

Audit and Standards Committee
Progress and Update Report for
Warwickshire County Council
Year ended 31 March 2016

14 June 2016

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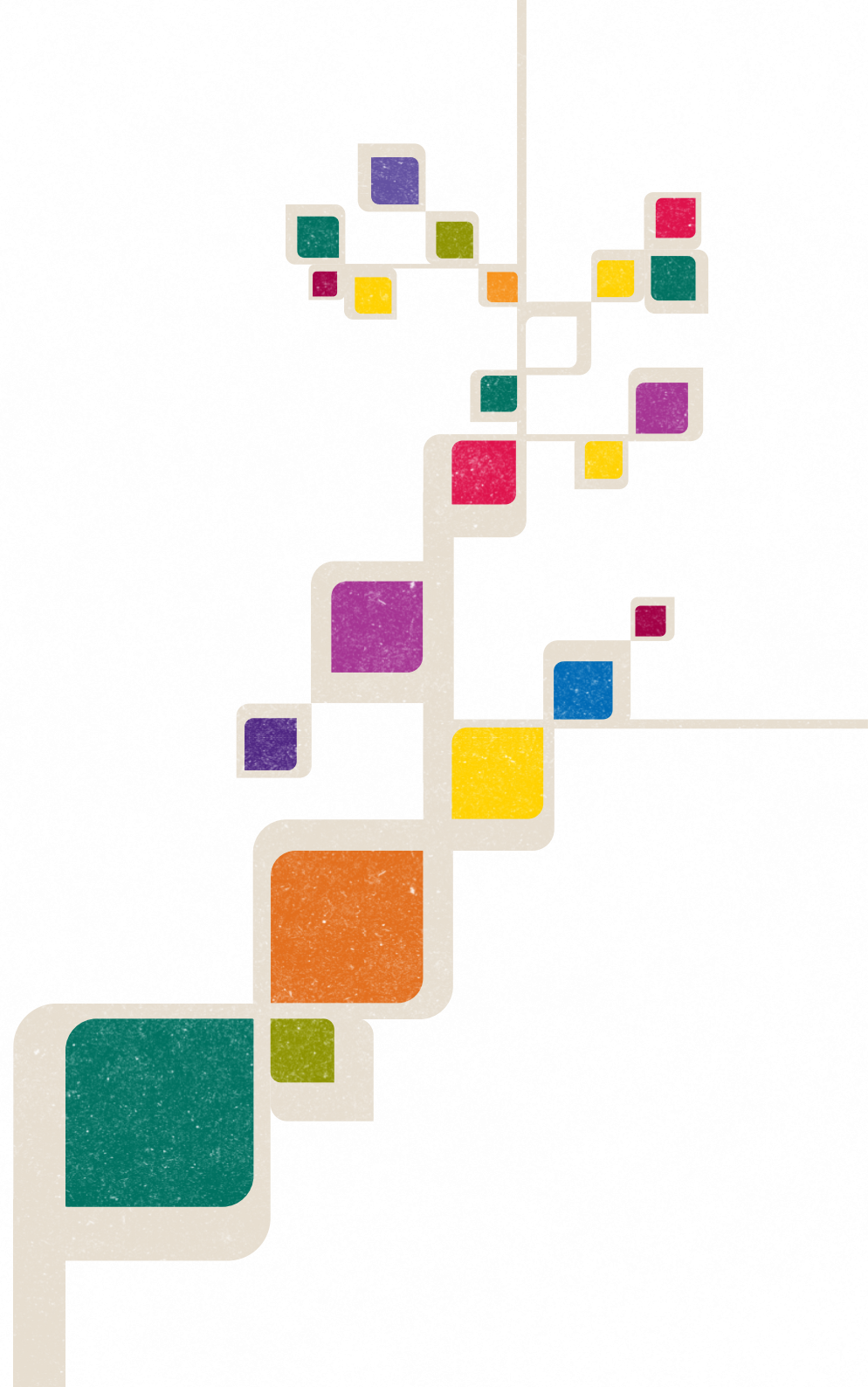
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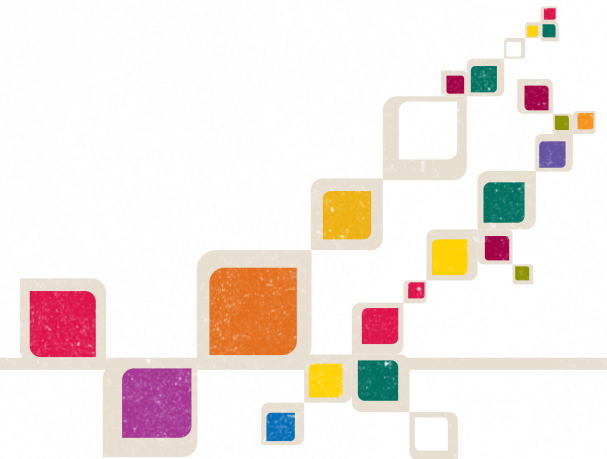
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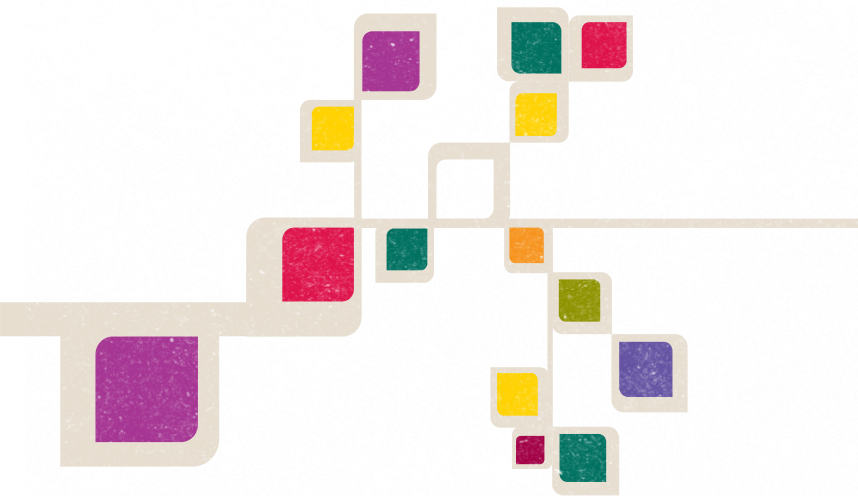
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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect your business or any weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. 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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Introduction

This paper provides the Audit and Standards Committee with a report on progress in delivering our responsibilities as your external auditors.

Members of the Audit and Standards Committee can find further useful material on our website www.grant-thornton.co.uk, where we have a section dedicated to our work in the public sector. Here you can download copies of our publications including:

- Better Together: Building a successful joint venture company;
<http://www.grantthornton.co.uk/en/insights/building-a-successful-joint-venture-company/>
- Knowing the Ropes – Audit Committee; Effectiveness Review ;
www.grantthornton.co.uk/en/insights/knowing-the-ropes--audit-committee-effectiveness-review-2015/
- Making devolution work: A practical guide for local leaders (October 2015)
www.grantthornton.co.uk/en/insights/making-devolution-work/

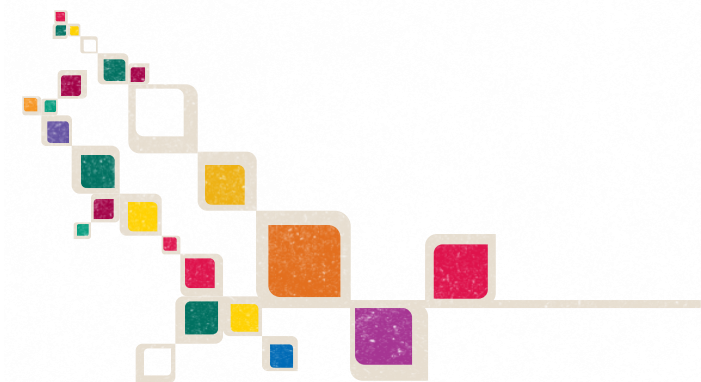
If you would like further information on any items in this briefing, or would like to register with Grant Thornton to receive regular email updates on issues that are of interest to you, please contact either your Engagement Lead or Engagement Manager.

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Progress at 14 June 2016



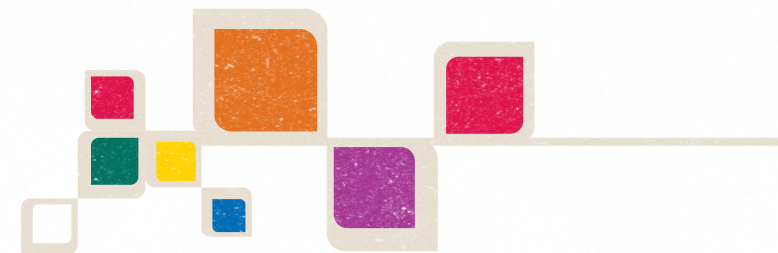
 **Progress against plan**
On track

 **Opinion and VfM conclusion**
Plan to give before deadline of
30 September 2016

 **Outputs delivered**
Fee letter, Progress Reports, delivered
to plan

2015/16 work	Completed	Comments
<p>Fee Letter We issued the 'Planned fee letter for 2015/16 in April 2015.</p>	April 2015	We have also recently issued the fee letter for 2016/17, with no change to the fee proposed. This is reported to this meeting of the Audit and Accounts committee.
<p>Accounts Audit Plan We are required to issue a detailed accounts audit plan to the Council setting out our proposed approach in order to give an opinion on the Council's 2015-16 financial statements.</p> <p>We also inform you of any subsequent changes to our audit approach.</p>	March 2016	This was presented to the Audit and Standards Committee in March.
<p>Interim accounts audit Our interim fieldwork visit includes:</p> <ul style="list-style-type: none"> • updating our review of the Council's control environment • updating our understanding of financial systems • review of Internal Audit reports on core financial systems • early work on emerging accounting issues • early substantive testing 	January - March 2016	Interim audit findings for the work completed to date are included in this report (pages 7 - 9).

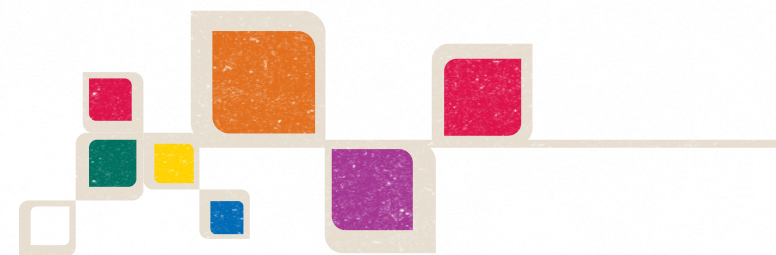
Progress at 13 May 2016



2015/16 work	Completed	Comments
<p>Final accounts audit Including:</p> <ul style="list-style-type: none"> • Audit of the 2015-16 financial statements • proposed opinion on the Council's accounts 	<p><i>Planned for June – July 2016</i></p>	<p>We are planning to complete our audit fieldwork by 18 July as part of the transition to the earlier closedown and audit cycle that is required from 2018.</p> <p>To help the Council prepare appropriate evidence to support the financial statements, we have provided a schedule of the working papers that we expect and discussed the implications of emerging accounting matters with finance staff.</p>
<p>Value for Money (VfM) conclusion The scope of our work has changed and is set out in the final guidance issued by the National Audit Office in November 2015. The Code requires auditors to satisfy themselves that: "the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources".</p> <p>The guidance confirmed the overall criterion as; "in all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people".</p> <p>The three sub criteria for assessment to be able to give a conclusion overall are:</p> <ul style="list-style-type: none"> • Informed decision making • Sustainable resource deployment • Working with partners and other third parties 	<p><i>Field work in March – July, formal conclusion reported by 30 September 2016</i></p>	<p>We have set out the result of our risk assessment and the proposed focus of our work at pages 10 and 11.</p> <p>The results of our VfM audit work and the key messages arising will be reported in our Audit Findings Report.</p> <p>We will include our conclusion as part of our report on your financial statements which we will give by 30 September 2016.</p>
<p>Other activities</p> <p>We provide a range of workshops, along with network events for members and publications to support the Council.</p>	<p>Ongoing</p>	<p>Further details of the publications that may be of interest to the Council are set out from page 10.</p>

Results of interim audit work

The findings of our interim audit work, and the impact of our findings on the accounts audit approach, are summarised below.



	Work performed	Conclusion
Internal audit	We have completed a high level review of internal audit's overall arrangements. We have also considered the outcome of internal audit's work on the Council's key financial systems to date.	Overall, we have concluded that the arrangements for internal audit contribute to an effective internal control environment. The Council has not yet had a formal independent assessment undertaken of Internal Audit's compliance with the Public Sector Internal Audit Standards which were first published in April 2013 and updated in April 2016.
Entity level controls	We have obtained an understanding of the overall control environment relevant to the preparation of the financial statements including: <ul style="list-style-type: none"> • Communication and enforcement of integrity and ethical values • Commitment to competence • Participation by those charged with governance • Management's philosophy and operating style • Organisational structure • Assignment of authority and responsibility • Human resource policies and practices 	Our work has identified no material weaknesses in these overall controls which are likely to adversely impact on the Council's financial statements
Walkthrough testing	We have completed walkthrough tests of the Council's controls operating in areas where we consider that there is a risk of material misstatement to the financial statements – namely employee remuneration and operating expenses.	Our work has identified no material weaknesses in the design or operation of key financial systems which are likely to adversely impact on the Council's financial statements

Value for Money

Background

The Local Audit & Accountability Act 2014 ('the Act') and the NAO Code of Audit Practice ('the Code') require us to issue a conclusion on whether the Council has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the Value for Money (VfM) conclusion.

The National Audit Office (NAO) issued its guidance for auditors on value for money work in November 2015.

The Act and the NAO guidance state that auditors are only required to report by exception where they are not satisfied that NHS bodies have proper arrangements in place to secure value for money. However, we are required to carry out sufficient work to satisfy ourselves that proper arrangements are in place at the Council.

The guidance identifies one single criterion for auditors to evaluate:

In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

This is supported by three sub-criteria as set out in the table to the right.

Risk assessment

We completed an initial risk assessment based on the NAO's guidance. In our initial risk assessment, we considered:

- our cumulative knowledge of the Council, including work performed in previous years in respect of the VfM conclusion and the opinion on the financial statements
- illustrative significant risks identified and communicated by the NAO in its Supporting Information
- any other evidence which we consider necessary to conclude on your arrangements

Sub-criteria	Detail
Informed decision making	<ul style="list-style-type: none"> • Acting in the public interest, through demonstrating and applying the principles and values of good governance • Understanding and using appropriate cost and performance information to support informed decision making and performance management • Reliable and timely financial reporting that supports the delivery of strategic priorities • Managing risks effectively and maintaining a sound system of internal control.
Sustainable resource deployment	<ul style="list-style-type: none"> • Planning finances effectively to support the sustainable delivery of strategic priorities and maintain statutory functions • Managing assets effectively to support the delivery of strategic priorities • Planning, organising and developing the workforce effectively to deliver strategic priorities.
Working with partners and other third parties	<ul style="list-style-type: none"> • Working with third parties effectively to deliver strategic priorities • Commissioning services effectively to support the delivery of strategic priorities • Procuring supplies and services effectively to support the delivery of strategic priorities.

We have identified significant risks which we are required to communicate to you. The NAO's Code of Audit Practice defines 'significant' as follows:

A matter is significant if, in the auditor's professional view, it is reasonable to conclude that the matter would be of interest to the audited body or the wider public. Significance has both qualitative and quantitative aspects.

Value for money

We set out below the significant risks we have identified as a result of our initial risk assessment and the work we propose to address these risks.

Significant risk	Link to sub-criteria	Work proposed to address
<p>Sustainable resource deployment</p> <p>The Council has a "One Organisation plan 2014-2018" in place which identified the need to make significant savings (£92m) but our assessment in 2014/15 was that it was on track to deliver. However, the spending review announcement in December 2015 has led to further reductions in funding which has led the Council to identify the need to revisit this plan and reassess levels of savings required for 2016/17 and beyond – potentially £10m further savings needed in 2016/17.</p>	<p>This links to the Council's arrangements for planning finances effectively to support the sustainable delivery of strategic priorities and using appropriate cost and performance information to support informed decision making.</p>	<p>We propose to meet with key officers to discuss key strategic challenges and the Council's proposed response and consider reports to members to:</p> <ul style="list-style-type: none"> • review the outturn position for 15/16 and the budget plans for 16/17 and 17/18 • review the Council's progress in updating its medium term financial strategy .
<p>Working with partners and other third parties</p> <p>In March 2016. NHS England announced plans for area-based Sustainability and Transformation Plans (STPs) aimed at driving improvements in health and care outcomes between 2016 and 2021. One of the areas announced for these plans covers Coventry and Warwickshire.</p> <p>The Council will need to engage with other health and local government bodies within the Coventry and Warwickshire STP area to ensure robust plans are developed and delivered.</p>	<p>This links to the Council's arrangements for working with third parties to deliver strategic priorities</p>	<p>We propose to meet with key officers and consider reports to members to review progress made in development and delivery of Sustainability and Transformation Plans for Coventry and Warwickshire.</p>
<p>Working with partners and other third parties</p> <p>The West Midlands Combined Authority (WMCA) has been set up within the region in order to help rebalance the West Midlands economy, closing the £16bn output gap and leading the Midlands Engine. In order to do this the WMCA needs to work together across geographic boundaries and sectors.</p> <p>In May 2016 the Council have took the decision to join WMCA as a non-constituent member. with a view to negotiating the basis of an acceptable deal on which Warwickshire could become a constituent member.</p>	<p>This links to the Council's arrangements for working with third parties to deliver strategic priorities</p>	<p>We propose to meet with key officers and consider reports to members to review progress made in development its membership of the West Midlands Combined Authority and the extent to which it has been able to assess that this will support delivery of its strategic priorities.</p>

Better Together: Building a successful joint venture company

Grant Thornton reports

Local government is evolving as it looks for ways to protect front-line services. These changes are picking up pace as more councils introduce alternative delivery models to generate additional income and savings.

'Better together' is the next report in our series looking at alternative delivery models and focuses on the key areas to consider when deciding to set up a joint venture (JV), setting it up and making it successful.

JVs have been in use for many years in local government and remain a common means of delivering services differently. This report draws on our research across a range of JVs to provide inspiring ideas from those that have been a success and the lessons learnt from those that have encountered challenges.

Key findings from the report:

- JVs continue to be a viable option – Where they have been successful they have supported councils to improve service delivery, reduce costs, bring investment and expertise and generate income
- There is reason to be cautious – Our research found a number of JVs between public and private bodies had mixed success in achieving outcomes for councils
- There is a new breed of JVs between public sector bodies – These JVs can be more successful at working and staying together. There are an increasing number being set up between councils and wholly-owned commercial subsidiaries that can provide both the commercialism required and the understanding of the public sector culture.

Our report, Better Together: Building a successful joint venture company, can be downloaded from our website: <http://www.grantthornton.co.uk/en/insights/building-a-successful-joint-venture-company/>



ALTERNATIVE SERVICE DELIVERY MODELS IN LOCAL GOVERNMENT

Better together
Building a successful
joint venture company



Fighting Fraud and Corruption Locally

CIPFA publication

Fighting Fraud and Corruption Locally is a strategy for English local authorities that is the result of collaboration by local authorities and key stakeholders from across the counter fraud landscape .

This strategy is the result of an intensive period of research, surveys, face-to-face meetings and workshops. Local authorities have spoken openly about risks, barriers and what they feel is required to help them improve and continue the fight against fraud and to tackle corruption locally.

Local authorities face a significant fraud challenge. Fraud costs local authorities an estimated £2.1bn a year. In addition to the scale of losses, there are further challenges arising from changes in the wider public sector landscape including budget reductions, service remodelling and integration, and government policy changes. Local authorities will need to work with new agencies in a new national counter fraud landscape.

The strategy:

- calls upon local authorities to continue to tackle fraud with the dedication they have shown so far and to step up the fight against fraud in a challenging and rapidly changing environment
- illustrates the financial benefits that can accrue from fighting fraud more effectively
- calls upon central government to promote counter fraud activity in local authorities by ensuring the right further financial incentives are in place and helping them break down barriers to improvement
- updates and builds upon Fighting Fraud Locally 2011 in the light of developments such as The Serious and Organised Crime Strategy and the first UK Anti-Corruption Plan
- sets out a new strategic approach that is designed to feed into other areas of counter fraud and corruption work and support and strengthen the ability of the wider public sector to protect itself from the harm that fraud can cause.

The strategy can be downloaded from

<http://www.cipfa.org/services/counter-fraud-centre/fighting-fraud-and-corruption-locally>



LGPS Pooling of Assets

Local Government Pension Scheme Funds had to submit draft plans to form six investment pools each worth £25bn by 19 February 2016.

The LGPS scheme responded eagerly with eight separate pooling proposals, two of which did not meet the size requirement; one from the eight Welsh funds, and another from the Local Pensions Partnership (LPP), comprising the London Pension Fund Authority, Lancashire and Berkshire.

Local government minister Marcus Jones has now written to each pension fund's committee chair to give them his opinion of the plans and instructions for improvement before final proposals must be submitted on 15 July.

Mr Jones told the Welsh group that although it does not meet the £25bn requirement, weighing in at just £12.3bn, he will overlook this in light of Wales' "unique culture, politics and regulations".

However, the minister told the Local Pensions Partnership that it must work towards the £25bn. A spokesman for the group was unperturbed by the lack of partners available now that the rest of the funds appear to have chosen their pools.

Other groups have not made "hard and fast commitments" yet and that the partnership continues "to have positive discussions with a number of other LGPS funds and pools" about joining up.

Mr Jones also used his letters to clarify some of the technical questions about pooling, in particular "the structure, standards and systems required for an entity regulated by the FCA provides substantial assurance" and that therefore he "would expect to see a single entity at the heart of any proposal, with responsibility for selecting and contracting with managers, as well as the employment of staff".

Peter Wallach, head of the Merseyside fund, which is part of the Pensions Powerhouse group with Greater Manchester and West Yorkshire, said this has given the group pause for thought.

Mr Jones also cleared up questions about whether a fund could join more than one pool, following a request from a fund to be allowed to invest 65% of its assets with the London CIV and the remainder elsewhere. The minister confirmed that this will not be allowed.

In all of the letters seen by LGC, Mr Jones instructed the pools to provide more detail on their plans to invest in infrastructure and how they will address the requirements the government has set out to report on costs and performance.

LGC Briefing

Events

29 June 2016 Local Pensions Board Conference

CIPFA are now taking bookings for Local Pensions Board Conference. This event is aimed at all members, including chairs, of local pension boards.

This seminar will enable pension board members to network with pension board members from other funds and hear from the key players who will affect board agendas in the year ahead. This will include the Pensions Regulator, the LGPS's own regulator, the DCLG, and the Scheme Advisory Board. We will also focus on the financial viability of the scheme and consider the challenging problem of managing data. There will be interactive sessions to facilitate discussion and networking as well as plenty of networking time during the refreshment breaks.

Attendees will benefit by:

- Hearing the views on progress from the Pensions Regulator.
- Discussing the latest developments on scheme reform.
- Participation in a debate on how local boards can operate effectively.
- Consider the implications of Section 13 and the role of GAD.
- Understand more about scheme data and employer challenges

5 July 2016 CIPFA Pensions Network Summer Workshops

The pace of reform in the Local Government Pension Scheme (LGPS) appears relentless, with asset pooling guidance, new investment regulations and local pension boards all adding to the 'usual' pressures of triennial valuations and employer relations. To cover many of these issues CIPFA have put together a programme with a range of expert speakers. This event is aimed at both investment and administration officers involved in the LGPS and we will use the experiences of network colleagues to develop best practice around good governance





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