



The Audit Findings for Watford Borough Council

DRAFT

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.

Year ended 31 March 2013

September 2013

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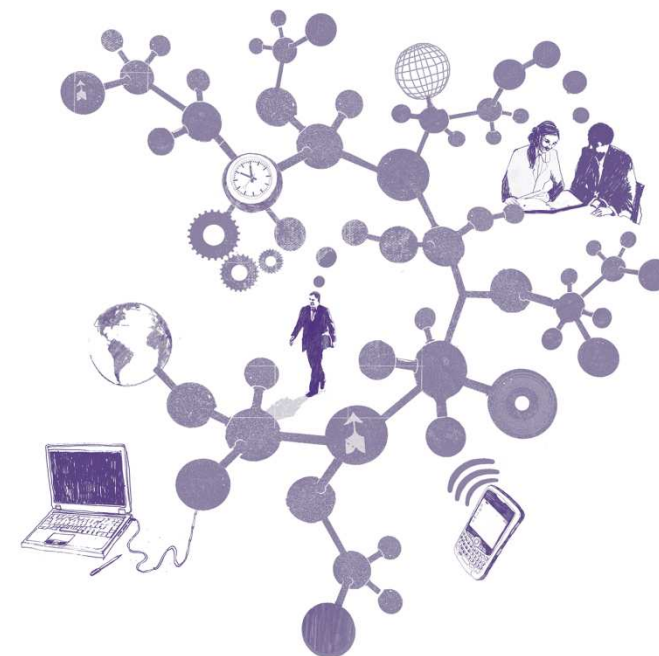
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The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed primarily for the purpose of expressing our opinion on the financial statements. Our audit is 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 Watford Borough Council's ('the Council') 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 Council'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 Council Accounting. 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).

Introduction

In the conduct of our audit we have not had to alter or change our planned audit approach, which we communicated to you in our Audit Plan dated 4th March 2013.

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

- review of the final version of the financial statements;
- detailed housing and council tax benefit case testing;
- confirmation of welfare expenditure;
- review of year-end HMRC returns;

- receipt of outstanding investment letters;
- obtain and review the final management letter of representation;
- updating our post balance sheet events review, to the date of signing the opinion;
- review of the Whole of Government Accounts.

We received the draft financial statements and related notes on the 20th June, ahead of the national timetable and we provided feedback on our initial review of the accounts on 20th June. Accompanying working papers were provided at the commencement of our audit, in accordance with the agreed timetable

We received draft financial statements and accompanying working papers at the commencement of our audit, in accordance with the agreed timetable.

Key issues arising from our audit

Financial statements opinion

We anticipate providing an unqualified opinion on the financial statements subject to clearance of the points above.

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

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

Executive summary

- The Council has made significant judgements about the valuation of its assets. The Council processed an increase in the valuation of Charter Place from £15.2 million to £25.5 million. We are satisfied with the valuation methodology and assumptions employed by the Council. Furthermore, we have assessed the valuation of impairment charged to the Harlequin shopping centre and confirmed that the impairments are appropriate and reflect the best information available to the Council.
- The Finance manager, who prepares the accounts, is retiring next year and the Council should give appropriate consideration to succession planning and strengthening the finance team. We will continue to work with the Council to ensure the audit runs smoothly and is completed in a timely manner.

Further details are set out in section 2 of this report.

Value for money conclusion

We are pleased to report that, based on our review of the Council'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.

Whole of Government Accounts (WGA)

We are currently in the process of completing our work on the Whole of Government Accounts and we intend to sign and report the results of our work to the Audit Committee on 25 September 2013.

Controls

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

We draw your attention in particular to control issues identified in relation to:

- information technology - monitoring arrangements, periodic refresh of IT security policies and third party service assurance.
- putting in place greater clarity in respect of journal authorisation levels.

Further details are provided within section 2 of this report.

The way forward

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

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 Shared Director of Finance 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.

Section 2: *Audit findings*

01. Executive summary

02. Audit findings

03. Value for Money

04. Fees, non audit services and independence

05. Communication of audit matters

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 in our audit plan, presented to the Audit Committee on 26 June 2013. We also set out the adjustments to the financial statements from our audit work and our findings in respect of internal controls.

Changes to Audit Plan

We have not made any changes to our Audit Plan as previously communicated to you on the 26th June 2013.

Audit opinion

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

Audit findings against significant risks

"Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, either due to size or nature, and that therefore occur infrequently. Judgmental matters may include the development of accounting estimates for which there is significant measurement uncertainty" (ISA 315).

In this section we detail our response to the significant risks of material misstatement which we identified in the Audit Plan. As we noted in our plan, there are two presumed significant risks which are applicable to all audits under auditing standards.

	Risks identified in our audit plan	Work completed	Assurance gained and issues arising
1.	<p>Improper revenue recognition</p> <p>Under ISA 240 there is a presumed risk that revenue may be misstated due to improper recognition.</p>	<ul style="list-style-type: none"> • review and testing of revenue recognition policies. • attribute testing of material revenue streams. • review of unusual significant transactions. 	<p>Our audit work has not identified any issues in respect of revenue recognition.</p>
2.	<p>Management override of controls</p> <p>Under ISA 240 there is a presumed risk of management over-ride of controls.</p>	<ul style="list-style-type: none"> • review of accounting estimates, judgements and decisions made by management. • testing of journals entries. • review of unusual significant transactions. 	<p>Our audit work has not identified any evidence of management override of controls. In particular, our review of journal controls and testing of journal entries has not identified any significant issues.</p> <p>However, we did note that the shared finance service does not have an up-to-date journal authorisation policy setting out clear responsibilities for authorisation of different types of journal. We recommend that such a policy is developed.</p> <p>We set out later in this section of the report our work and findings on key accounting estimates and judgments.</p>

Audit findings against other risks

In this section we detail our response to the other risks of material misstatement which we identified in the Audit Plan. Recommendations, together with management responses, are attached at Appendix A.

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
Operating expenses	Operating expenses understated	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> • documented our understanding of processes and key controls over the transaction cycle. • undertaken walkthrough of the key controls to assess the whether those controls are designed effectively. • performed attribute sample testing of 60 expenditure items for occurrence, allocation and pricing to ensure expenditure is properly recorded in the accounts. 	Our audit work has not identified any significant issues in relation to the risk identified.
Operating expenses	Creditors understated or not recorded in the correct period	<ul style="list-style-type: none"> • A walkthrough of the system has been performed with no issues. • performed attribute sample testing of 60 expenditure items for occurrence, allocation and pricing to ensure expenditure is properly recorded in the accounts. 	Our audit work has not identified any significant issues in relation to the risk identified.

Audit findings against other risks

In this section we detail our response to the other risks of material misstatement which we identified in the Audit Plan. Recommendations, together with management responses, are attached at Appendix A.

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
Employee remuneration	Remuneration expenses not correct	<ul style="list-style-type: none"> control testing of monthly payroll reconciliation process. performed attribute testing of a sample of 25 employees for validity and completeness. ensure pay recorded at the correct rate. 	Our audit work has not identified any significant issues in relation to the risk identified.
Welfare expenditure	Welfare benefits improperly computed	<ul style="list-style-type: none"> Currently in the process of completing the housing benefit testing modules to confirm welfare expenditure. 	Our audit work confirmed that we did not find any significant issues but the year end reconciliation between the housing benefits system and the general ledger had yet to be performed.

Audit findings against other risks

In this section we detail our response to the other risks of material misstatement which we identified in the Audit Plan. Recommendations, together with management responses, are attached at Appendix A.

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
Property, plant & equipment	PPE activity not valid	<ul style="list-style-type: none"> ● Review of in-year additions and disposals to provide assurance that property, plant and equipment has been correctly accounted for in the financial statements. ● Reconciling the work undertaken by the valuer to the assets held on the asset register to gain assurance over the completeness of the PPE balance. ● Review of capitalisation, presentation and disclosure of property, plant & equipment including investment properties and assets held for sale. 	Our audit work has not identified any significant issues in relation to the risk identified.
Property, plant & equipment	Revaluation measurement not correct	<ul style="list-style-type: none"> ● review significant revaluation movements and assess the assumptions employed by the valuer. ● evaluation of the work of an expert in determining the appropriateness of the valuation. 	We reviewed significant movements in the property valuations with no issues noted. We confirmed the increase in valuation of Charter Place and the subsequent impairment charged for the fall in valuation of the Harlequin shopping centre.

Accounting policies, estimates & judgements

In this section we report on our consideration of accounting policies, in particular revenue recognition policies, and key estimates and judgements made and included with the Council's financial statements.

Accounting area	Summary of policy	Comments	Assessment
<p>Revenue recognition</p>	<p>Revenue from the provision of services is recognised when the Council can measure reliably the percentage of completion of the transaction and it is probable that economic benefits or service potential associated with the transaction will flow to the Council.</p> <p>Revenue from the sale of goods is recognised when the Council transfers the significant risks and rewards or ownership to the purchaser and it is probable that economic benefits or service potential associated with the transaction will flow to the Council.</p>	<ul style="list-style-type: none"> • The revenue recognition policy is in line with IAS 18, Revenue recognition standard and the model policies within the CIPFA Code of Practice. • Our review of council tax, grant, nation non-domestics rates and other income confirmed the council has accounted for income in line with the policy. 	<p style="text-align: center;">●</p>

Assessment

- Marginal accounting policy which could potentially attract attention from regulators
- Accounting policy appropriate and disclosures sufficient
- Accounting policy appropriate but scope for improved disclosure

Accounting policies, estimates & judgements

In this section we report on our consideration of accounting policies, in particular revenue recognition policies, and key estimates and judgements made and included with the Council's financial statements.

Accounting area	Summary of policy	Comments	Assessment
Judgements and estimates	<ul style="list-style-type: none"> • Key estimates and judgements include : <ul style="list-style-type: none"> – pension fund valuations and settlements – revaluations – Impairments – Provisions 	<ul style="list-style-type: none"> • We challenged the assumptions used by the actuary in arriving at the pension liability and reviewed the sensitivity to change in these assumptions and the impact on the liability. • We reviewed the qualification and expertise of the valuer and challenged the assumptions used in arriving at the valuations. The movement and changes in valuation methodology have been appropriately disclosed in the financial statements. • Whilst the provision did not pose a material risk we ensured adequate presentation and disclosure of the Council's provisions was made in the financial statements. 	●
Other accounting policies	<ul style="list-style-type: none"> • We have reviewed the Council's policies against the requirements of the CIPFA Code and accounting standards. 	<ul style="list-style-type: none"> • Our review of accounting policies has not highlighted any issues which we wish to bring to your attention. 	●

Assessment

- Marginal accounting policy which could potentially attract attention from regulators
- Accounting policy appropriate and disclosures sufficient

- Accounting policy appropriate but scope for improved disclosure

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
1	370	Investment assets	Costs relating to the cancellation of a lease had been incorrectly capitalised. The net effect is that this overstates the investment assets balance and the balance within the Comprehensive Income and Expenditure Statement.
2 Disclosure	-	-	There were a number of presentational changes that arose during the course of the audit that have been made to the financial statements.
3 Disclosure	£168	Corporate and Democratic core	Income and expenditure had been netted off from this balance and was understated by £168k on both income and expenditure within the comprehensive income and expenditure statement.

Internal controls

The purpose of an audit is to express an opinion on the financial statements.

Our audit included consideration of internal controls relevant to the preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control. The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

These and other recommendations, together with management responses, are included in the action plan attached at appendix A.

	Assessment	Issue and risk	Recommendations
1.	●	<p>IT Arrangements for monitoring unauthorised access attempts</p> <p>Unauthorised access attempts to the network and financial systems are not logged, and can therefore not be investigated.</p> <p>There is a risk that external and internal attempts to gain unauthorised access to IT resources and data will remain undetected through a lack of internal review.</p>	<p>Formal security monitoring procedures should be developed covering key systems and network infrastructure. For network Active Directory and financial systems where activity logs are available, failed access attempts, access provisioning activity created by these systems should be formally reviewed as a minimum for the purpose of detecting inappropriate or anomalous activity. The Council should put in place monitoring arrangements to ensure that the Council's outsourced IT provider performs periodic formal security reviews.</p>

Assessment

- Significant deficiency – risk of significant misstatement
- Deficiency – risk of inconsequential misstatement

Internal controls (continued)

	Assessment	Issue and risk	Recommendations
2.	●	<p>No Periodic Refresh of IT Security Policies</p> <p>The council has an Information Security Policy, however, this has not been reviewed or updated since its development in 2005. It is not up to date and requires a refresh.</p> <p>Without regular review, there is a risk that the policies and related procedures are no longer applicable to the needs and security of the council, which may compromise the organisation's IT environment</p>	<p>The Information Security Policy and should be refreshed at planned intervals or when significant changes occur to ensure their continuing suitability, adequacy, and effectiveness</p>
3.	●	<p>Assurance for third party services</p> <p>The council has its key financial systems including their IT infrastructure hosted and provided by third parties. The council presently has no arrangements to demonstrate due care and diligence by the third party through independent assurance reports.</p> <p>In cases where a third party provides a critical service to an organisation, the organisation should be able to demonstrate that it has taken due care to assure itself that the vendor can provide a resilient and high level of service. Deficiencies in this area could impact financial reporting where there may be for instance, insufficient controls over processing accuracy by the third-party service provider.</p>	<p>The council should request where it has third party IT service provision, formal assurance from the service provider on the adequacy of the general IT controls they have in operation at their data centre(s) from which the service is provided. This should include testing of third party disaster recovery plans.</p>

Assessment

- Significant deficiency – risk of significant misstatement
- Deficiency – risk of inconsequential misstatement

Internal controls (continued)

	Assessment	Issue and risk	Recommendations
4.	●	<p>Housing and Council Tax Benefit claim reconciliation</p> <p>Our audit work confirmed that the year end reconciliation between the housing benefits and the general ledger has not been produced.</p> <p>Without the reconciliation being performed on a annual basis there is the potential for reconciling items to occur at year end.</p>	<p>The housing and council tax benefit to general ledger reconciliation is performed annually on a timely basis.</p>
5.	●	<p>Journal authorisation</p> <p>The current e-financial system does not have in place a control to prevent an officer of the Council, who is not a finance manager or senior accountant, authorising journals.</p> <p>No unauthorised instances of erroneous journals being processed was found during testing and the point relates to Revenues and Benefits staff and not the wider council staff.</p> <p>The shared finance service should have an up-to-date journal authorisation policy that extends to Revenues and Benefits staff.</p>	<p>The shared finance service should develop an up-to-date journal authorisation policy setting out clear responsibilities for authorisation of different types of journal.</p>

Assessment

- Significant deficiency – risk of significant misstatement
- Deficiency – risk of inconsequential misstatement

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 Audit 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 Council.
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 Council'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 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
- 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 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.

Key findings

Securing financial resilience

We have undertaken a review which considered the Council's arrangements against the following 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.

Area of review	RAG rating
Key indicators of performance	● Green
Strategic financial planning	● Green
Financial governance	● Amber
Financial control	● Green

There has been a change to the rating awarded from the prior year for the following categories:

- Financial control has improved from a amber rating to a green rating..
- Financial governance has deteriorated from a green rating to an amber rating.

Value for Money

The key findings from this review are:

Overall our work highlighted that the Council has in place the proper arrangements to secure the economy, efficiency and effectiveness in its use of resources.

- 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 three 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 £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 control issue.
- The Council has received £1.4million in New Homes Bonus for 2012/13 and is expecting the level of bonus to increase in the following year to provide £2million plus balance per annum going forward.

- There has been a slight deterioration in the processing of notification regulation amendments from the Department for Work and Pensions [‘DWP’] (ATLAS) for the 2012/13 financial year. A comparison of the LA error overpayments to the prior year has found that the quantum of overpayments has increased from £371,784 to £386,351, representing a 3% increase on the prior year. A comparison of the level of LA Error overpayments across Hertfordshire has identified that Watford has the highest level of LA Error overpayments. Subsidy rules are such that Councils do not receive subsidy for LA error overpayments.
- A benchmarking exercise has been performed that compares the Council's level of LA error overpayments, as recorded in the draft 2012/13 housing and council tax benefit claim form, against both the highest and median District Council's for Hertfordshire, Surrey and Kent. Please see the table below.

Comparison of LA Error overpayments

LA Error overpayments 2012/13		£
Watford BC		386,351
Hertfordshire	highest	386,351
	average	118,754
Surrey	highest	160,606
	average	67,722
Kent	highest	347,822
	average	140,241

Value for Money (continued)

- We have compared the Council against the highest and average values of LA Error overpayments from the draft housing and council tax benefit subsidy claim per District Council for the counties of Hertfordshire, Surrey and Kent for 2012/13. The results were that Watford has recorded the highest amount of LA Error overpayments out of all District Council's in Hertfordshire, Surrey and Kent and the level of overpayments requires addressing going forward.
- The Council have signed an agreement with Capital Shopping centres regarding the redevelopment of Charter Place, for which the Council will receive c£1.8m in rent per annum protecting the Council against a fall in revenue due to a fall in occupancy rates.

Value for Money

Prior Year recommendations progress

We have reviewed the prior year recommendations issued as part of our financial resilience 2 review in 2011/12. Of the recommendations issued in 2011/12 there have been improvements in the speed of processing of new housing benefit claims and changes in circumstances but improvements are still required and all recommendations from the prior year remain outstanding.

The financial resilience recommendations are included in the action plan, see recommendations 4 to 8, attached at appendix A .

Challenging economy, efficiency and effectiveness

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

We have completed a detailed risk assessment of the arrangements the Council has in place to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2013. The review highlighted the following issues:

- The Council renegotiated their current leasing agreement with Capital Shopping Centres for the redevelopment of Charter Place and the Harlequin shopping centre. We confirmed that the Council had correctly entered into an operating lease agreement and will retain their c£7million per annum rental income for revenue purposes.
- The Council has signed an agreement with Kier plc to provide significant investment for the Watford Health Campus.

We are satisfied that in all significant respects the Council 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 Council 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

	Per Audit plan £	Actual fees £
Council audit	68,400	68,400
Grant certification *	16,368	16,368
Total audit fees	82,368	82,368

* grant certification fees are estimate only.

Fees for other services

Service	Fees £
None	Nil

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 Council'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 Council's key risks when reaching our conclusions under the Code.

It is the responsibility of the Council 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 Council 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: Action plan

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>IT Arrangements for monitoring unauthorised access attempts</p> <p>Formal security monitoring procedures should be developed covering key systems and network infrastructure. For network Active Directory and financial systems where activity logs are available, failed access attempts, access provisioning activity created by these systems should be formally reviewed as a minimum for the purpose of detecting inappropriate or anomalous activity. These reviews should ideally be performed by one or more knowledgeable individuals who are independent of the day-to-day use or administration of these systems.</p>	Medium		
2	<p>No Periodic Refresh of IT Security Policies</p> <p>The Information Security Policy and should be refreshed at planned intervals or when significant changes occur to ensure their continuing suitability, adequacy, and effectiveness.</p>	Medium		
3	<p>Assurance for third party services</p> <p>The council should request where it has third party IT service provision, formal assurance from the service provider on the adequacy of the general IT controls they have in operation at their data centre(s) from which the service is provided. This should include testing of third party disaster recovery plans.</p>	Medium		

Appendix A: Action plan (continued)

Priority

High - Significant effect on control system

Medium - Effect on control system

Low - Best practice

Rec No.	Recommendation	Priority	Management response	Implementation date & responsibility
4	<p>Financial governance</p> <p>The presentation of income charges could be improved with the further analysis of other income streams such as property and commercial income included within the monthly budget reporting pack the 'Finance Digest'.</p>	Medium		
5	<p>Key indicators</p> <p>The Council should consider their current absence management procedures in the light of the 2012/13 staff absence levels.</p>	Medium		
6	<p>Financial Governance</p> <p>Housing benefit service to reduce the time taken to process a change in claimants circumstances to be more in line with DWP national average of 9 days.</p>	Medium		
7	<p>Financial Governance</p> <p>Housing Benefit service to process the notification of regulation amendments from the DWP and to reduce the level of LA error overpayments.</p>	Medium		

Appendix A: Action plan (continued)

Priority

High - Significant effect on control system

Medium - Effect on control system

Low - Best practice

Rec No.	Recommendation	Priority	Management response	Implementation date & responsibility
8	<p>Journal authorisation</p> <p>The shared finance service should develop an up-to-date journal authorisation policy setting out clear responsibilities for authorisation of different types of journal.</p>	Medium		
9	<p>Financial Control</p> <p>The housing and council tax benefit to general ledger reconciliation is performed annually on a timely basis.</p>	Medium		

Appendix B: Audit opinion

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

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF WATFORD BOROUGH COUNCIL

Opinion on the Authority financial statements

We have audited the financial statements of Watford Borough Council 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 Collection Fund 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 Watford Borough Council 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 Authority and the Authority's Members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the Head of Strategic Finance and auditor

As explained more fully in the Statement of the Strategic Director of Finance, Policy & Governance Responsibilities, the Head of Strategic Finance 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 Authority's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Head of Strategic Finance 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 Watford Borough Council 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 Authority 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 Authority's arrangements for securing economy, efficiency and effectiveness in the use of resources

Respective responsibilities of the Authority and the auditor

The Authority 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 Authority 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 Authority 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 Authority'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 Authority 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 Authority 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 Authority 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, Watford Borough Council 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 Watford Borough Council 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

Grant Thornton House
Melton Street
Euston
London
NW1 2EP

26 September 2013

Appendix C: Overview of 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.

Changes to Audit Plan

We have not had to change our Audit Plan as previously communicated to you on 20 March 2013.

Account	Transaction cycle	Material misstatement risk?	Description of risk	Change to the audit plan	Audit findings
Cost of services - operating expenses	Operating expenses	Other	Operating expenses understated	No	None
Cost of services – employee remuneration	Employee remuneration	Other	Remuneration expenses not correct	No	None
Costs of services – Housing & council tax benefit	Welfare expenditure	Other	Welfare benefits improperly computed	No	Yes
Cost of services – Housing revenue	HRA	Other	Housing revenue transactions not recorded	No	None
Cost of services – other revenues (fees & charges)	Other revenues	None		No	None
(Gains)/ Loss on disposal of non current assets	Property, Plant and Equipment	None		No	None
Payments to Housing Capital Receipts Pool	Property, Plant & Equipment	None		No	None
Precepts and Levies	Council Tax	None		No	None

Audit findings

Account	Transaction cycle	Material misstatement risk?	Description of risk	Change to the audit plan	Audit findings
Interest payable and similar charges	Borrowings	None		No	None
Pension Interest cost	Employee remuneration	None		No	None
Interest & investment income	Investments	None		No	None
Return on Pension assets	Employee remuneration	None		No	None
Dividend income from Joint Venture	Revenue			No	None
Impairment of investments	Investments	None		No	None
Investment properties: Income expenditure, valuation, changes & gain on disposal	Property, Plant & Equipment	None		No	None
Income from council tax	Council Tax	None		No	None
NNDR Distribution	NNDR	None		No	None
PFI revenue support grant and other Government grants	Grant Income ⁹	None		No	None
Capital grants & Contributions (including those received in advance)	Property, Plant & Equipment	None		No	None

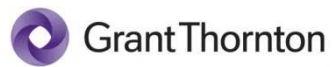
Audit findings

Account	Transaction cycle	Material misstatement risk?	Description of risk	Change to the audit plan	Audit findings
(Surplus)/ Deficit on revaluation of non current assets	Property, Plant & Equipment	None		No	None
Actuarial (gains)/ Losses on pension fund assets & liabilities	Employee remuneration	None		No	None
Other comprehensive (gains)/ Losses	Revenue/ Operating expenses	None		No	None
Property, Plant & Equipment	Property, Plant & Equipment	Other	PPE activity not valid	No	None
Property, Plant & Equipment	Property, Plant & Equipment	Other	Revaluation measurements not correct	No	None
Property, Plant & Equipment	Property, Plant & Equipment	None	Capitalisation costs not valid	No	None
Property, Plant & Equipment	Property, Plant & Equipment	None	Impairment charges not correct	No	None
Heritage assets & Investment property	Property, Plant & Equipment	None		No	None
Intangible assets	Intangible assets	None		No	None
Investments (long & short term)	Investments	None		No	None
Debtors (long & short term)	Revenue	None		No	None

Audit findings

Account	Transaction cycle	Material misstatement risk?	Description of risk	Change to the audit plan	Audit findings
Assets held for sale	Property, Plant & Equipment	None		No	None
Inventories	Inventories	None		No	None
Borrowing (long & short term)	Debt	None		No	None
Creditors (long & Short term)	Operating Expenses	Other	Creditors understated or not recorded in the correct period	No	None
Provisions (long & short term)	Provision	None		No	None
Pension liability	Employee remuneration	None		No	None
Reserves	Equity	None		No	None

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