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This version of the report is a draft. Its contents and subject matter remain under review and its contents may change and be expanded as part of the finalisation of the report.

The Audit Findings for Three Rivers and Watford Shared Services Joint Committee

Year ended 31 March 2013

September 2013

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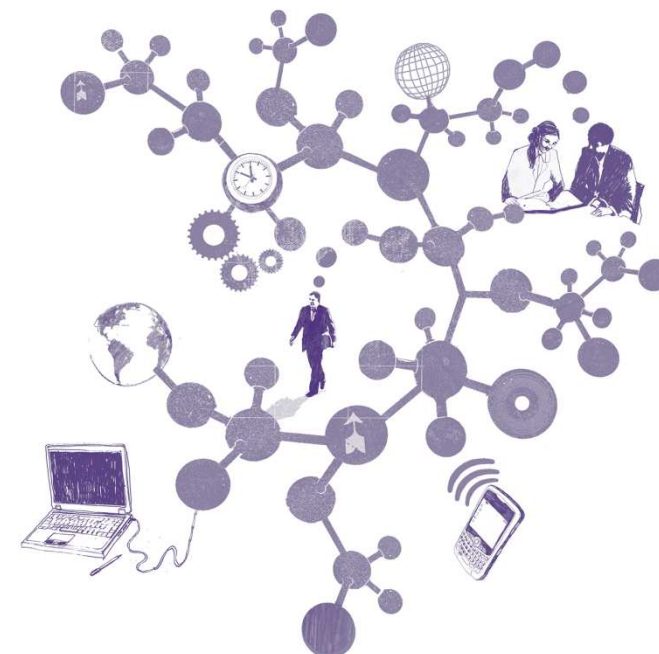
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The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed primarily for the purpose of expressing our opinion on the financial statements. Our audit is 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 do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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Section 1: Executive summary

01. Executive summary

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Executive summary

Purpose of this report

This report highlights the key matters arising from our audit of Three Rivers and Watford Shared Services Joint Committee ('the Committee') financial statements for the year ended 31 March 2013. It is also used to report our audit findings to management and those charged with governance in accordance with the requirements of International Standard on Auditing 260 (ISA).

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, its expenditure and income for the year and whether they have been properly prepared in accordance with the CIPFA Code of Practice on Local Committee Accounting. 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).

Introduction

Our audit is substantially complete although we are finalising our work in the following areas:

- review of the final version of the financial statements;
- obtain and review the final management letter of representation;
- updating our post balance sheet events review, to the date of signing the opinion;

We received the draft financial statements and related notes on the 20th June, ahead of the national timetable

Key issues arising from our audit

Financial statements opinion

We anticipate providing an unqualified opinion on the financial statements following resolution of the issues above.

We have identified no adjustments affecting the Committee's reported financial position. We have made a number of adjustments to improve the presentation of the financial statements.

Value for money conclusion

We are pleased to report that, based on our review of the Committee's arrangements to secure economy, efficiency and effectiveness in its use of resources, we propose to give an unqualified VFM conclusion.

Further detail of our work on Value for Money is set out in section 3 of this report.

Controls

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 identify any control weaknesses, we report these to the Committee.

The way forward

Matters arising from the financial statements audit and review of the Committee's arrangements for securing economy, efficiency and effectiveness in its use of resources have been discussed with the Head of Finance Shared Services.

We have made a number of recommendations, which are set out in the action plan in Appendix A. Recommendations have been discussed and agreed with the Head of Finance Shared Services and the finance team

Acknowledgment

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
September 2013

Section 2: *Audit findings*

01. Executive summary

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Audit findings

In this section we present our findings in respect of matters and risks identified at the planning stage of the audit and additional matters that arose during the course of our work. We set out on the following pages the work we have performed and findings arising from our work in respect of the audit risks we identified. We also set out the adjustments to the financial statements from our audit work and our findings in respect of internal controls.

Audit opinion

We anticipate that we will provide the Committee with an unqualified opinion, as set out in Appendix B.

Audit findings

Design effectiveness of internal controls

Accounting systems and 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.

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.

Other reporting

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.

Public Challenge Matters

The Committee held the day that electors could raise questions on the accounts on 15th August 2013, we received no questions or objections in respect of the financial statements for the year ended 31 March 2013 on that day or subsequently that prevents us from issuing our audit certificate.

Next Steps

The Joint Committee is required to approve the financial statements for the year ended 31 March 2013. In forming its conclusions the Committee's attention is drawn to the financial statements and the Letter of Representation.

Misclassifications & disclosure changes

The table below provides details of misclassification and disclosure changes identified during the audit which have been made in the final set of financial statements.

Adjustment type	Value £'000	Account balance	Impact on the financial statements
To be updated			

Other communication requirements

We set out below details of other matters which we are required by auditing standards to communicate to those charged with governance.

	Issue	Commentary
1.	Matters in relation to fraud	<ul style="list-style-type: none"> We have previously discussed the risk of fraud with the Joint Shared Services Committee and we have not been made aware of any other incidents in the period and no other issues have been identified during the course of our audit procedures.
2.	Matters in relation to laws and regulations	<ul style="list-style-type: none"> We are not aware of any significant incidences of non-compliance with relevant laws and regulations.
3.	Written representations	<ul style="list-style-type: none"> A standard letter of representation has been requested from the Committee.
4.	Disclosures	<ul style="list-style-type: none"> Our review found no material omissions in the financial statements.
5.	Matters in relation to related parties	<ul style="list-style-type: none"> We are not aware of any related party transactions which have not been disclosed.
6.	Going concern	<ul style="list-style-type: none"> Our work has not identified any reason to challenge the Committee's decision to prepare the financial statements on a going concern basis.

Section 3: Value for Money

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Value for Money

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
- review regularly the adequacy and effectiveness of these arrangements.

We are required to give our VFM conclusion based on the following two criteria specified by the Audit Commission which support our reporting responsibilities under the Code.

- **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.

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 results of the 2012/13 financial resilience work are RAG rated, the results of which have been summarised in the table below.

A review of the shared service budgetary control found that

- 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 £248,000 overspend in 2011/12. A review of the shared service actual costs compared to original budget for 2012/13 found that the shared service returned a £448,000 overspend, a 80% increase of the prior year overspend. The increase in expenditure has been primarily due to the overspend on Revenues and Benefits service, which amounted to a £517,000 deficit in 2013/13. Only the Finance shared service returned a surplus with the remaining 3 shared services returning deficits.
- Further analysis of the Revenues and Benefits service overspend found that the Benefits service requested an increase in budget of £285,000 in September, in order to improve the processing of benefit claims performance, which resulted in the budget being revised from £1.25million to £1.579million for 2012/13. The actual year end cost of the Benefits service was £1.723million, which indicates a financial governance issue as the service is overspending on original budget and revised budget.
- The Benefits service requested a budget virement in September 2012 from the joint committee to address capacity issues and engaging the services of a third party supplier has resulted in an improvement in performance of processing new claims.

Value for Money

Challenging economy, efficiency and effectiveness

We have reviewed whether the Committee has prioritised its resources to take account of the tighter constraints it is required to operate within.

We have completed a review of the arrangements the Committee has in place to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2013.

We are satisfied that in all significant respects the Committee has proper arrangements in place to secure the economy, efficiency and effectiveness in its use of resources.

Overall VFM conclusion

On the basis of our work, and 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 2013 and no residual risks were identified.

Section 4: Fees, non audit services and independence

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Fees, non audit services and independence

We confirm below our final fees charged for the audit and confirm there were no fees for the provision of non audit services.

Fees

	Actual fees £
Audit fees	10,000

Fees for other services

Service	Fees £
None	

Independence and ethics

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Auditing Practices Board's Ethical Standards and therefore we confirm that we are independent and are able to express an objective opinion on the financial statements.

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

Section 5: Communication of audit matters

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Communication of audit matters to those charged with governance

International Standard on Auditing (ISA) 260, as well as other ISAs, prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table opposite.

The Audit Plan outlined our audit strategy and plan to deliver the audit, while this Audit Findings report presents the key issues and other matters arising from the audit, together with an explanation as to how these have been resolved.

Respective responsibilities

The Audit Findings Report has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission (www.audit-commission.gov.uk).

We have been appointed as the Committee's independent external auditors by the Audit Commission, the body responsible for appointing external auditors to local public bodies in England. As external auditors, we have a broad remit covering finance and governance matters.

Our annual work programme is set in accordance with the Code of Audit Practice ('the Code') issued by the Audit Commission and includes nationally prescribed and locally determined work. Our work considers the Committee's key risks when reaching our conclusions under the Code.

It is the responsibility of the Committee to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Committee is fulfilling these responsibilities.

	Audit Plan	Audit Findings
Our communication plan		
Respective responsibilities of auditor and management/those charged with governance		✓
Overview of the planned scope and timing of the audit. Form, timing and expected general content of communications		✓
Views about the qualitative aspects of the entity's accounting and financial reporting practices, significant matters and issues arising during the audit and written representations that have been sought		✓
Confirmation of independence and objectivity		✓
A statement that we have complied with relevant ethical requirements regarding independence, relationships and other matters which might be thought to bear on independence.		✓
Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged		
Details of safeguards applied to threats to independence		
Material weaknesses in internal control identified during the audit		✓
Identification or suspicion of fraud involving management and/or others which results in material misstatement of the financial statements		✓
Compliance with laws and regulations		✓
Expected auditor's report		✓
Uncorrected misstatements		✓
Significant matters arising in connection with related parties		✓
Significant matters in relation to going concern		✓

Appendices

Appendix A: Prior year recommendation follow up

Priority

High - Significant effect on control system

Medium - Effect on control system

Low - Best practice

Rec No.	Recommendation	Priority	Management response	Implementation date & responsibility
1	<p>Financial Reporting</p> <p>Strengthen the financial reporting to include actions developed in response to the reported Shared variances on the comparison of expenditure to budget.</p>	Medium		
2	<p>Financial Governance</p> <p>The Shared Services Committee should continue to monitor performance of the Revenues and Benefit Service and ensure that robust steps are taken to reduce the scale of budgetary overspends in the benefits team.</p>	Medium		

Appendix B: Audit opinion

We anticipate we will provide the Committee with an unmodified audit report

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF Three Rivers and Watford Shared Services Joint Committee

Opinion on the Committee financial statements

We have audited the financial statements of Three Rivers and Watford Shared Services Joint Committee for the year ended 31 March 2013 under the Audit Commission Act 1998. The financial statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13.

This report is made solely to the members of Three Rivers and Watford Shared Services Joint Committee in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Committee and the Committee's Members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the Finance Officer and auditor

As explained more fully in the Statement of the Finance Officer's Responsibilities, the Finance Officer is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom, and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Committee's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Finance Officer and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the explanatory foreword to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements: give a true and fair view of the financial position of Three Rivers and Watford Shared Services Joint Committee as at 31 March 2013 and of its expenditure and income for the year then ended; and have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13.

Opinion on other matters

In our opinion, the information given in the explanatory foreword for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we report by exception

We report to you if in our opinion the annual governance statement does not reflect compliance with 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007;

we issue a report in the public interest under section 8 of the Audit Commission Act 1998; we designate under section 11 of the Audit Commission Act 1998 any recommendation as one that requires the Committee to consider it at a public meeting and to decide what action to take in response; or we exercise any other special powers of the auditor under the Audit Commission Act 1998.

We have nothing to report in these respects.

Conclusion on the Committee's arrangements for securing economy, efficiency and effectiveness in the use of resources

Respective responsibilities of the Committee and the auditor

The Committee is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

We are required under Section 5 of the Audit Commission Act 1998 to satisfy ourselves that the Committee has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires us to report to you our conclusion relating to proper arrangements, having regard to relevant criteria specified by the Audit Commission.

We report if significant matters have come to our attention which prevent us from concluding that the Committee has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Committee's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Scope of the review of arrangements for securing economy, efficiency and effectiveness in the use of resources

We have undertaken our audit in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission in November 2012, as to whether the Committee has proper arrangements for:

- securing financial resilience; and
- challenging how it secures economy, efficiency and effectiveness.

The Audit Commission has determined these two criteria as those necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Committee put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2013.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to form a view on whether, in all significant respects, the Committee had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Conclusion

On the basis of our work, having regard to the guidance on the specified criteria published by the Audit Commission in November 2012, we are satisfied that, in all significant respects, Three Rivers and Watford Shared Services Joint Committee put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2013.

Certificate

We certify that we have completed the audit of the financial statements of Three Rivers and Watford Shared Services Joint Committee in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission.

Paul Dossett, Partner
for and on behalf of Grant Thornton UK LLP, Appointed Auditor

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26 September 2013

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