

Three Rivers and Watford Shared Services Joint Committee

Report to Those Charged With Governance (ISA 260)

For the year ended 31 March 2012

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1 Executive summary

1.1 Purpose of this report

The purpose of this report is to highlight the key issues affecting the results of Three Rivers and Watford Shared Service Joint Committee (the Joint Committee) and the preparation of the Committee's financial statements for the year ended 31 March 2012. It is also used to report to management to meet the mandatory requirements of International Standard on Auditing (UK & Ireland) 260.

Under the Audit Commission's Code of Audit Practice we are required to report whether, in our opinion, the Committee's financial statements present a true and fair view of the financial position. We are also required to reach a formal conclusion on whether the Committee has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources (the Value for Money Conclusion).

We take responsibility for this report, which has been prepared on the basis of the limitations set out in 'Other reporting procedures' (Appendix B).

1.2 Introduction

Our audit is substantially complete although we are finalising our procedures in the following area:

- updating our post balance sheet events review, to the date of signing of the accounts
- receipt of the letter of representation
- final review of financial statements

We received draft financial statements in accordance with the national deadline and the accompanying working papers at the commencement of our work.

1.3 Key audit and financial reporting issues

Financial statements opinion

We did not identify any significant audit adjustments that impact on the Committee's income and expenditure position (statement of comprehensive income) or balance sheet (statement of financial position).

At this stage of the audit, we anticipate issuing an unmodified audit opinion, following approval of the financial statements by the Joint Committee.

Value for money conclusion

We are pleased to report that, based on our review of the Committee's arrangements, we propose to issue an unqualified opinion.

Further details are set out in section 6.

1.4 Controls

Roles and responsibilities

The Committee's management is responsible for the identification, assessment, management and monitoring of risk, and for developing, operating and monitoring the system of internal control.

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

1.5 Acknowledgement

We would like to take this opportunity to record our appreciation for the assistance provided by the finance team and other staff during our audit.

Grant Thornton UK LLP

17 September 2012

2 Design effectiveness of internal controls

2.1 Accounting system and internal control

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.

2.2 Management of the risk of fraud

We have considered the processes in place to identify and respond to the risk of fraud at the Committee.

The Committee considers that there are adequate processes in place to mitigate against the risk of fraud occurring at the Committee and that those charged with governance have sufficient oversight over those processes to give them the assurances they require in this area.

2.3 Review of information technology controls

We have placed appropriate 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.

3 Other reporting matters

3.1 Annual governance statement

We have examined the Committee's arrangements and processes for compiling the AGS. In addition, we have read the AGS and considered whether the statement is in accordance with the requirements of the Code and consistent with our knowledge of the 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 Three Rivers Chief Executive and Chair of the Joint Committee to sign the statement.

3.2 Public Challenge Matters

The Committee held the day that electors could raise questions on the accounts on 16th August 2012, we received no questions or objections in respect of the financial statements for the year ended 31 March 2012 on that day or subsequently that prevents us from issuing our audit certificate.

3.3 Next steps

The Joint Committee is required to approve the financial statements for the year ended 31 March 2012. In forming its conclusions the Committee's attention is drawn to the financial statements and the Letter of Representation.

4 Value for Money

4.1 Value for money conclusion

The Code of Audit Practice 2010 (the Code) describes the 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; and
- review regularly the adequacy and effectiveness of these arrangements.

We are required to give our conclusion based on the following two criteria specified by the Audit Commission:

The Committee has proper arrangements in place for securing financial resilience.

The Committee has robust 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.

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

The Committee is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.

4.2 Key findings

Securing financial resilience

To support our conclusion against this criteria we have undertaken a follow up review to our work performed in the same area in the prior year, which considered the Committee's performance against a series of key performance indicators and the arrangements in place against the three expected characteristics of proper arrangements as defined by the Audit Commission:

- Financial governance;
- Financial planning; and
- Financial control

The key findings from this review are:

- A review of the shared service budgetary control found that in the prior year a comparison of original budget to actual costs found that the Committee had recorded a £500,000 overspend in 2010/11. A review of the shared service actual costs compared to original budget for 2011/12 found that the shared service returned a £248,000 overspend, a 50% reduction of the prior year overspend. The reduction in expenditure has corrected the downward trend of overspending against budget and has put the Committee on a path of upwards trajectory.
- Analysis of the shared service accounts has found that two shared services returned underspends namely Finance and HR and two services returned overspends, IT and Revenues & Benefits, with

Revenues and Benefits recording a £359,000 overspend. The service is facing significant staffing challenges and still faces a processing backlog of housing and council tax benefit claims.

Challenging economy, efficiency and effectiveness

To support our conclusion against this criteria we have reviewed whether the Committee has prioritised its resources to take account of the tighter constraints it is required to operate within by achieving cost reductions and improved productivity and efficiencies.

As part of our 2011-12 audit plan we identified the need to review the arrangements in respect of the ICT Shared Service for both Watford BC and Three Rivers DC, in particular to understand the plans for

implementing recommendations from external consultants and audit, internal and external, and to assess the proposed scope for reviewing the future viability of the service. We are satisfied with the progress the Council have made.

We have completed a review against key risk indicators which has not highlighted any significant issues that would impact on our conclusion in respect of this criterion.

4.3 Overall conclusion

On the basis of our work, having regard to the guidance on the specified criteria published by the Audit Commission, we are satisfied that in all significant respects the Committee put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2012.

A Prior year recommendation follow up

	Recommendation	Management comments	Status
Financial Reporting			
1	Strengthen the financial reporting to include actions developed in response to the reported variances on the comparison of expenditure to budget	Going forward Budget monitoring report will become a standing item on the committee agenda.	To be implemented

B Other reporting procedures

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

Purpose of report

This report has been prepared for the benefit of discussions between Grant Thornton and the Three Rivers and Watford Joint Committee.

The purpose of this report is to highlight the key issues affecting the results of the Committee and the preparation of the Committee's financial statements for the year ended 31 March 2012.

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

We would 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 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 Committee arising under the terms of our audit engagement.

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 memorandum is appropriate, having regard to their knowledge of the particular circumstances.

Clarification of 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 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 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 our 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

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

- the appointed engagement lead and audit manager are subject to rotation every seven years;
- Grant Thornton, its partners and directors and the audit team have no family, financial employment, investment or business relationship with the Committee; and
- our fees paid by the Committee do not represent an inappropriate proportion of total fee income for either the firm, office or individual engagement lead.

In accordance with best practice, we analyse our fees below:

Statutory audit	£10,000
Total	£10,000

Audit quality assurance

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

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

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



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