



# **The Three Rivers and Watford Shared Services Joint Committee**

Audit of Accounts 2009-10

Annual Report to those Charged with Governance

8 September 2010

# Contents

<b>1</b>	<b>Executive Summary</b>	<b>1</b>
<b>2</b>	<b>Detailed Findings</b>	<b>3</b>

## Appendices

<b>A</b>	<b>Reporting requirements of ISA 260</b>	<b>6</b>
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# 1 Executive Summary

## Purpose of the report

SAUK 260 requires communication of:

- relationships that have a bearing on the independence of the audit firm and the objectivity of the engagement team
- nature and scope of the audit work
- the form of reports expected.

- 1.1 This report has been prepared for the benefit of discussion between Grant Thornton UK LLP and the Three Rivers and Watford Shared Services Joint Committee (the Joint Committee). The purpose of this report is to highlight the key issues arising from the audit of the Joint Committee's financial statements for the year ending 31 March 2010.
- 1.2 This report meets the mandatory requirements of International Standard on Auditing 260 (ISA 260) to report the outcome of the audit to 'those charged with governance', designated as the Joint Committee. The requirements of ISA260, and how we have discharged them, are set out in more detail at Appendix A.
- 1.3 The Joint Committee is responsible for the preparation of financial statements which record its financial position as at 31 March 2010, and its income and expenditure for the year then ended. We are responsible for undertaking an audit and reporting whether, in our opinion, the Joint Committee's financial statements present a true and fair view of the financial position.
- 1.4 Under the Audit Commission's Code of Audit Practice we are also required to reach a formal conclusion on whether the Joint Committee has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

## Audit conclusions

### Financial Statements Opinion

- 1.5 The Joint Committee produced its draft 2009/10 accounts, two days in advance of the 30 June 2010 deadline and presented them to the Joint Committee on 28 June 2010. The working papers were of a satisfactory standard and the provision of working papers in advance of the audit would reduce the overall audit time.
- 1.6 The key highlights from the audit are:
- 1.7 The shared service commenced operation on 1 April 2009, providing a combined Revenues, Benefits, Finance, IT and Human Resources services to the both Watford BC and Three Rivers DC. The financial results reflect that the Shared Service recorded neither a surplus nor deficit in the income and expenditure account. This is primarily due to the costs being recharged to the respective Council based upon the percentage split between the Councils before the commencement of the shared service.
- 1.8 Our review of the requirements for the production of the shared service accounts demonstrates that the shared service has correctly applied the new SORP regulation effective from 1 April 2009.
- 1.9 We anticipate providing an unqualified opinion on the Joint Committee's financial statements to be reported at the Committee on 13 September 2010.

- 1.10 Further details of the outcome of our financial statements audit are given in Section Two.

### **Value for Money Conclusion**

- 1.11 In providing our opinion on the financial statements, we are required to reach a conclusion on the adequacy of the Joint Committee's arrangements for ensuring economy, efficiency and effectiveness in its use of resources (the Value for Money conclusion).
- 1.12 Our Value for Money conclusion is informed by our work on our Use of Resources assessment. In order for us to provide an unqualified conclusion, the Joint Committee needs to have adequate arrangements in place for each of the Code of Practice criteria. We are pleased to report that the Joint Committee has met the requirements for the Code criteria and we therefore propose to give a unqualified conclusion.
- 1.13 Further information on the outcome of our Value for Money audit is contained in Section Two.

### **The way forward**

- 1.14 Matters arising from the financial statements and Value for Money audit have been discussed with the Head of Finance Shared Services. This has been discussed and agreed with the Head of Finance and his senior finance team.

### **Use of this report**

- 1.15 This report has been prepared solely for use by the Joint Committee to discharge our responsibilities under ISA260, and should not be used for any other purpose. We assume no responsibility to any other person. This report should be read in conjunction with the Statement of Responsibilities and the Joint Committee's Letter of Representation.

### **Acknowledgements**

- 1.16 We would like to record our appreciation for the assistance and co-operation provided to us during our audit by the councils' staff.

**Grant Thornton UK LLP**

9 September 2010

## 2 Detailed Findings

### Introduction

- 2.1 This section provides a summary of findings arising from our audit of the financial statements and Value for Money (VFM) audit.

### Status of the audit

- 2.2 Our audit is substantially complete, subject to the following finalisation procedures:
- update the Shared Services accounts for the amendments to Three Rivers DC and Watford BC updates to their financial statements, where applicable.
  - obtaining and reviewing the Joint Committee's Letter of Representation.
  - updating our post balance sheet events review, to the date of signing the accounts.

### Key risks

- 2.3 Our 2009/10 Annual fee letter set out the key risk relating to the audit of the financial statements. As part of our final accounts audit, we review the key risk areas and have set out in Exhibit One, the outcome of work completed.

#### Exhibit One: 2009/10 Key audit risks

Key audit risk	Conclusion
<b>Risk 1 - Reporting timetable</b>	
Un-audited accounts and summarisation schedules have to be submitted to the auditor by 30 June 2010. Audited annual reports, accounts and summarisation schedules have to be signed off by 30 September 2010.	The Joint Committee produced the accounts in draft format and presented them to the auditors on 30 June 2010, 2 days after they were approved at the Joint committee on 28 June 2010.

### Matters arising from the financial statements audit

- 2.4 We were presented with the draft financial statements on 30 June 2010, two days after they were presented at the Joint Shared Service committee on the 28 June, which met the statutory deadline of 30 June 2010. The supporting working papers were also provided in accordance with the agreed timetable for audit.
- 2.5 Regular liaison meetings were held between the audit team and key finance officers prior to the preparation of the draft accounts, and throughout the audit fieldwork. This enabled early resolution of emerging issues. We would like to place on record our appreciation to those officers involved in this process.

- 2.6 There were no significant matters arising from the financial statements audit to impact on our opinion or our value for money conclusion .

### **Adjusted misstatements**

- 2.7 Our audit did not identify any amendments or disclosure adjustments.

### **Miscellaneous Disclosures**

- 2.8 Our audit did not identify any amendments or disclosure adjustments.

### **Unadjusted misstatements**

- 2.9 Our audit did not identify any amendments or disclosure adjustments.

### **Financial Statements Opinion**

- 2.10 We anticipate providing an unqualified opinion on the Joint Committee's financial statements after the outstanding items listing has been cleared.

### **Financial performance**

- 2.11 The Joint Committee has reported a break even position on the Income and Expenditure account in its first year of operation. Comparison of the outturn position against the revised budget found that there had been a £120,000 overspend, which was primarily due to the employment of extra Benefits assessors on a temporary basis to clear the backlog of Benefit assessments that had accumulated since the merger of Benefit services.
- 2.12 The revised budget is in line with the revised medium term financial plan. In 2010/11 the budget has been forecast to be reduced by £682,000, which is in line with expectation as the staffing of the service reaches its optimum levels but will prove challenging going forward. The implementation costs of the shared service to be incurred in 2010/11 include a £265,000 (revenue) and £84,000 (capital) carry forward from 2009/10 budget, to increase implementation costs to £1,014,000. The shared service budget going forward should be monitored closely to ensure the service maintains budget.

### **Evaluation of key controls**

- 2.13 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.
- 2.14 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.

### **Annual Governance Statement**

- 2.15 We have examined the Joint Committee's arrangements and processes for compiling the Annual Governance Statement (AGS). In addition, we read the AGS to consider whether the statement is in accordance with our knowledge of the Joint Committee.
- 2.16 We have concluded that the Joint Committee places reliance on the arrangements in place at Watford BC and Three Rivers DC. Both were reported to have satisfactory arrangements in

place to produce robust Annual Governance Statements and provide a strong audit trail for the Chief Executive and Leader to sign the statement.

- 2.17 The Audit Commission's Code of Audit Practice requires us to assess whether the Joint Committee has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. In discharging this responsibility, we are required to review and, where appropriate, examine evidence that is relevant to the Joint Committee's corporate performance management and financial management arrangements.
- 2.18 Our 2010 Value for Money conclusion has been informed by work carried out on the code of audit practice - Vfm conclusion criteria. This was referred to as Use of Resources up until the abolition of Comprehensive Area Assessment, and other local risk based work carried out in accordance with our 2009/10 Audit Plan for Three Rivers DC and Watford BC.
- 2.19 The Joint Committee has met all the requirements of the Code of Practice and the Joint Committee has further improved its arrangements in the last 12 months.

### **Next steps**

- 2.20 The Joint Committee is required to approve the financial statements for the year ended 2009/10.
- 2.21 Finally, we would again like to draw to the attention of those charged with governance further significant changes to the basis on which the statement of accounts will be prepared in future years. We have noted some of the arrangements that are in place for the full implementation of International Financial Reporting Standards ("IFRS") into the 2010/11 accounts. It is important that the Joint Committee continues to develop these arrangements as there will be significant changes to the accounts under IFRS. Our experience in other sectors shows that audited bodies that are well prepared for the transition to IFRS have fewer amendments to their accounts than those who are not. We would be happy to share our experiences of working with CIPFA in this area, as well as involving our Financial Reporting Advisory Group who are specialists in planning for IFRS.
- 2.22 The Joint Committee will need to ensure that its current progress in addressing the challenges of IFRS are supported by robust assurance over a set of 2009/10 accounts restated under IFRS.
- 2.23 The outcome of our Use of Resources audit will be reported in full in our Annual Audit Letter to be presented to the Joint Committee at its next meeting. This will include guidance on the new value for money framework for 2010/11.

## A Reporting requirements of ISA 260

The principal purpose of the ISA 260 report is:

- To reach a mutual understanding of the scope of the audit and the respective responsibilities of the auditor and those charged with governance.
- To share information to assist both the auditor and those charged with governance to fulfil their respective responsibilities.
- To provide to those charged with governance constructive observations arising from the audit process.

ISA260 reporting requirement	Key messages
<b>Independence</b>	<p>We are able to confirm our independence and objectivity as auditors and draw attention to the following points:</p> <ul style="list-style-type: none"> <li>• We are independently appointed by the Audit Commission.</li> <li>• The firm has been assessed by the Audit Commission as complying with its required quality standards.</li> <li>• The appointed auditor and client service manager are subject to rotation in line with the Audit Commission's requirements.</li> <li>• We comply with the Auditing Practices Board's Ethical Standards.</li> </ul>
<b>Audit Approach</b>	<p>We have planned our audit in accordance with auditing standards and the Audit Commission's Code of Audit Practice. Other key factors to highlight include:</p> <ul style="list-style-type: none"> <li>• We consider the materiality of items in the financial statements in determining the audit approach and in determining the impact of any errors.</li> <li>• We have been able to place appropriate reliance on the key accounting systems operating at the Joint Committee for financial statement audit purposes.</li> <li>• In 2009-10 we have been able to take assurance from the work of internal audit in respect of the key accounting systems.</li> </ul>



ISA260 reporting requirement	Key messages
<b>Accounting Policies</b>	<p>The Joint Committee has adopted appropriate accounting policies in the areas covered by our testing. Accounting policies are in accordance with the SORP 2009.</p> <p>The Joint Committee should confirm that it is satisfied that the accounting policies adopted are the most appropriate, as required by IAS 8.</p> <p>We have considered the Joint Committee's financial plans and consider it appropriate for the Joint Committee to continue to account on a going concern basis.</p>
<b>Material Risks</b>	<p>The Joint Committee should confirm that it is not aware of any additional material risk areas facing the Joint Committee, including significant fraud risks.</p> <p>We have requested from the Joint Committee a Letter of Representation, to state that there are no additional material risks and exposures as at September 2010, which should be reflected in the financial statements.</p> <p>We will also perform our own audit procedures to ensure that all significant risks and exposures to the Joint Committee have been recognised in the accounts as at September 2010. We will focus on accounting provisions and cash flow forecasting over the next 12 months.</p>
<b>Audit Adjustments</b>	No audit adjustments were required to be processed.
<b>Unadjusted Errors</b>	From the audit results mentioned previously we have identified no unadjusted errors.
<b>Other Matters</b>	No other matters have been noted.





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