline</p> |
| <p>We have considered our independence and objectivity in respect of the audit and do not believe there are any matters which should be brought to your attention. We comply with the Audit Commission's requirements in respect of independence and objectivity.</p> |  <p>See Appendix A</p> |

Accounts audit - introduction

Introduction

This section of the plan sets out the work we propose to undertake in relation to the audit of the 2011/12 accounts at the Council. The plan is based on our risk-based approach to audit planning and uses our assessment of the potential business and audit risks that need to be addressed by our audit and the controls the Council has in place to mitigate these risks.

The Council's responsibilities

The Council's accounts are an essential means by which it accounts for the stewardship of resources and its financial performance in the use of those resources. It is the responsibility of the Council to:

- ensure the regularity of transactions by putting in place systems of internal control to ensure that financial transactions are in accordance with the appropriate authority;
- maintain proper accounting records; and
- prepare accounts, which give a true and fair view of the financial position of the Council and its expenditure and income in accordance with International Financial Reporting Standards.

Our responsibilities

We are required to audit the financial statements and to give an opinion as to:

- whether they give a true and fair view of the financial position of the Council and its expenditure and income for the period in question.
- whether they have been prepared properly in accordance with relevant legislation, applicable accounting standards and other reporting requirements.
- whether the Annual Governance Statement (AGS) has been presented in accordance with relevant requirements and to report if it does not meet these requirements, or if the statement is misleading or inconsistent with our knowledge.



Accounts audit - risk assessment

Accounting risks and planned audit response

Table 1 below summarises the results of our initial risk assessment of significant financial risks facing the Council and our planned response.

Table 1: Accounting risks and planned audit response

| Key audit risk | Audit areas affected | Audit approach |
|--|---------------------------------------|---|
| Accounting for Property, Plant and Equipment | All areas of the financial statements | <p>We provide support and clarity around accounting requirements where necessary</p> <ul style="list-style-type: none"> •There have been changes to the Code in respect of accounting for schools. We will discuss with the Council its proposed treatment for throughout the year and adopt a pragmatic approach when a degree of judgement is required. •The Council will be required to disclose heritage assets as a separate category of assets for the first time in its 2011/12 accounts. |
| Control weaknesses in the Council's IT systems are not addressed | All areas of the financial statements | <p>Using our specialist IT auditors, we will provide the Council with an expert view on the Council's IT control environment</p> <ul style="list-style-type: none"> •We will perform our assessment of the Council's IT control environment. •We will follow up on the IT Strategy review undertaken in 2010/11 to ensure that control weaknesses previously identified have been addressed. We will provide a quarterly update to the Audit Committee on our assessment of progress. |
| Weaknesses within Revenues & Benefits system | All areas of the financial | <p>Assessment of the revenue and benefits function</p> <ul style="list-style-type: none"> •We will perform our assessment of the revenue and benefits management arrangements in place and assess the overall robustness of the control environment. |

Our Approach

We will utilise our audit software package, to document, evaluate and test, where appropriate, internal controls over the financial reporting process in order to reduce our detailed testing. Our audit software package also helps us to comment constructively on your system of internal controls.

Our approach will be to report all findings to management so that the Council can choose to secure improvement opportunities. We report only those findings that represent a control weakness to the Audit Committee and make formal recommendations.

In all cases, we invest time with management in understanding the basis of the weakness identified and what the options are, for example mitigating controls and system modifications, for improving the system.

Planning - Continuous

- Updating our understanding of the Council through discussions with management and a review of the monthly finance reports

Controls evaluation - February 2012

- Reviewing the design and implementation internal financial controls including IT, where they impact the financial statements
- Assessing audit risk and developing and implementing an appropriate audit strategy
- Assessing the Council's arrangements for complying with tax legislation and Bribery Act requirements
- Testing the operating effectiveness of selected controls
- Assessing internal audit against the CIPFA Code of Practice

Substantive procedures - July/August 2012

- Reviewing material disclosure issues in the financial statements
- Performing analytical review
- Verifying all material income and expenditure and balance sheet accounts, taking into consideration whether audit evidence is sufficient and appropriate

Completion - September 2012

- Performing overall evaluation of our work on the financial statements to determine whether they give a true and fair view
- Determining an audit opinion
- Reporting to the Audit Committee through our ISA 260 report

Accounts audit - other issues

Additional Assurance work

To support the audit opinion for 2011/12, we will undertake the following reviews:

- VAT - work is planned to review the current arrangements the Council has in place are appropriate to ensure VAT is accounted for correctly and in accordance with current legislation

- PAYE - We will undertake a review of the arrangements the Council has in place regarding taxation associated with payroll, including National Insurance and PAYE. This will look to provide assurance over the figures recorded within the financial statements are true and fair and calculated appropriate and in accordance with current legislation

- Fraud - we will use our forensic team to review the overall adequacy of the Council's arrangements to ensure that fraud and corruption are addressed effectively, including the Council's arrangements for addressing the Bribery Act and the policies for ensuring that gifts and hospitality are managed in compliance with Council policies.

In completing the above work we will draw on the work of internal audit and other review agencies.

Whole of Government Accounts

We will also review the Whole of Government Accounts (WGA) consolidation pack prepared by the Council for consistency with the Council's accounts.

Certification of Claims and Returns

In addition to our audit of the Council's financial statements and the Value for Money audit, we are required to certify grant claims and returns above predetermined thresholds.

In carrying out work in relation to grant claims and returns, Grant Thornton UK LLP acts as an agent of the Audit Commission, on behalf of the grant paying bodies. The work that the auditor is required to undertake is specified in a Certification Instruction, issued by the Audit Commission for each scheme, following discussion with the grant paying body. As agents of the Audit Commission we are required to recover, in respect of each grant claim and return, a fee that covers the full cost of the relevant work undertaken. These rates are based on the hourly rates for certifying claims and returns set out in the Audit Commissions 'Work programme and scales of fees 2011-12.'

Prior to the commencement of our work we will issue a grants plan and report in full to the Council on conclusion of our certification work.

National Fraud Initiative (NFI)

The Council participates in the National Fraud Initiative, the Audit Commission's data-matching exercise designed to prevent and detect fraud in public bodies. We will review the Council's progress and actions in following up the matches identified.

Accounts audit - public reporting

Annual Governance Statement and External Reporting

As part of our work on the accounts audit, we will review the Annual Governance Statement (AGS) to determine if it is consistent with our knowledge of the Council.

We will assess the Council's external reporting, through the 2010/11 Annual Governance Statement and explanatory foreword to the accounts, against best practice and will use our benchmarking tool, containing data from over 200 UK local authorities, to measure the Council against existing sector practice. This will enable us to identify areas where the Council is performing well and areas where there is scope to improve to improve external reporting to move towards 'best in class' in 2011/12 and beyond.

Elector challenge

The Audit Commission Act 1998 gives electors certain rights:

- the right to inspect the accounts
- the right to ask the auditor questions about the accounts; and
- the right to object to the accounts.

As a result of these rights, in particular the right to object to the accounts, we may need to undertake additional work to form a decision on the elector's objection. The additional work may be significant and could result in the requirement to seek legal representations on the issues raised. The costs incurred in responding to any questions or objections raised by electors are not part of the audit fee. In the event of costs being incurred as a result of elector's objections we will discuss these with the Council and, where appropriate, charge for this work in accordance with the Audit Commission's fee scales.

Value for money audit

Introduction

The Code 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.

2011/12 VfM conclusion

The Value for Money approach for 2011/12 remains the same as the prior year. Our VfM conclusion will be based on two reporting criteria specified by the Audit Commission:

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

The work we will do to conclude on these criteria is summarised in the following charts:

Code criteria

The Council has proper arrangements in place for securing financial resilience

We will consider whether the Council has robust financial systems and processes to manage effectively financial risks and opportunities and to secure a stable financial position that enables it to continue to operate for the foreseeable future

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 made from the 2010/11 report
- Undertake a deep dive review of the Three Rivers and Watford shared service unit focusing on budgetary control.

Value for money audit

Code criteria

Work to be undertaken

The Council has proper arrangements for challenging how it secures economy, efficiency and effectiveness

We will consider whether the Council is prioritising its resources within tighter budgets

Risk-based work focusing on arrangements for prioritising resources and improving productivity and efficiency.

Specifically we will:

- complete a risk assessment of the Council's arrangements agreeing any specific pieces of work to address any high risk areas identified.
- perform an asset management review of the Council's asset base to provide assurance over the arrangements in place over the Council's land and buildings.

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

The results of all our local VfM audit work and key messages will be reported in our Report to Those Charged with Governance (ISA 260 report) and in the Annual Audit Letter. We will agree any additional reporting to the Council on a review-by-review basis.



Engagement team - key contacts

Your main audit team is based in London and are all public sector specialists. However, we operate as a national practice, coordinating the work of all our offices to ensure that new ideas, good practice experiences and services are developed and disseminated to all, irrespective of location.



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

Paul is the Council's Engagement Lead, bringing his extensive local authority expertise to the Council. Paul will be a key contact for the Chief Executive, the Director of Finance, other senior Council Officers and the Audit Committee.

Paul is responsible for the overall delivery of the audit including the quality of output and, signing the audit reports and conclusion



Richard Lawson (FCCA)
Manager
T 0207 728 2084
E richard.lawson@uk.gt.com

Richard is responsible for the audit strategy, planning and liaison with key Council contacts to ensure the smooth running of the audit and the delivery of the overall audit plan.

Richard reviews the quality of audit outputs and ensures accuracy of reporting prior to presenting plans and reports to the Council's officers and Members.

Gurpreet Dulay (CPFA)
Audit Executive
T
E gurpreet.dulay@uk.gt.com

Reporting to Richard, Gurpreet is responsible for the performance of the audit fieldwork and day-to-day liaison with the Trust's finance department.

Gurpreet will be supported by a team of audit assistants.

Engagement team - specialist support



Negat Sultan CPFA
IT Audit Manager
T 0116 247 5590
E negat.sultan@uk.gt.com

Negat is responsible for review of the Council's IT systems to complement the financial accounts process.



Bob Anderson ACA
IFRS Specialist
T 020 7728 2245
E bob.anderson@uk.gt.com

Bob is responsible for the provision of specialist technical support to the audit team. Bob will be used to provide support and advice to the Council throughout the year as it prepares its accounts for 2011/12.



Bruce Mew CPFA
Advisory Specialist
T 0207 728 3420
E bruce.mew@uk.gt.com

Bruce has extensive public sector experience specialising in financial, efficiency and performance reviews and transformation and change management.

Audit fee

What is the scale audit fee?

This is defined as the fee required by auditors to meet statutory responsibilities under the Audit Commission Act in accordance with the Code of Audit Practice 2008.

It represents the Commission's best estimate of the fee required to complete an audit where the audited body has no significant audit risks and it has in place a sound control environment.

How your scale audit fee is calculated

The Audit Commission has published a scale fee for all authorities. This scale fee is based on the 2010/11 fee, which reflected our assessment of risk and complexity, reduced by 5%

Variations to the scale audit fee

Based on a thorough review by the audit team which includes discussions with Council Officers and Members, we tailor our work to reflect local circumstances. This may result in a variation upwards or downwards on the scale audit fee. Any variation to the scale fee must be approved by the Audit Commission, following agreement of the proposed fee with the Council.

2011-12 audit fee

Your external audit fee for 2011/12 is £114,000 (£120,000 in 2010/11). This is the same as the indicative fee communicated to you in April 2011, and represents a 5% reduction on last year.

The fee will be subject to continuous review and may be revised if significant new audit risks during the audit or if we are unable to progress as planned due to the timing or quality of information provided by the Council. In the event that we consider it necessary to revise the Council's audit fee upwards, we will discuss this with the Head of Strategic Finance.

A summary of the audit fee is shown in the table below:

Table 2: 2011/12 audit fee

| Audit area | Planned fee 2011/12 | Actual fee 2010/11 |
|--------------------------------------|----------------------|----------------------|
| Accounts, including WGA | £ 70,000 | £ 80,000 |
| VfM conclusion | £ 44,000 | £40,000 |
| Total audit fee | £ 114,000 | £120,000 |
| Certification of claims and returns* | £ 20,000* est | £ 20,000* est |

* the quoted fee for grant certification work is an estimate only and will be charged at published hourly rates

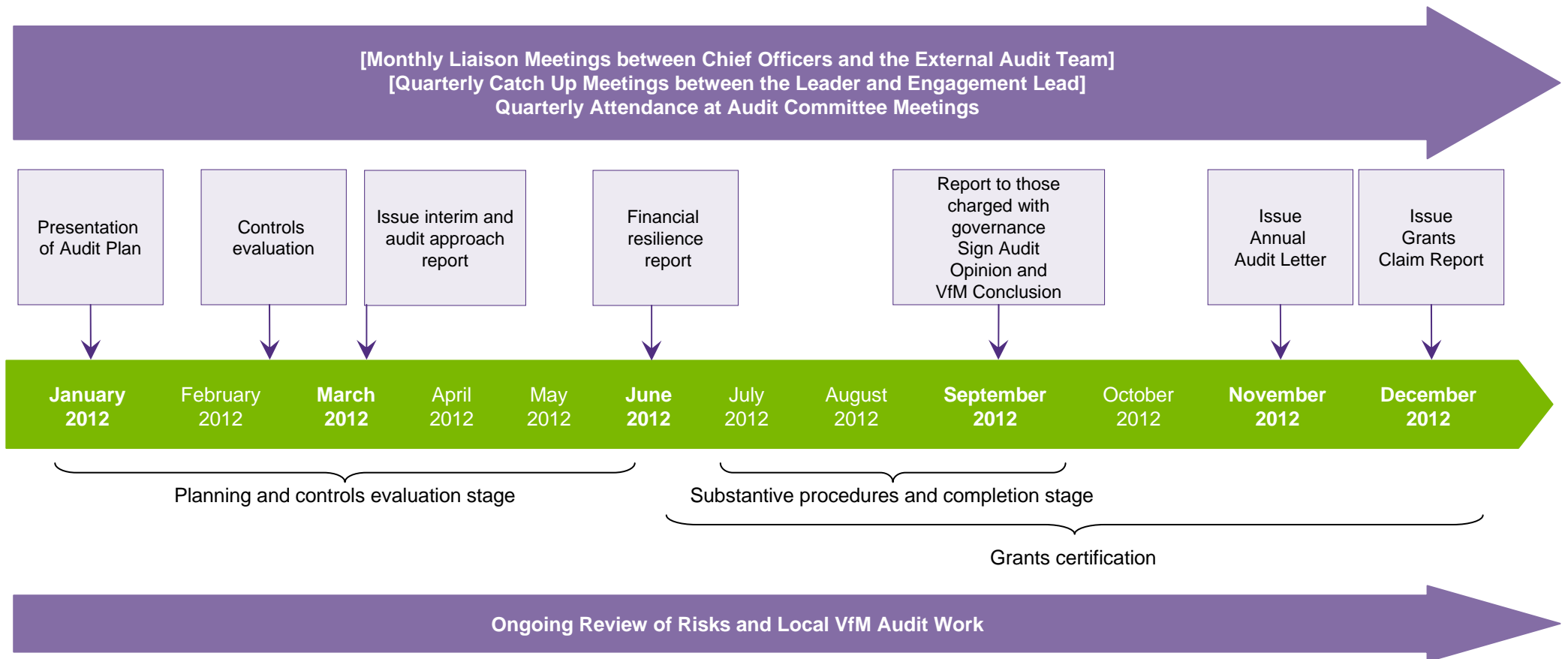
Outputs

Reports will be discussed and agreed with the appropriate officers before being issued to the Audit Committee.

Reports are addressed to the Audit Committee and management and are prepared for the sole use of the Council. No responsibility is taken by the auditors to any member or officer in their individual capacity, or to any third party.

| Output | Purpose | Issue date |
|---|---|----------------|
| Audit Plan | <ul style="list-style-type: none"> • Outline audit approach for the accounts and VfM audits • Identify initial high risk areas and our planned response • Confirm Plan with Audit Committee | January 2012 |
| Interim Report | <ul style="list-style-type: none"> • Report the results of the control evaluation of our audit and its impact on our planned audit approach • Confirm focus areas for the audit of the accounts based on updated risk assessment • Provide certain disclosures to those charged with governance under auditing standards • Confirm with Senior Officers and Audit Committee | March 2012 |
| Financial Resilience | <ul style="list-style-type: none"> • the Council has proper arrangements in place for securing financial resilience | June 2012 |
| Report to those charged with Governance (ISA 260) | <ul style="list-style-type: none"> • Highlight key issues arising from the audit and the resolution of these • Communication of adjusted and unadjusted audit differences • Improvement recommendations resulting from audit procedures | September 2012 |
| Auditor's Reports | <ul style="list-style-type: none"> • Report on Watford Borough Council's financial statements • Report on Watford Borough Council's value for money conclusion | September 2012 |
| Annual Audit Letter | <ul style="list-style-type: none"> • Short summary of the key issues arising from our 2011/12 audit | November 2012 |
| Grants Claim Certification | <ul style="list-style-type: none"> • Highlights key issues arising from our grants certification work • Recommendations identified for improvement | December 2012 |

Timeline



Appendix A

Independence and objectivity

We are not aware of any relationships that may affect the independence and objectivity of the audit team, which we are required by auditing and ethical standards to communicate to you.

We comply with the ethical standards issued by the APB and with the Commission's requirements in respect of independence and objectivity as summarised below.

Auditors appointed by the Audit Commission are required to comply with the Commission's Code of Audit Practice and Standing Guidance for Auditors, which defines the terms of my appointment. When auditing the financial statements auditors are also required to comply with auditing standards and ethical standards issued by the Auditing Practices Board (APB).

The main requirements of the Code of Audit Practice, Standing Guidance for Auditors and the standards are summarised below.

International Standard on Auditing (UK and Ireland) 260 (Communication of audit matters with those charged with governance) requires that the appointed auditor:

- discloses in writing all relationships that may bear on the auditor's objectivity and independence, the related safeguards put in place to protect against these threats and the total amount of fee that the auditor has charged the client
- confirms in writing that the APB's ethical standards are complied with and that, in the auditor's professional judgement, they are independent and their objectivity is not compromised.

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

The Commission's Code of Audit Practice has an overriding general requirement that appointed auditors carry out their work independently and objectively, and ensure that they do not act in any way that might give rise to, or could reasonably be perceived to give rise to, a conflict of interest. In particular, appointed auditors and their staff should avoid entering into any official, professional or personal relationships which may, or could reasonably be perceived to, cause them inappropriately or unjustifiably to limit the scope, extent or rigour of their work or impair the objectivity of their judgement.

The Standing Guidance for Auditors includes a number of specific rules. The key rules relevant to this audit appointment are as follows:

- Appointed auditors should not perform additional work for an audited body (i.e. work over and above the minimum required to meet their statutory responsibilities) if it would compromise their independence or might give rise to a reasonable perception that their independence could be compromised. Where the audited body invites the auditor to carry out risk-based work in a particular area that cannot otherwise be justified as necessary to support the auditor's opinion and conclusions, it should be clearly differentiated within the audit plan as being 'additional work' and charged for separately from the normal audit fee.
- Auditors should not accept engagements that involve commenting on the performance of other auditors appointed by the Commission on Commission work without first consulting the Commission.
- The Engagement Lead responsible for the audit should, in all but the most exceptional circumstances, be changed at least once every five years
- The Engagement Lead and senior members of the audit team are prevented from taking part in political activity on behalf of a political party, or special interest group, whose activities relate directly to the functions of local government or NHS bodies in general, or to a particular local government or NHS body.
- The Engagement Lead and members of the audit team must abide by the Commission's policy on gifts, hospitality and entertainment.

Keeping you up to date...

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Spending Review 2010 Headlines

long-term and real value for the party

Barry Parry, Grant Thornton

The focus on jobs that support economic activity is clear. The investment in transport and green energy is welcome despite the positive assessments on skills and Regional Growth Funds which will harness expertise and drive growth.

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The Bribery Act 2010

Spring 2011

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Sustainable cities

A vision of our future landscape

Grant Thornton

Asset management

Grant Thornton

Surviving the storm: how resilient are local authorities?

summary findings over the financial results to date for major local authorities summer 2011.

and buildings which are held largely idly and cost in use is often not well met, but hidden cost overheads being set against it is possible to both accept.

Our approach typically evolved through:

- performance diagnostics - since we have established an inventory of property and land assets, we would undertake an initial assessment of two factors for each asset:
 - the building cost and the potential realisable value. From this analysis we would hope to identify high cost and/or high value assets.
 - the strategic value to service delivery, efficiency in use and the challenges that may prevent early rationalisation.
 The output from this phase would be the identification of a portfolio of assets that are candidates for further in-depth review.
- options and prioritisation - the candidates would then be evaluated in detail to determine the range of options for rationalisation, covering the key steps, challenges, costs and benefits that may be realised. This analysis would lead to prioritisation and a plan for implementation.

Grant Thornton

Annual Governance Statement: adding real value?

Spring 2011

Grant Thornton

Is your audit committee effective?

Spring 2011

What is a strategic audit committee? The audit committee is a key part of the governance framework of the organisation. It is responsible for overseeing the financial reporting process and ensuring that the financial statements are fair, balanced and understandable. It also has a role to play in ensuring that the organisation's internal controls are effective and that the risk management framework is robust.

What are the key challenges facing audit committees? The audit committee is often faced with a number of challenges, including:

- limited resources and expertise
- lack of independence
- poor communication
- lack of oversight

What can be done to improve the effectiveness of the audit committee? There are a number of steps that can be taken to improve the effectiveness of the audit committee, including:

- ensuring independence
- providing training and support
- improving communication
- enhancing oversight

What is the role of the audit committee? The audit committee is responsible for:

- overseeing the financial reporting process
- ensuring the integrity of the financial statements
- monitoring the effectiveness of the internal controls
- ensuring the effectiveness of the risk management framework



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