

Watford Borough Council

**Report to Those Charged With Governance (ISA 260)**

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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 Watford Borough Council (the Council) and the preparation of the Council'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 Council'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 Council 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

In the conduct of our audit we have not had to alter or change our audit plan, which we communicated to you in our Audit Approach Memorandum dated March 2012.

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

- completion of the housing benefits analytical review
- 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 Council's income and expenditure position (statement of comprehensive income) or balance sheet (statement of financial position). There were a number of presentational and disclosure adjustments as a result of the audit that had no overall net effect on the Council's reported assets and liabilities.

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

### Value for money conclusion

We are pleased to report that, based on our review of the Council's arrangements, we propose to issue an unqualified opinion. We have identified a number of findings that should be addressed by the Council in order to ensure continued financial resilience, and sustainable economy, efficiency and effectiveness in its use of resources.

Further details are set out in section 6.

#### **1.4 Controls**

##### **Roles and responsibilities**

The Council'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 Council.

#### **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 Key audit issues

In this section we present our findings in respect of matters and risks identified at the planning stage of the audit and we provide details of additional matters that arose during the course of our work.

Issue	Audit areas affected	Work completed	Assurances gained
Accounting for Property, Plant and Equipment	Property, plant and Equipment	<ul style="list-style-type: none"> <li>• We completed walkthrough tests of your systems to ensure that the controls over property, plant and equipment systems with regard to valuations, impairments and valuations.</li> <li>• We reviewed the disclosures and accounting treatment for Heritage Assets against Financial Reporting Standards and guidelines.</li> </ul>	<ul style="list-style-type: none"> <li>• We have reviewed the approach used by the Council in the revaluation of assets and found no issues with the Council’s rolling programme of revaluation, having completed a full revaluation of plant, property and equipment in 2011.</li> <li>• We found that the Council had assessed its largest assets for impairment resulting in the Council impairing its investment assets for £7.8million.</li> <li>• Heritage Assets have been correctly accounted for and disclosed in the financial statements.</li> </ul>
Weaknesses within Revenues & Benefits system	All areas of the financial statements	<ul style="list-style-type: none"> <li>• We completed walkthrough tests of your systems to ensure that the controls over council tax are in place and functioning.</li> <li>• The NNDR and Housing Benefit claims we have performed substantive testing of the year end debtor balances.</li> </ul>	<ul style="list-style-type: none"> <li>• No significant control issues were identified following our walkthrough of the council tax system.</li> <li>• We were unable to gain substantial assurance over the year end council tax debtor balance of £4,546,000 ,as the listing of the year end council tax debtor balance by account as at 31 March 2012 was not run. A recommendation has been raised in appendix A.</li> </ul>

Issue	Audit areas affected	Work completed	Assurances gained
IT Control Environment	All areas of the financial statements	<ul style="list-style-type: none"> <li>• We will perform our assessment of the Council's IT control environment.</li> <li>• We will follow up on the IT Strategy review undertaken in 2010/11 to ensure that control weaknesses previously identified have been addressed.</li> </ul>	<ul style="list-style-type: none"> <li>• From the work undertaken, we were able to conclude that there are no material weaknesses which are likely to adversely impact on the Council's financial statements.</li> <li>• Our findings from the review have been summarised within Section 4 of this report.</li> <li>• Regular monitoring of the IT strategy review has supported our view that the Council is currently on plan for achieving completion of the project by March 2013.</li> </ul>

**2.1 Matters identified during the course of the audit**

The following findings are presented to the Council for consideration of its responsibilities in the context of overall financial reporting.

**Unpresented cheques**

Reperformance of the year end bank reconciliation identified £271,581 of cheques that were over 6 months old. Cheques over 6 months old should be cancelled and written back to the cashbook.

### 3 Audit adjustments

#### 3.1 Introduction

A number of adjustments to the draft accounts have been identified during the audit process. We have reported all misstatements to those charged with governance, whether or not the accounts have been adjusted by management.

#### 3.2 Impact of adjusted misstatements

All adjusted misstatements are set out in detail below.

	Detail	Balance sheet £000	Statement of comprehensive income,£000
1	<b>Disclosure:</b> There were a number of presentational changes that arose during the course of the audit that have been made to the financial statements.	-	-
<b>Net Impact</b>		-	-

### 3.3 Unadjusted misstatements

We are required to communicate all uncorrected misstatements to you, other than those considered to be clearly trivial. The misstatement below has not been adjusted on the grounds of materiality. Those charged with governance are requested to consider whether or not the adjustment should be made to the financial statements and confirm their view to us.

	Detail	Balance sheet £000	Statement of comprehensive income,£000
1	<b>Misstatement</b> The Council made a general provision for bad debts to the value of £250,000. The cipfa code does not permit general bad debt provisions. The Council has allocated the general provision for commercial rent bad debts, which results in £250,000 being overprovided and to be written back to the SOCIE.	250	(250)
2	<b>Misstatement</b> The commercial rent bad debt provision was found to be underprovided.	(92)	92
3	<b>Misstatement</b> Unpresented cheques greater than 6 months old	271	(271)
<b>Net Impact</b>		<b>429</b>	<b>(429)</b>



## 4 Design effectiveness of internal controls

### 4.1 Accounting system and internal control

Our audit is not designed to identify all significant weaknesses in the Council's internal controls but is designed primarily for the purpose of expressing our opinion on the financial statements of the Council. However, where, as part of our testing, we identify any control weaknesses, we report these to you.

We did identify an internal control failure with regard to the non-production of year end account listings to support the year end debtor balance of Council tax. We were able to gain assurance over the recoverability of the year end debtor position, as at 17 September 2012, by taking into account the outstanding balance as at 17 September 2012 and netting off the amount provided for bad debts results in the outstanding balance being below our materiality level.

In consequence, our work did not encompass a detailed review of all aspects of the internal controls and cannot be relied upon necessarily to disclose all defalcations or other irregularities or to include all possible improvements in internal control.

See 'Other reporting procedures' for further details of our approach in respect of internal controls.

### 4.2 Management of the risk of fraud

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

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

### 4.3 Review of information technology controls

Our information systems specialist performed a high level review of the general IT control environment, as part of our overall review of the internal controls system. We also performed a follow up of the issues that have been raised in the previous year. It should be noted that of the seven recommendations raised in 2010/11, three recommendations had been implemented, two were ongoing, one had been amended and regarding one recommendation the audit committee accepted the risk.

We concluded that, from the work undertaken to date there are no material weaknesses that are likely to impact on the Council's financial statements for the year ended 31 March 2012. However, the failure to implement agreed audit recommendations represents a failure in IT governance.

We have identified areas for improvement during the course of our work in these areas. We do not consider these to pose a significant risk to the accounts, recommendation have been raised at appendix A.

## 5 Other reporting matters

### 5.1 Other assurance reviews

To support our audit work the following additional reviews have been undertaken as communicated as part of our audit planning:

#### VAT

Our VAT specialist undertook a high level review of the Council's arrangements in April 2012, with specific consideration of the following:

- Posting of invoices
- VAT return compilation
- Partial exemption
- Relationship with HMRC
- Training
- Salary sacrifice
- Bad debts
- Peppercorn leases
- Land and property transactions

There appears to be sufficient knowledge in the accounts department for the VAT return to be correctly compiled each month and the correct VAT treatment applied to most transactions.

There are controls in place over the compilation of the VAT return and the fact that a recent mistake in posting was detected prior to submission of the return gives comfort that the controls are operational.

From the results of our observations and testing, we concluded that the risk of material misstatements is low.

#### Fraud

A high level review of the overall adequacy of arrangements was undertaken to ensure that the risk of fraud and corruption is being effectively addressed by the Council's current arrangements. We noted that the council had satisfactory arrangements in place except for the following findings:

- a) There is no master list of suppliers and while a contract register was maintained it only included what was notified to Procurement
- b) We were informed of an instance where a suppliers terms and conditions were agreed to rather than Council terms.
- c) We were informed that standard contracts had not been updated to cover the Bribery Act

Recommendations have been raised at appendix B.

### 5.2 Annual governance statement

We have examined the Council'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 Council.

We have considered that the Council has good arrangements in place to compile the AGS and provide an appropriate audit trail for the Managing Director and Elected Mayor to sign the statement.

### **5.3 Public Challenge Matters**

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

### **5.4 Next steps**

The Audit 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.

## 6 Value for Money

### 6.1 Value for money conclusion

The Code of Audit Practice 2010 (the Code) describes the Council'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 Council has proper arrangements in place for securing financial resilience.**

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

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

### 6.2 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 Council'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:

- The Council has a good track record in managing expenditure against budget. This reflects good performance in challenging financial times.
- The Council remains strong in the area of strategic financial planning, having planned effectively for the first two years of reduced central government funding.
- 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 Council 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 Council 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.
- In addition, the housing benefit service did not process notification of regulation amendments from the Department for Work and Pensions [‘DWP’] (ATLAS) have not been actioned since July 2011. A comparison of LA error overpayments between current and prior years housing and council tax benefit claims has found that the quantum of overpayments rose sharply from £237,757 to £371,784, representing a 56% increase on the prior year. Subsidy rules are such that Councils do not receive subsidy for LA error overpayments.
- The Council has received £540,000 from new Homes bonus and additional income from waste & recycling, investments for £270,000, which has more than offset the above loss.
- There remain a number of budgetary pressures facing the Council in the medium term, as have been identified in reporting to Members. These include the potential financial impact of changes in funding arrangements for Council Tax benefits from 2013 as well as caps on rent payments to landlords for housing benefits. The impact of the

localisation of council tax has already been quantified at £780,000 and the Council have been provided with a range of solutions to assess and take forward to address the deficit.

- The achievement of efficiency savings remains of vital importance in order that the Council is able to continue to maintain a strong level of general balances.

Our detailed findings are being reported separately to the January committee.

#### **Challenging economy, efficiency and effectiveness**

To support our conclusion against this criteria we have reviewed whether the Council 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.

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 criteria.

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 has made.

**6.3 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 Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2012.

## A Recommendations

	Assessment	Recommendation	Management comments	Implementation date and responsibility
<b><i>Audit recommendations</i></b>				
1	Low	<p><b>Earmarked reserves</b> The Council should review the level of earmarked reserves and only create a reserve where there is a requirement for the reserve to be created.</p>	<p>Agreed. The Council reviews its level of earmarked reserves as part of its Budget Setting process; and again when the final outturn for the year is reported.</p>	<p>It will be reviewed in January 2013 prior to setting the council tax. Head of Strategic Finance</p>
2	Medium	<p><b>Council tax debtor account listing</b> The Council should run detailed year end debtor listings to support the council tax debtor balance.</p>	<p>Agreed. This should be standard practice and it is regretted that it was not carried out.</p>	<p>This will be a high priority when closing the 2012/2013 Accounts. Kevin Stewart, Revenues Manager (Shared Services)</p>

	Assessment	Recommendation	Management comments	Implementation date and responsibility
3	Medium	<p><b>Unpresented cheques</b> The Council should cancel all cheques over 6 months old and write the amount back to the cashbook.</p>	<p>Agreed These cheques relate to payments made for council tax, business rates and housing benefit..</p>	<p>Jane Walker, Benefits Manager &amp; Kevin Stewart, Revenues Manager. Will be written back to the cash book by end October and at least quarterly thereafter.</p>
<b><i>IT recommendations:</i></b>				
4	Medium	<p><b>Password and screensaver setting</b> To enhance the network's access control and for the protection of the Council's vital information assets, the following should be enforced to users to reduce the likelihood of cracking the password and prevent unauthorised access to an idle or unattended workstation:</p> <ul style="list-style-type: none"> <li>• 'Password must meet complexity requirements' setting is enabled to enforce users to use strong or difficult to guess passwords;</li> <li>• 'Maximum password age' is set between 30-90 days to ensure passwords are changed on a regular basis; and</li> <li>• 'Number of seconds to wait to enable the Screen Saver' is set between 10-15 minutes only .</li> </ul>	<p>Agreed</p>	<p><b>Implemented</b> Avni Patel (Craig Ralton) July 2012</p>



	Assessment	Recommendation	Management comments	Implementation date and responsibility
5	Medium	<p><b>Review of user accounts</b>                      Management should consider implementing a formal process to review user access to the network on a regular basis (e.g. quarterly) to ensure access is appropriate based on job functions and all inappropriate accounts have been removed.</p>	Agreed	<p><b>Implemented</b>                      Avni Patel                      (James Fleming)                      July 2012</p>
6	Medium	<p><b>User identification</b>                      In order to mitigate the risk of using generic account, we recommend that management should ensure that the password shared is:                      changed every 30 days or whenever a team member left the Council;                      at least 8 characters long; and complex or hard to guess</p>	Agreed	<p><b>Implemented</b>                      Avni Patel                      (Emma Tiernan)                      July 2012</p>
<b>Procurement</b>				
7	Medium	<p><b>Central contract register</b>                      a central contract register is collated and maintained, including all contract amendment terms, to support effective contract monitoring and comparison between providers</p>	A central procurement register is maintained and reviewed at regular intervals. It will only include major contracts and would not include all purchase order information which is kept on a separate system.	<p>Only material contracts will be recorded.                      Howard Hughes,                      Corporate Procurement Manager.                      Quarterly review.</p>
8	Medium	<p><b>Procurement guidance</b>                      Guidance is provided to all staff involved in procurement concerning the appropriate terms and conditions to sign up to.</p>	Agreed	<p>To be reviewed and communicated by 31<sup>st</sup> March 2013. Howard Hughes, Corporate Procurement Manager</p>

	Assessment	Recommendation	Management comments	Implementation date and responsibility
9	Medium	<p><b>Bribery Act requirements</b>                      All contracts are appropriately updated to ensure suppliers accept and implement effective anti-bribery and corruption procedures. We also recommend that the Council ensure that information provided to all staff about the Bribery Act is sufficient</p>	<p>Staff are regularly informed of all aspects relating to Bribery and corruption.                      A review of the arrangements with suppliers will be instigated.</p>	<p>By 31<sup>st</sup> December.                      Howard Hughes,                      Corporate procurement manager.</p>

## B Prior year recommendation follow up

	Recommendation	Management comments	Status
<b>Earmarked reserves</b>			
1	The Council to review all Earmarked reserves to ensure they are required.	A report was presented to Cabinet in July 2011 regarding the level of earmarked reserves but accept that the level of reserves requires constant review.	The level of earmarked reserves has increased.  Recommendation not Implemented.
<b>Information Technology</b>			
2	The Council should consider implementing an intrusion detection or prevention system. Management should agree reasonable times to follow up on the actions highlighted in the penetration tests, both internal and external, to ensure a secure network.	ICT are currently analysing penetration test reports and will produce an action plan to address the weaknesses in the councils systems.	On-going

	Recommendation	Management comments	Status
3	<p>We recommend that every user to the eFinancial system is unique to ensure transparency and accountability in every team for the actions performed in the system.</p>	<p>The IT analysts were set up with a generic log on to amend or set up passwords for the finance system when it was implemented. We will contact Advanced Business Services (ABS) for advice and give each of that team a personal log on so that the generic one is not used.</p>	<p>ICT has raised this with ABS and were informed there would be an extra cost to implement the change. Security is a default admin account that should be used by a single administrator, this is a shared service and so would require more than one person to have access.</p> <p><b>New recommendation</b> Management should ensure that proper password security is enforced.</p> <p><b>Recommendation implemented</b></p>

	Recommendation	Management comments	Status
4	<p>We recommend that the password are changed on a periodic basis. In line with good practice, this should be every 30-60 days.</p> <p>The minimum length of the passwords should be amended to be at least eight characters and the complexity settings should be activated to ensure complex passwords are used by to access both the network and the Finance application.</p>	<p>Network passwords:</p> <p>There already currently a local security policy set to require network passwords to be changed every 30 days.</p> <p>The domain group policy is set to require at least 6 characters in length. Complexity will be enabled, 30 day password age and 8 character requirement will be set.</p> <p>Finance system passwords:</p> <p>We will contact ABS for assistance with amending the password length on the finance system.</p>	<p>Recommendation implemented</p>
5	<p>Management should review user access for each financial application to ensure that access to the application is appropriately applied. In addition, access to the network should be periodically reviewed to ensure that only current employees have access to the network.</p> <p>In addition, the New System User Request form should be updated to ensure that it includes the current systems used within the Council</p>	<p>A review of the user access within the FMS was carried out in January 2011 following an internal audit recommendation. This is scheduled for a bi-annual review.</p> <p>The ICT new user forms for Watford have already been updated and published on the intranet.</p>	<p>Recommendation implemented</p>

	Recommendation	Management comments	Status
6	<p>Management should consider performing a review of the Oracle databases underlying the financial applications to determine the critical financial data tables that require audit logging. The review should be documented for future reference.</p> <p>Management should then implement a process to monitor any changes made to the critical financial data tables identified to ensure the changes have been appropriately authorised. The monitoring should be done by an appropriate independent individual, i.e. the individual should not have access to the databases and should have adequate knowledge to perform an effective review.</p> <p>Policies and procedures should be established to provide guidelines to staff to monitor and apply the change management processes.</p>	<p>A review is currently being undertaken by Welldata of all the councils databases and this will be documented by them.</p> <p>The FMS system does log changes to the core system, for example changes to bank details. If log files were required for every transaction this would have a huge impact on performance. We would need to discuss with Advanced Business Services and perhaps Welldata (remote DBA service) as to how best to proceed with this.</p> <p>We do have a spreadsheet that documents changes made to the core financial system within the finance department itself as well as the ICT change management system that is used to log technical changes at server and software level.</p> <p>A procedure document relating to the process will be created.</p>	<p>First part of Recommendation Implemented</p> <p>Awaiting information from Welldata on how to proceed with this.</p> <p>Awaiting information from Welldata on how to proceed with this. As a result we are in the process of assessing the additional disk space required if auditing on for all modules of ABS that are in use was to be enabled.</p> <p><b>Ongoing</b></p> <p>A procedure document for ICT change control has been documented and is in use and is reviewed and amended periodically (latest revision was 3rd August 2012).</p>

	Recommendation	Management comments	Status
7	<p>Change management policies and procedures should be implemented to ensure that a standardised process is followed for the implementing of changes to the system.</p> <p>All changes should be controlled at a central point to ensure that there is no duplication and that changes are tested as required before it is deployed in the live environment.</p>	<p>ICT Changes</p> <p>Change management procedure has been documented and implemented within ICT and all changes requested via ICT are logged within this system.</p> <p>Finance Changes</p> <p>Finance do have change management process in place but will ensure these are formally documented. It has been agreed that all change requests will be channelled via the Senior Accounts Assistant</p>	<p>Recommendation implemented</p>
8	<p>Management should consider obtaining interface programs from the financial package provider to ensure that there is continuous support for the interfaces that are run regularly and to prevent over reliance on one individual in the organisation.</p> <p>A segregation should be established between the program maintenance team and the Financial reporting team.</p>	<p>Obtaining new interfaces to replace those written in-house will be costly, inefficient and impact on service delivery. It is accepted there is less internal control and greater risk for business continuity when reliance is place on one individual. This matter should be referred to the Shared Services Directors to find a satisfactory solution but recognising that we operate within small teams and financial constraints. The IT skills of the Finance Manager reside with an individual and are not part of the job specification.</p>	<p>Risk accepted</p>

## C 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, the Audit Committee Watford Borough Council and the Board (Council).

The purpose of this report is to highlight the key issues affecting the results of the Council and the preparation of the Council'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 Council.

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 Council arising under the terms of our audit engagement.

The contents of this report should not be disclosed to 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 memorandum is appropriate, having regard to their knowledge of the particular circumstances.

### Clarification of roles and responsibilities with respect to internal controls

The Council'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 Council that it has done so.

The Audit Committee is required to review the Council's internal financial controls. In addition, the Audit 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 Audit 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 Audit 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 Council; and
- our fees paid by the Council 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	£114,000
Other assurance services	£20,000
<b>Total</b>	<b>£134,000</b>

\* Certification of claims and returns £20,000 (est)

### Audit quality assurance

Grant Thornton's audit and assurance practice is currently monitored by the Audit Inspection Unit, an arm of the Financial Reporting Council, 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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