

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

August 2016

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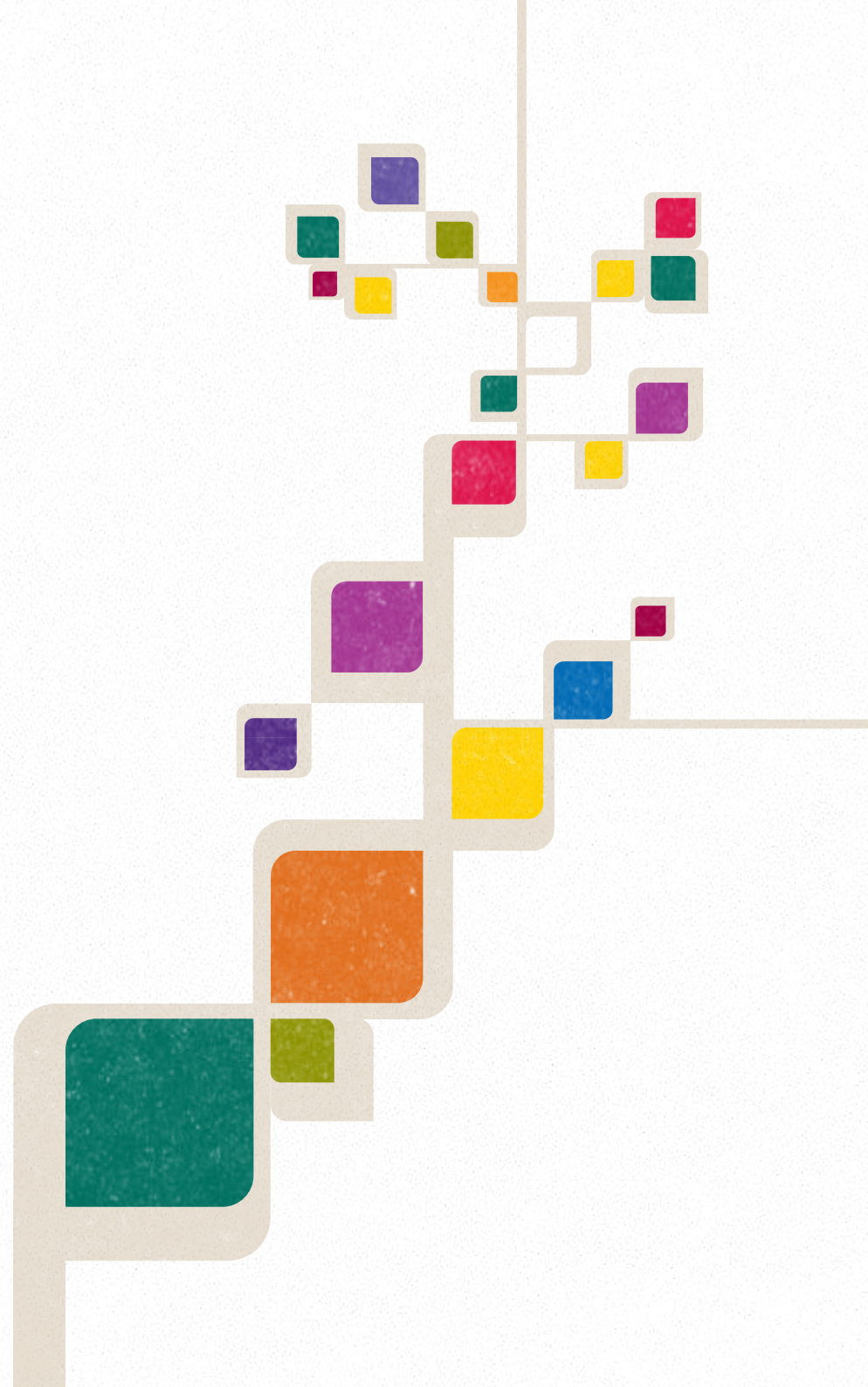
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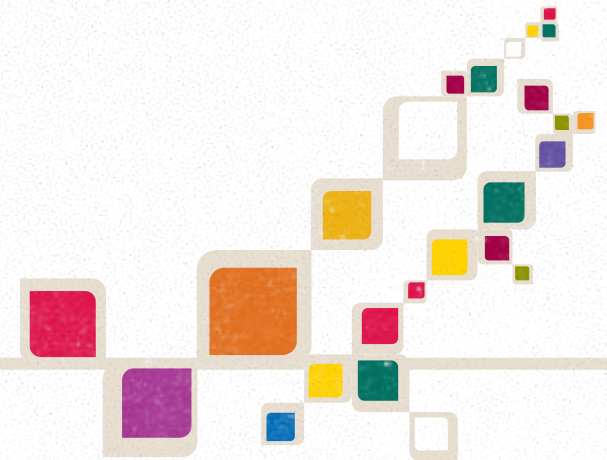
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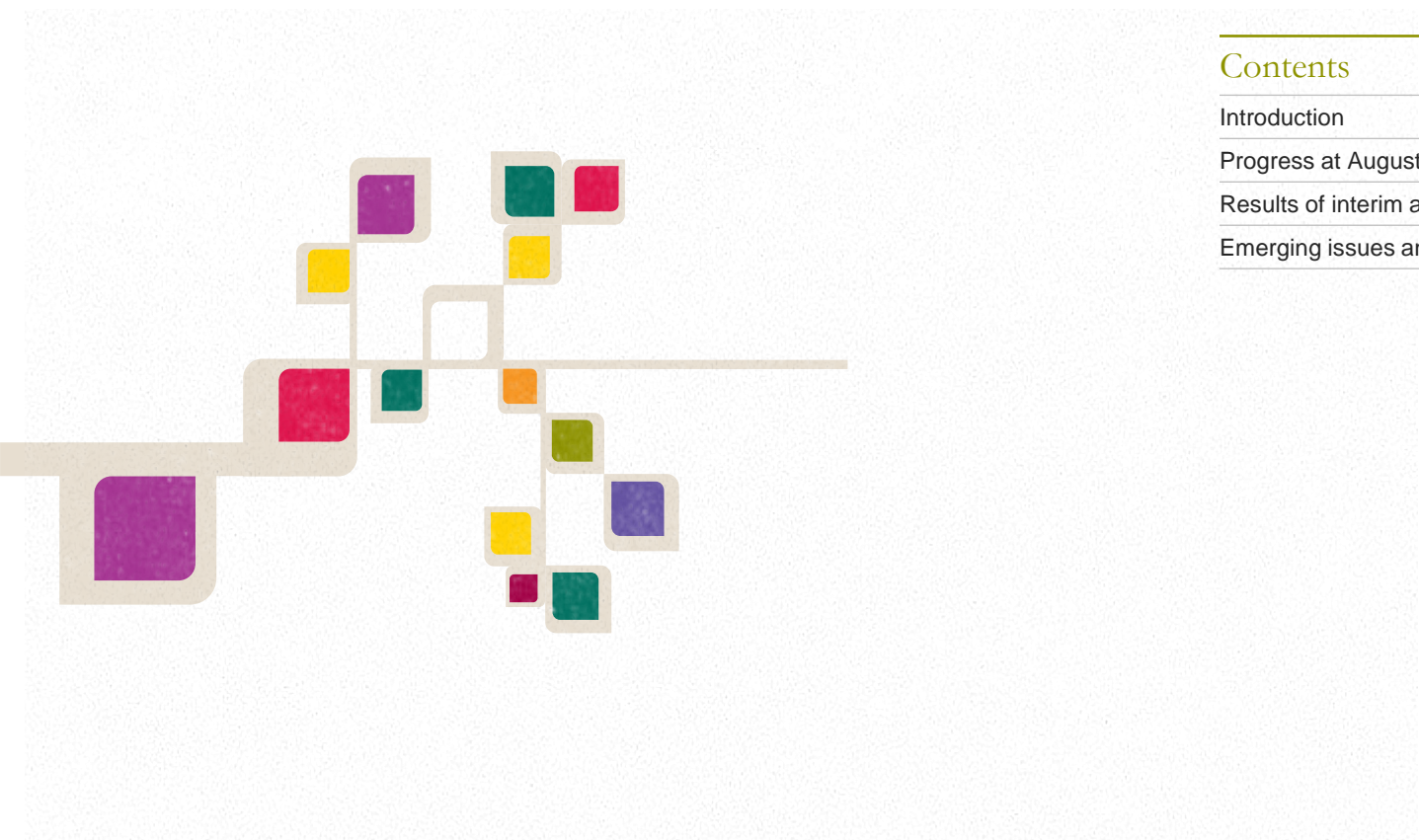
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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit process. It is not a comprehensive record of all the relevant matters, which may be subject to 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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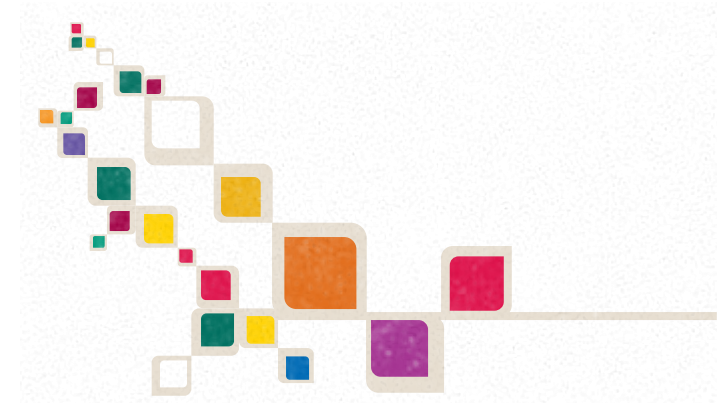
Introduction

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

We have included an overall summary of progress in delivering this year's audit and provided feedback on the outcomes of our interim audit work. We have also taken the opportunity to include short briefings on current issues and our latest publications.

Members of the Audit Committee can find further useful material on the Government and Public sector page of our Insights website (<http://www.grantthornton.co.uk/en/insights/>).

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.



Progress at 3 August 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

Fee Letter

We issued the planned fee letter for 2015/16 in April 2015. This was presented to the Audit and Standards Committee alongside the 2015/16 Audit Plan in March 2016.

March 2016

We have also recently issued the fee letter for 2016/17, with no change to the fee proposed. This will be reported to the Audit and Standards Committee alongside the 2016/17 Audit Plan in March 2017.

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.

March 2016

Presented to the Audit and Standards Committee in March 2016.

We also inform you of any subsequent changes to our audit approach.

Interim accounts audit

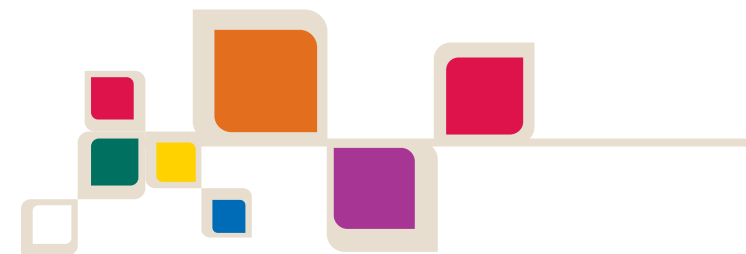
Our interim fieldwork visit included:

- 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

March 2016

Interim audit findings were reported to the Audit and Standards Committee in June 2016.

Progress at 30 June 2016 (continued)



2015/16 work	Completed	Comments
<p>Final accounts audit</p> <p>Including:</p> <ul style="list-style-type: none"> • Audit of the 2015-16 financial statements • proposed opinion on the Council's accounts 	<p>July 2016</p>	<p>Findings from our 2015-16 audit of the Council's financial statements are included in our Audit Findings Report.</p>
<p>Value for Money (VfM) conclusion</p> <p>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>July 2016</p>	<p>The results of our VfM conclusion assessment are included in our Audit Findings Report</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>

Brexit: What happens next and what does it mean for you?

The people of the UK have made a decision to leave the EU. What happens next - and the implications for businesses and organisations in the UK - is less clear.

We have produced an analysis of what we know about the mechanics of leaving the EU, our assessment of some of the external factors that may affect organisations over the coming months and years, and a summary of the different models for trading relationships outside the EU. This can be found on our website and we have attached copies to this report.

In thinking about the impact organisations will want to consider not only legal and regulatory changes but also market reactions, consumer and business behaviours, and the wider political and economic environment. The Council will have a role in both shaping its own response and in helping organisations in the City respond to a changing environment. We can expect three broad phases of reaction to Brexit:

- initial volatility
- medium term uncertainty and instability
- longer term transition

The impact of this will be different for every organisation. In looking at the threats and opportunities these phases create, and planning how the Council can create and protect value, you may wish to consider the short, medium and long term implications for issues like people and talent, strategic ambitions, financing, risk, operations and protecting investment.

We believe that in the coming weeks and months, dynamic organisations have a critical role to play in helping to shape the future of Britain. Grant Thornton is leading a campaign which explores how we can build a vibrant economy. You can find out more here: <http://vibranteconomy.co.uk/>

We would welcome views on what the priorities should be for government and the UK to create a new economy outside the EU.

Emerging issues

How is the Council responding to the outcome of the EU referendum?

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 can be downloaded from our website:

<http://www.grantthornton.co.uk/en/insights/building-a-successful-joint-venture-company/>



Financial sustainability of local authorities: capital expenditure and resourcing

National Audit Office

According to the NAO, Local authorities in England have maintained their overall capital spending levels but face pressure to meet debt servicing costs and to maintain investment levels in their existing asset bases.

Since 2010-11, local authorities have faced less pressure on their resources to support capital expenditure as compared to revenue. Although local authorities' revenue spending power fell by over 25 per cent in real terms from 2010-11 to 2015-16, the NAO estimates that capital grants to authorities marginally increased from 2010-11 to 2014-15, (excluding education).

Capital spending by authorities increased by more than five per cent in real terms overall between 2010-11 and 2014-15, but this is uneven across local authorities and service areas. Almost half of authorities reduced their capital spending. Most service areas saw an increase in capital spend with the exception of culture and leisure: capital spending fell by 22 per cent overall in this area.

The NAO's report, published on 15 June, found that authorities face a growing challenge to continue long-term investment in their existing assets. Total spending has remained stable, but increasingly capital activities are focused on 'invest to save' and growth schemes that cover their costs or have potential to deliver a revenue return. Many areas of authorities' asset management programmes do not meet these criteria and are now seen as a lower priority.

The report also notes that local authorities' debt servicing costs have grown as a proportion of revenue spending as revenue resources have fallen. A quarter of single-tier and county councils now spend the equivalent of 10 per cent or more of their revenue expenditure on debt servicing, with metropolitan district councils being particularly exposed.

According to the NAO, DCLG has rightly focused on revenue issues in the 2015 Spending Review but in future reviews will need to focus more on capital. The Department is confident from its engagement with authorities that revenue pressures are their main concern, however the NAO's analysis demonstrates that capital costs exert significant and growing pressure on revenue resources.

The full report is available at:

<https://www.nao.org.uk/report/financial-sustainability-of-local-authorities-capital-expenditure-and-resourcing/>

The changing face of Corporate Reporting

We have established a global network of public sector auditors and advisors to share good practice and to provide informed solutions to the corporate reporting challenges our clients face.

We were fortunate to have the CEO of the IIRC speak at our most recent meeting. Integrated Reporting, <IR>, is a new approach to corporate reporting and it is building a world-wide following in both the public and private sectors.

In the commercial sector, <IR> has led to improvements in business decision making, the understanding of risks and opportunities as well as better collaborative thinking by boards about goals and targets..

<IR> is based on integrated thinking that results in a report by an organisation about sustainable value creation. It requires a more cohesive and efficient approach to organisational reporting that draws on different reporting strands and communicates the full range of factors that materially affect the ability of an organisation to create value over time.

By moving the focus away from only short-term, backward looking, financial reporting, <IR> encourages organisations to report on a broader range of measures that link their strategic objectives to their performance. The result is an overview of an organisation's activities and performance in a much wider, more holistic, context.

- <IR> encourages organisations to consider whether there are any gaps in the information that is currently available to them, so that integrated thinking becomes embedded in mainstream practice.
- <IR> is underpinned by the International <IR> Framework published in December 2013. It is principles- based, allowing organisations to innovate and develop their reporting in the context of their own regulatory framework, strategy, key drivers, goals and objectives.
- <IR> is consistent with the Strategic Reports required from UK companies, the Performance Reports that government departments, agencies and NHS bodies produce and the developing Narrative Reporting in local government.

The IIRC has established a Public Sector Pioneer Network to consider why and how the public sector can adopt <IR>, with the end goal of improving transparency and building trust. There is already a core of UK organisations within this.

<Integrated Reporting>

Further information is available on the IIRC's website



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