

The Audit Findings for Warwickshire County 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 2016

12 August 2016

Grant Patterson

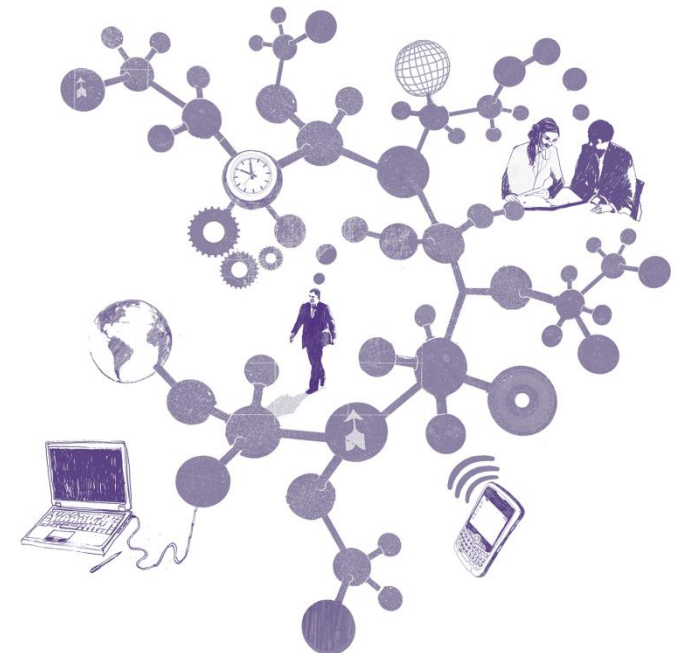
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12 August 2016

Dear Sirs

Audit Findings for Warwickshire County Council for the year ending 31 March 2016

This Audit Findings report highlights the key findings arising from the audit for the benefit of those charged with governance (in the case of Warwickshire County Council, the Audit and Standards Committee), as required by International Standard on Auditing (UK & Ireland) 260, the Local Audit and Accountability Act 2014 and the National Audit Office Code of Audit Practice. Its contents will be discussed with the Audit and Standards Committee.

As auditors we are responsible for performing the audit, in accordance with International Standards on Auditing (UK & Ireland), which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities for the preparation of the financial statements.

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 and giving a value for money conclusion. 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.

We would like to take this opportunity to record our appreciation for the kind assistance provided by the finance team and other staff during our audit.

Yours sincerely

Grant Patterson
Director

Chartered Accountants

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Section 1: Executive summary

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02. Audit findings

03. Value for Money

04. Other statutory powers and duties

05. Fees, non audit services and independence

06. Communication of audit matters

Purpose of this report

This report highlights the key issues affecting the results of Warwickshire County Council ('the Council') and the preparation of the Council's financial statements for the year ended 31 March 2016. 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 (UK & Ireland) 260, and the Local Audit and Accountability Act 2014 ('the Act').

Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion, the Council's financial statements give a true and fair view of the financial position of the Council and its income and expenditure for the year and whether they have been properly prepared in accordance with the CIPFA Code of Practice on Local Authority Accounting.

We are also required consider other information published together with the audited financial statements, whether it is consistent with the financial statements and in line with required guidance.

We are required to carry out sufficient work to satisfy ourselves on whether the Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources ('the value for money (VFM) conclusion').

Auditor Guidance Note 7 (AGN07) clarifies our reporting requirements in the Code and the Act. We are required to provide a conclusion whether in all significant respects, the Council has put in place proper arrangements to secure value for money through economic, efficient and effective use of its resources for the relevant period.

The Act also details the following additional powers and duties for local government auditors, which we are required to report to you if applied:

- a public interest report if we identify any matter that comes to our attention in the course of the audit that in our opinion should be considered by the Council or brought to the public's attention (section 24 of the Act);

- written recommendations which should be considered by the Council and responded to publicly (section 24 of the Act);
- application to the court for a declaration that an item of account is contrary to law (section 28 of the Act);
- issue of an advisory notice (section 29 of the Act); and
- application for judicial review (section 31 of the Act)

We are also required to give electors the opportunity to raise questions about the accounts and consider and decide upon objections received in relation to the accounts under sections 26 and 27 of the Act.

Introduction

In the conduct of our audit we have not had to alter or change our audit approach, which we communicated to you in our Audit Plan dated February 2016. At page 12 we highlight the work we have undertaken in respect of fair value disclosures required under IFRS 13 which we identified as being required after we presented our Audit Plan.

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

- receipt of all outstanding bank and investment confirmations
- obtaining and reviewing the management letter of representation
- updating our post balance sheet events review, to the date of signing the opinion
- review of annual Teachers Pension return
- Whole of Government Accounts.

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

Key audit and financial reporting issues

Financial statements opinion

We anticipate providing a unqualified (unmodified) audit opinion in respect of the financial statements (see Appendix B).

We have identified no adjustments affecting the Council's reported financial position.

We recommended a number of presentational amendments to the draft accounts which have been actioned in the final version of the accounts.

In preparation for the earlier sign off deadline of 31 July which will apply for the sign off of your 2017/18 accounts, we sought to complete most of our audit work and issue our draft Audit Findings Report by the end of July 2016. We are pleased to report that, by working closely with the Council's finance staff throughout the year, we were able to achieve this.

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

Other financial statement responsibilities

As well as an opinion on the financial statements, we are required to give an opinion on whether other information published together with the audited financial statements is consistent with the financial statements. This includes if the Annual Governance Statement does not meet the disclosure requirements set out in the CIPFA/SOLACE guidance or is misleading or inconsistent with the information of which we are aware from our audit.

Controls

Roles and responsibilities

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.

Findings

Our work has not identified any control weaknesses which we wish to highlight for your attention.

Value for Money

Based on our review, we are satisfied that, in all significant respects, the Council had proper arrangements in place to secure economy, efficiency and effectiveness in its use of resources.

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

Other statutory powers and duties

We have not identified any issues that have required us to apply our statutory powers and duties under the Act.

The way forward

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

Acknowledgement

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

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Materiality

In performing our audit, we apply the concept of materiality, following the requirements of International Standard on Auditing (UK & Ireland) (ISA) 320: Materiality in planning and performing an audit. The standard states that 'misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements'.

As we reported in our audit plan, we initially determined overall materiality to be £13,471k (being 1.8% of forecast gross revenue expenditure). We reviewed this figure on receipt of draft accounts and amended it to £13,907k (being 1.8% of actual gross expenditure for the year).

We also set an amount below which misstatements would be clearly trivial and would not need to be accumulated or reported to those charged with governance because we would not expect that the accumulated effect of such amounts would have a material impact on the financial statements. We have defined the amount below which misstatements would be clearly trivial to be £695k (being 5% of overall materiality).

As we reported in our audit plan, we identified the following items where we decided that separate materiality levels were appropriate.

Balance/transaction/disclosure	Explanation	Materiality level
Cash and cash equivalents	Although the balance of cash and cash equivalents is immaterial, all transactions made by the Council affect the balance and it is therefore considered to be material by nature.	N/A
Disclosures of officers' remuneration, salary bandings and exit packages in notes to the statements	Due to public interest in these disclosures and the statutory requirement for them to be made.	£10,000
Disclosure of auditors' remuneration in notes to the statements	Due to public interest in these disclosures and the statutory requirement for them to be made.	£10,000

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 (UK&I) 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>The revenue cycle includes fraudulent transactions</p> <p>Under ISA (UK&I) 240 there is a presumed risk that revenue may be misstated due to the improper recognition of revenue.</p> <p>For this Council, we have concluded that the greatest risk of material misstatement relates to the occurrence/existence of other income and receivables.</p>	<p>Having considered the risk factors set out in ISA240 and the nature of the revenue streams at Warwickshire County Council, we have determined that the risk of fraud arising from revenue recognition can be rebutted for the Council's income from tax and non specific grants (£344m), and other grants (£307m) , because:</p> <ul style="list-style-type: none"> • there is little incentive to manipulate revenue recognition • opportunities to manipulate revenue recognition are very limited; and • the culture and ethical frameworks of local authorities, including Warwickshire County Council, mean that all forms of fraud are seen as unacceptable. <p>However we have not rebutted the risk of fraud in relation to the Council's income from fees and charges (£97m) and in response have completed:</p> <ul style="list-style-type: none"> • review and testing of revenue recognition policies • testing of fees and charges revenue streams, including review of unusual significant transactions. 	<p>Our audit work has not identified any issues in respect of revenue recognition.</p> <p>Our testing of receivables identified one manual debtor amount which had been incorrectly included as at 31 March 2016. Further extended testing of other manual debtor balances did not identify any further issues.</p> <p>The value of the debtor incorrectly included was £386k; as this figure is below our "trivial" threshold we are not recommending that any adjustment to the accounts is made.</p>
2.	<p>Management over-ride of controls</p> <p>Under ISA (UK&I) 240 it is presumed that the risk of management over-ride of controls is present in all entities.</p>	<p>We have completed:</p> <ul style="list-style-type: none"> • review of entity controls • testing of journal entries • review of accounting estimates, judgements and decisions made by management • review of unusual significant transactions. 	<p>Our audit work has not identified any evidence of management over-ride of controls. In particular the findings of our review of journal controls and testing of journal entries has not identified any significant issues.</p> <p>We set out later in this section of the report our work and findings on key accounting estimates and judgements.</p>

Audit findings against significant risks continued

We have also identified the following significant risks of material misstatement from our understanding of the entity. We set out below the work we have completed to address these risks.

	Risks identified in our audit plan	Work completed	Assurance gained and issues arising
3.	<p>Valuation of property, plant and equipment</p> <p>The Council employs an internal valuer to revalue its assets on a rolling basis over a five year period. The Code requires that the Council ensures that the carrying value at the balance sheet date is not materially different from the current value. This represents a significant estimate by management in the financial statements.</p>	<p>We have completed:</p> <ul style="list-style-type: none"> Review of management's processes and assumptions for the calculation of the estimate. Review of the competence, expertise and objectivity of the internal valuer used. Review of the instructions issued to the valuer and the scope of their work Discussions with the Council's valuer about the basis on which the valuation was carried out, challenging the key assumptions. Review and challenge of the information used by the valuer to ensure it was robust and consistent with our understanding. Testing of revaluations made during the year to ensure they were input correctly into the Council's asset register Evaluation of the assumptions made by management for those assets not revalued during the year and how management satisfied themselves that these were not materially different to current value. 	<p>Our audit work has not identified any material issues in relation to the valuation of property, plant and equipment.</p> <p>The Council has undertaken a review of asset registers during the year which has led to the write off of assets which could not be verified, and the reclassification of other assets between categories. The values involved were:</p> <ul style="list-style-type: none"> Gross cost and depreciation of vehicles, machinery, furniture and equipment written off - £5.2m (nil next book value) Valuation of land, buildings and assets under construction reclassified as investment property - £4.5m
4.	<p>Valuation of the pension liability</p> <p>There is a risk that the underlying data provided to the actuarial expert is incorrect resulting in a material misstatement in the pension fund valuation.</p>	<p>We have completed:</p> <ul style="list-style-type: none"> an assessment of the arrangements in place for the County Council to obtain assurance that correct information has been provided to the Actuary by the Pension Fund. Review of the work of the Council's expert actuary and their judgements, estimates and assumptions used to determine the value of the pension scheme. 	<p>Our audit work has not identified any material issues in relation to the valuation of the pension liability.</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
Employee remuneration	Employee remuneration accruals understated (Remuneration expenses not correct)	<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 were in line with our documented understanding • obtained assurance on the completeness of the subsidiary system interfaces • cut off testing of after date payments, purchase orders and goods received notes • a review of the accruals process. 	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 (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 were in line with our documented understanding • review of payroll reconciliation to ensure that information from the payroll system can be agreed to the ledger and financial statements. • review of monthly trend analysis of total payroll • review of year end payroll accruals. 	Our audit work has not identified any significant issues in relation to the risk identified.

New issues and risks identified during the course of the audit

This section provides commentary on new issues and risks which were identified during the course of the audit and were not previously communicated in the Audit Plan

	Issue	Commentary
1.	<p>Valuation of surplus assets and investment property and fair value disclosures under IFRS 13</p> <p>The CIPFA Code of Practice has implemented IFRS 13 for the 2015/16 financial statements. The Council is required to include surplus assets within property, plant and equipment in its financial statements at fair value, as defined by IFRS13.</p> <p>The basis on which fair value is defined for investment property is also different to that used in previous years.</p> <p>This represents a potential change in the basis for estimation of these balances in the financial statements.</p> <p>There are also extensive disclosure requirements relating to financial assets and liabilities under IFRS 13 which the Council needs to comply with.</p> <p>We had not previously reported this risk in our 2015/16 Audit Plan.</p>	<p>The Council does not hold material surplus assets.</p> <p>The Council holds investment properties valued at £40.4m at 31 March 2016. For investment properties, we have completed:</p> <ul style="list-style-type: none"> • Review of management's processes and assumptions for the calculation of the estimate. • Review of the competence, expertise and objectivity of any management experts used. • Review of the instructions issued to valuation experts and the scope of their work. • Discussions with the valuer about the basis on which the valuation was carried out and challenge of the key assumptions. • Review and challenge of the information used by the valuer to ensure it was robust and consistent with our understanding. • Testing of revaluations made during the year to ensure they were input correctly into the Council's asset register • Review of the disclosures made by the Council in its financial statements to ensure they were in accordance with the requirements of the CIPFA Code of Practice and IFRS 13. <p>Our audit work has not identified any material issues in relation to the valuation of investment properties or the associated fair value disclosures under IFRS 13.</p>

Significant matters discussed with management

	Significant matter	Commentary
1.	Business conditions affecting the Council and business plans and strategies that may affect the risks of material misstatement	<p>We have discussed the current financial environment in which the Council operates, the budget setting process for 2016/17, and progress to date on delivery of the One Organisational Plan 2014-18 to inform our Going Concern assessment.</p> <p>We have reviewed the formal going concern assessment which the Council have prepared as part of the 2015/16 year end process, which has included consideration of cash flow forecasts and requirements for a period of 12 months from the date of final approval of the financial statements.</p> <p>Management response</p> <ul style="list-style-type: none"> • Management have confirmed that they consider that the Council remains a going concern.

Accounting policies, estimates and 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>The accounting policy recorded in the notes to the accounts is as follows:</p> <ul style="list-style-type: none"> • 'Activity is accounted for in the year that it takes place. This means that income from the sale of goods or the provision of services is recorded in our accounts when we are owed it rather than when we receive it. Expenditure is recorded in our accounts when services are provided, rather than when we actually make a payment and supplies are recorded as expenditure when we use them. Where income and expenditure have been recognised but cash has not been received/paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet, subject do a de minimis level for non-system generated accruals of £50,000 that managers can use if they wish. We do not expect the effect to be material to the overall accounting position.' • In relation to Government grants the policy is as follows: 'Government grants are shown in the accounts in the year that they relate to rather than when we actually receive them. They are only shown in the accounts if we are certain that we will receive them.' 	<p>The policies are considered appropriate under the accounting framework</p>	<p style="text-align: center;">● Green</p>
<p>Judgements and estimates</p>	<p>The Council has disclosed the key judgements within the notes to the accounts as relating to:</p> <ul style="list-style-type: none"> • There is a high degree of uncertainty about future levels of funding for local government. • Local Authority maintained schools contribute to meeting the Council's service objectives both now and in the future and therefore their expenditure, income and the assets they use in the provision of services should form part of the accounts. • Schools transferring to academy status are accounted for as a disposal for nil consideration on the date that the school converts to academy status rather than as an impairment on the date that approval to transfer to Academy status is agreed. • The Council is not required to prepare group accounts. <p>The Council has disclosed the following sources of estimation uncertainty within the notes to the accounts:</p> <ul style="list-style-type: none"> • Valuation of PPE • Valuation of the pensions liability • Fair value valuation of investment property. 	<p>The judgements and estimates used by the Council appear reasonable</p>	<p style="text-align: center;">● Green</p>



Assessment

● Marginal accounting policy which could potentially attract attention from regulators

● Accounting policy appropriate but scope for improved disclosure

● Accounting policy appropriate and disclosures sufficient

Accounting policies, estimates and judgements (continued)

Accounting area	Summary of policy	Comments	Assessment
Going concern	The Directors have a reasonable expectation that the services provided by the Council will continue for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.	We have reviewed the Directors' assessment and are satisfied with managements' assessment that the going concern basis is appropriate for the 2015/16 financial statements.	 Green
Other accounting policies	We have reviewed the Council's policies against the requirements of the CIPFA Code and accounting standards.	Our review of accounting policies has not highlighted any issues which we wish to bring to your attention.	 Green

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

Other communication requirements

We set out below details of other matters which we, as auditors, are required by auditing standards and the Code 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 and Standards Committee. 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.
2.	Matters in relation to related parties	<ul style="list-style-type: none"> We are not aware of any significant incidences of non-compliance with relevant laws and regulations.
3.	Matters in relation to laws and regulations	<ul style="list-style-type: none"> A letter of representation has been requested from the Council.
4.	Written representations	<ul style="list-style-type: none"> Our review found no non-trivial omissions in the financial statements.
5.	Confirmation requests from third parties	<ul style="list-style-type: none"> We are not aware of any related party transactions which have not been disclosed.
6.	Disclosures	<ul style="list-style-type: none"> We obtained direct confirmations for PWLB loans and requested from management permission to send confirmation requests for bank and investment balances . This permission was granted and the requests were sent and returned with positive confirmation.
7.	Matters on which we report by exception	<ul style="list-style-type: none"> We are required to report on a number of matters by exception in a number of areas. We have not identified any issues we would be required to report by exception in the following areas <ul style="list-style-type: none"> If the Annual Governance Statement does not meet the disclosure requirements set out in the CIPFA/SOLACE guidance or is misleading or inconsistent with the information of which we are aware from our audit The information in the Narrative Report is materially inconsistent with the information in the audited financial statements or our knowledge of the Group/Council acquired in the course of performing our audit, or otherwise misleading.
8.	Specified procedures for Whole of Government Accounts	<p>We are required to carry out specified procedures (on behalf of the NAO) on the Whole of Government Accounts (WGA) consolidation pack under WGA group audit instructions.</p> <p>As the Council exceeds the specified group reporting threshold we are required to examine and report on the consistency of the WGA consolidation pack with the Council's audited financial statements.</p> <p>Our work is not yet complete but will be completed by the end of September 2016.</p>

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. We considered and walked through the internal controls for Employee Remuneration and Operating Expenses..

The controls were found to be operating effectively and we have no matters to report to the Audit and Standards Committee.

Adjusted misstatements

No adjustments to the draft financial statements were identified during the audit process.

Unadjusted misstatements

No non-trivial unadjusted misstatements were identified during the audit process.

Misclassifications and disclosure changes

A number of presentational and/or disclosure changes were made to the draft accounts during the audit process. The most significant of these are detailed below.

Adjustment type	Value £'000	Account balance	Impact on the financial statements
1 Classification	Net nil value	Note 9 – Reclassification between community schools land and buildings as at 31 March 2015	Reclassification between community schools land and buildings as at 31 March 2015 within disclosure note 9 - £29.4m. No impact on total schools valuation or on other elements of the financial statements.

Section 3: Value for Money

01. Executive summary

02. Audit findings

03. Value for Money

04. Other statutory powers and duties

05. Fees, non-audit services and independence

06. Communication of audit matters

Background

We are required by section 21 of the Local Audit and Accountability Act 2014 (the Act) and the NAO Code of Audit Practice (the Code) to satisfy ourselves that 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.

We are required to carry out sufficient work to satisfy ourselves that proper arrangements are in place at the Council. The Act and NAO guidance state that for local government bodies, auditors are required to give a conclusion on whether the Council has put proper arrangements in place.

In carrying out this work, we are required to follow the NAO's Auditor Guidance Note 3 (AGN 03) issued in November 2015. AGN 03 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.

AGN03 provides examples of proper arrangements against three sub-criteria but specifically states that these are not separate criteria for assessment purposes and that auditors are not required to reach a distinct judgement against each of these.

Risk assessment

We carried out an initial risk assessment in February 2016 and identified the following significant risks, which we communicated to you in our Progress Report to the Audit Committee in June 2016:

- **Sustainable resource deployment** – progress on update of One Organisational Plan
- **Working with partners and other third parties** – progress on development of area based Sustainability and Transformation Plans (STPs) and on implementation of the Better Care Fund; progress on development of the West Midlands Combined Authority

We identified risks in respect of specific areas of proper arrangements using the guidance contained in AGN03.

We carried out further work only in respect of the significant risks we identified from our initial and ongoing risk assessment. Where our consideration of the significant risks determined that arrangements were not operating effectively, we have used the examples of proper arrangements from AGN 03 to explain the gaps in proper arrangements that we have reported in our VFM conclusion.

Significant qualitative aspects

AGN 03 requires us to disclose our views on significant qualitative aspects of the Council's arrangements for delivering economy, efficiency and effectiveness.

We have focused our work on the significant risks that we identified in the Council's arrangements. In arriving at our conclusion, our main considerations were:

- **Sustainable resource deployment** - Progress made the Council in developing and delivering savings plans
- **Working with partners and other third parties** – Development of the Council's membership of the West Midlands Combined Authority; development of the Sustainability and Transformation Plan for Coventry and Warwickshire; implementation of the Better Care Fund.

We have set out more detail on the risks we identified, the results of the work we performed and the conclusions we drew from this work on pages 22 and 23.

Overall conclusion

Based on the work we performed to address the significant risks, we concluded that:

- the Council had proper arrangements in all significant respects to ensure it delivered value for money in its use of resources. The text of our report, which confirms this can be found at Appendix B.

Key findings

We set out below our key findings against the significant risks we identified through our initial risk assessment and further risks identified through our ongoing review of documents. The work is substantially complete but we are completing our reviews of additional documentation provided by the Council to allow us to form a final view at the time we issue our auditor's report.

Significant risk	Work to address	Findings and conclusions
<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). 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 of further savings will be needed in 2016/17.</p>	<p>Discuss key strategic challenges and the Council's proposed response</p> <p>Review of reports to members on:</p> <ul style="list-style-type: none"> the outturn position for 2015/16 and the budget plans for 2016/17 and 2017/18 the Council's progress in updating its medium term financial strategy . 	<p>The Council underspent against controllable budgets by £1.831m in 2015/16 and as at the end of 2015/16 remained on track to deliver the required savings as set out in the "One Organisational Plan 2014-18".</p> <p>In response to the December 2015 spending review the Council has launched a new 3 year "One Organisational Plan 2017-2020" aimed at identifying further savings by 2020 to enable continued delivery of a balanced financial position. A further update on progress is due to be presented to the Council in September 2016.</p> <p>The Council approved a 2016/17 budget in February 2016 which includes:</p> <ul style="list-style-type: none"> Savings requirements of £16.062m in 2016/17 and £20.236m in 2017/18 Use of reserves and contingencies in 2016/17 of £21.546m.
<p>Working with partners and other third parties</p> <p>The West Midland 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 taken 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>Discussion with officers and review of reports to members to assess progress made in development its membership of the West Midland Combined Authority and the extent to which it has been able to assess that this will support delivery of its strategic priorities.</p>	<p>WMCA was formally established as a new Authority on 17 June 2016. It has established a Leaders Board, which includes representation from Warwickshire County Council, and held its first AGM on 29 June 2016.</p> <p>The Leader of Warwickshire County Council has been invited to be the Finance & Property Portfolio holder for the WMCA.</p> <p>The Council has started discussions on the terms of an agreement which could allow it become a constituent member and the role that it would play in the next phase of devolution negotiations.</p>

Key findings (continued)

We set out below our key findings against the significant risks we identified through our initial risk assessment and further risks identified through our ongoing review of documents.

Significant risk	Work to address	Findings and conclusions
<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>Discussion with officers and review of reports to members to assess progress on:</p> <ul style="list-style-type: none"> development and delivery of Sustainability and Transformation Plans for Coventry and Warwickshire <p>Discussion with officers and review of reports to members to assess progress on:</p> <ul style="list-style-type: none"> Implementation of the Better Care Fund 	<p>The Council's Interim Strategic Director, People Group is a member of the Sustainability and Transformation Board of the Coventry and Warwickshire STP, which has been formally meeting on a fortnightly basis since April 2016 and is also attended on a regular basis by the Council's Chief Executive. There is also a Programme Board which is attended by the Director of Public Health and the Head of Strategic Commissioning.</p> <p>The Coventry and Warwickshire Health and Well Being Boards agreed a joint concordat in June 2016 setting out how they will work together on common goals for the population.</p> <p>The STP have set out formal ambitions and plans in a June 2016 submission to NHS England, in line with the national timescales. These plans address all required areas set out in the national framework for STPs. Along with other areas nationally there is further work to be done during the autumn on the delivery plans.</p> <p>The Council has clear plans in place for the Better Care Fund:</p> <ul style="list-style-type: none"> total annual spend covered by agreed schemes - £36.1m Warwickshire County Council agreed contribution - £3.7m. <p>Detailed specifications have been agreed for all schemes included within the fund, setting out the purpose, aims, spending plans, commissioning and contracting arrangements for each scheme. Actual spend by scheme is monitored throughout the year.</p> <p>The Council has reviewed governance arrangements around the Better Care Fund and has taken action in 2015/16 to strengthen the support to the Health and Well Being Board through the establishment of a HWB Executive Team which includes chief officer representation from health and social care bodies across Warwickshire and allows strategic oversight of both the BCF and the STP.</p> <p>The Health and Well Being Board has agreed a range of metrics to monitor performance on health outcomes, including:</p> <ul style="list-style-type: none"> Non elective admissions Delayed transfers of care Residential admissions Reablement Carer reported quality of life Management of long term conditions. <p>Whilst targets set for 2015/16 in 4 of these 6 areas were not met, their use provides a clear focus on the outcomes which the Health and Well Being Board is seeking to achieve through the work of the Better Care Fund.</p>

Significant difficulties in undertaking our work

We did not identify any significant difficulties in undertaking our work on your arrangements which we wish to draw to your attention.

Significant matters discussed with management

There were no matters where no other evidence was available or matters of such significance to our conclusion or that we required written representation from management or those charged with governance.

Any other matters

There were no other matters from our work which were significant to our consideration of your arrangements to secure value for money in your use of resources.

Section 4: Other statutory powers and duties

01. Executive summary

02. Audit findings

03. Value for Money

04. Other statutory powers and duties

05. Fees, non audit services and independence

06. Communication of audit matters

We set out below details of other matters which we, as auditors, are required by the Act and the Code to communicate to those charged with governance.

	Issue	Commentary
1.	Public interest report	<ul style="list-style-type: none"> We have not identified any matters that would require a public interest report to be issued.
2.	Written recommendations	<ul style="list-style-type: none"> We have not made any written recommendations that the Council is required to respond to.
3.	Application to the court for a declaration that an item of account is contrary to law	<ul style="list-style-type: none"> We have not used this duty.
4.	Issue of an advisory notice	<ul style="list-style-type: none"> We have not used this duty.
5.	Application for judicial review	<ul style="list-style-type: none"> We have not used this duty.
6.	Questions and objections	<ul style="list-style-type: none"> We received an objection to the accounts under section 27 of the Act on 10 August 2016, within the statutory inspection period. We will consider this objection and take action as appropriate.

Section 5: Fees, non-audit services and independence

01. Executive summary

02. Audit findings

03. Value for Money

04. Other statutory powers and duties

05. Fees, non audit services and independence

06. Communication of audit matters

We confirm below our final fees charged for the audit and provision of non-audit services in 2015/16

Fees

	Proposed fee £	Final fee £
Council audit	94,539	94,539
Total audit fees (excluding VAT)	94,539	94,539

Fees for other services

Service	Fees £
Audit related services:	
• Certification of Teachers' Pension return	4,200
Non-audit services	
• CFO insights	30,000 (payment covers 3 year contract @ £10,000 per year)

The proposed fees for the year were in line with the scale fee set by Public Sector Audit Appointments Ltd (PSAA)

Grant certification

Fees in respect of grant work, such as reasonable assurance reports, are shown under 'Fees for other services'.

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 6: Communication of audit matters

01. Executive summary

02. Audit findings

03. Value for Money

04. Other statutory powers and duties

05. Fees, non audit services and independence

06. Communication of audit matters

Communication to those charged with governance

International Standards on Auditing ISA (UK&I) 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 Public Sector Audit Appointments Limited (<http://www.psa.co.uk/appointing-auditors/terms-of-appointment/>)

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 at the time of our appointment. 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 NAO (<https://www.nao.org.uk/code-audit-practice/about-code/>). 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.

Our communication plan	Audit Plan	Audit Findings
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		✓
Non compliance with laws and regulations		✓
Expected modifications to auditor's report		✓
Uncorrected misstatements		✓
Significant matters arising in connection with related parties		✓
Significant matters in relation to going concern		✓

Appendices

Appendix A: Audit opinion

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

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF WARWICKSHIRE COUNTY COUNCIL

We have audited the financial statements of Warwickshire County Council (the "Authority") for the year ended 31 March 2016 under the Local Audit and Accountability Act 2014 (the "Act"). The financial statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement and the related notes and include the firefighters' pension fund financial statements comprising the Fund Account, the Net Assets Statement and the related notes 1 to 6. 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 2015/16.

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Act and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the members those matters we are required to state in an auditor's report and for no other purpose. 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 Finance and auditor

As explained more fully in the Statement of the Head of Finance Responsibilities, the Head of 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 2015/16, which 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 Finance; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Narrative Statement and the Annual Governance Statement to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. 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: present a true and fair view of the financial position of the Authority as at 31 March 2016 and of its expenditure and income for the year then ended; and have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16 and applicable law.

Opinion on other matters

In our opinion, the other information published together with the audited financial statements in the Narrative Statement and the Annual Governance Statement is consistent with the audited financial statements.

Matters on which we are required to report by exception

We are required to report to you if: in our opinion the Annual Governance Statement does not comply with the guidance included in 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007; or we issue a report in the public interest under section 24 of the Act; or we make a written recommendation to the Authority under section 24 of the Act; or we exercise any other special powers of the auditor under the Act.

We have nothing to report in these respects.

Conclusion on the Authority's arrangements to secure value for money through economic, efficient and effective use of its resources

Respective responsibilities of the Authority and 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 20(1)(c) of the Act to be satisfied that the Authority has made 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 the Authority's arrangements to secure value for money through economic, efficient and effective use of its resources

We have undertaken our review in accordance with the Code of Audit Practice prepared by the Comptroller and Auditor General as required by the Act (the "Code"), having regard to the guidance on the specified criteria issued by the Comptroller and Auditor General in November 2015, as to whether the Authority had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined these criteria as those necessary for us to consider under the Code in satisfying ourselves whether the Authority put in place proper arrangements to secure value for money through the economic, efficient and effective use of its resources for the year ended 31 March 2016.

We planned our work in accordance with the Code. 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 has put in place proper arrangements to secure value for money through economic, efficient and effective use of its resources.

Conclusion

On the basis of our work, having regard to the guidance on the specified criteria issued by the Comptroller and Auditor General in November 2015, we are satisfied that in all significant respects *the Authority* has put in place proper arrangements to secure value for money through economic, efficient and effective use of its resources for the year ended 31 March 2016.

Certificate

We certify that we have completed the audit of the accounts of the Authority in accordance with the requirements of the Act and the Code.

Delay in certification of completion of the audit

We are required to give an opinion on the consistency of the pension fund financial statements of the Authority included in the Pension Fund Annual Report with the pension fund financial statements included in the Statement of Accounts. The Local Government Pension Scheme Regulations 2013 require authorities to publish the Pension Fund Annual Report by 1 December 2016. As the Authority has not prepared the Pension Fund Annual Report at the time of this report we have yet to issue our report on the consistency of the pension fund financial statements. Until we have done so, we are unable to certify that we have completed the audit of the financial statements in accordance with the requirements of the Act and the Code.

We cannot formally conclude the audit and issue an audit certificate in accordance with the requirements of the Act and the Code until we have completed the work necessary to issue our Whole of Government Accounts (WGA) Component Assurance statement for the Authority for the year ended 31 March 2016. We are satisfied that this work does not have a material effect on the financial statements or on our conclusion on the Authority's arrangements for securing value for money through economic, efficient and effective use of its resources.

We cannot formally conclude the audit and issue an audit certificate for the Authority for the year ended 31 March 2016 in accordance with the requirements of the Act and the Code until we have completed our consideration of [an objection/objections] brought to our attention by [a local authority elector/local authority electors] under Section 27 of the Act. We are satisfied that [this matter does/these matters do] not have a material effect on the financial statements or on our conclusion on the Authority's arrangements for securing value for money through economic, efficient and effective use of its resources.]

Grant Patterson
for and on behalf of Grant Thornton UK LLP, Appointed Auditor

The Colmore Building
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Birmingham
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22 September 2016



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