

The Audit Findings for Warwickshire County Council

Year ended 31 March 2017

18 August 2017

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18 August 2017

Dear Sirs

Audit Findings for Warwickshire County Council for the year ending 31 March 2017

This Audit Findings report highlights the key findings arising from the audit that are significant to the responsibility of those charged with governance (in the case of Warwickshire County Council, the Audit and Standards Committee), to oversee the financial reporting process, 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 have been discussed with officers.

As auditor we are responsible for performing the audit, in accordance with International Standards on Auditing (UK & Ireland) ('ISA (UK&I)'), 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
Engagement lead

Chartered Accountants

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Section 1: Executive summary

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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 2017. It is also used to report our audit findings to management and those charged with governance in accordance with the requirements of ISA (UK&I) 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 to consider other information published together with the audited financial statements (including the Annual Governance Statement (AGS) and Narrative Report, whether it is consistent with the financial statements, apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Council acquired in the course of performing our audit; or otherwise misleading.

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 year.

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 made one change to our audit approach which we communicated to you in our Audit Plan dated 20 February 2017:

- In our Audit Plan we reported that we were unable to rebut the presumed fraud risk arising from revenue recognition relating to other income and associated receivables. Following further assessment at year end we concluded that we were able to rebut this fraud risk. Further details are set out on page 10.

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

- obtaining and reviewing the management letter of representation
- updating our post balance sheet events review, to the date of signing the opinion
- 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 have identified no adjustments affecting the Council's reported financial position. The draft financial statements for the year ended 31 March 2017 recorded net expenditure of £123.6m which is unchanged in the audited financial statements.

We recommended a small number of adjustments to improve the presentation of the financial statements.

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

Preparations for early close 2017/18

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 during June 2017 and issue our draft Audit Findings Report by the end of July. We are pleased to report that, by working closely with the Council's finance staff throughout the year, we were able to achieve this although we have identified some areas where we consider that the efficiency and effectiveness of our audit process can be further improved. Overall, we consider that the Council is well prepared to achieve the early close timetable set for 2017/18.

Changes to the presentation of local authority financial statements

The Council has presented its 2016/17 Comprehensive Income and Expenditure Statement (CIES) in line with updated CIPFA requirements (the 'Telling the Story' project). This has led to changes in the presentation of income and expenditure in the financial statements and associated disclosure notes, with a prior period adjustment (PPA) to restate the 2015/16 comparative figures.

The Code requires that, as well as restating the 2015/16 CIES comparative figures in line with the new reporting format, authorities should disclose "... the amount of the adjustment for each financial statement line item affected." The Council has not included this disclosure in its 2016/17 financial statements on the basis that, in its view, omission of this disclosure would not have a material impact on the understanding of users of the accounts as the Net Cost of Services and all lines below it in the CIES for 2015/16 remains unchanged. Instead, the Council has included a general narrative statement to explain the impact of the change.

We agree that this omission would not have a material impact on the understanding of users of the accounts and so do not consider that there is any impact on our opinion on the financial statements.

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 (AGS) and Narrative Report is misleading or inconsistent with the information of which we are aware from our audit.

Based on our review of the Council's Narrative Report and AGS we are satisfied that they are consistent with the audited financial statements. We are also satisfied that the AGS meets the requirements set out in the CIPFA/SOLACE guidance and that the disclosures included in the Narrative Report are in line with the requirements of the CIPFA Code of Practice.

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.

An objection was received in respect of the 2015/16 financial statements. The Council has met with the objector and is seeking to resolve the matter directly with them. We are awaiting the outcome of these discussions before determining whether there is further action we are required to take.

Further details of our work on other statutory powers and duties is set out in section four of this report.

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.

Grant Thornton UK LLP
August 2017

Section 2: Audit findings

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Materiality

In performing our audit, we apply the concept of materiality, following the requirements of ISA (UK&I) 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 determined overall materiality to be £13,907k (being 1.8% of gross revenue expenditure) based on 2015/16 outturn. We have considered whether this level remained appropriate during the course of the audit and updated this based on the 2016/17 draft financial statements which led to us to revise our overall materiality to £14,351k (being 1.8% of gross revenue expenditure).

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 £718k (updated from £696k as reported in our audit plan to reflect gross revenue expenditure as per the draft 2016/17 financial statements.)

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

Balance/transaction/disclosure	Explanation	Materiality level
Related Party Transactions	Due to public interest in these disclosures and the statutory requirement for them to be made, we consider £20,000 to be an appropriate materiality level for these disclosures. We recognise that in compiling the disclosure the Council will apply its own assessment of materiality and (as required by IAS24) also have regard to materiality from the perspective of the other party.	£20,000
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.	£20,000

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; Judgments about materiality are made in light of surrounding circumstances, and are affected by the size or nature of a misstatement, or a combination of both; and Judgments about matters that are material to users of the financial statements are based on a consideration of the common financial information needs of users as a group. The possible effect of misstatements on specific individual users, whose needs may vary widely, is not considered. (ISA (UK&I) 320)

Audit findings against significant risks

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
<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>This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.</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, 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>Our audit work has not identified any issues in respect of revenue recognition.</p>
<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 journal entry process and selection of unusual journal entries for testing back to supporting documentation • 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 controls and testing of journal entries has not identified any significant issues.</p>

"Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, due to either 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 making the review of unusual significant transactions "the auditor shall treat identified significant related party transactions outside the entity's normal course of business as giving rise to significant risks." (ISA (UK&I) 550)

Audit findings against significant risks (continued)

Risks identified in our audit plan	Work completed	Assurance gained and issues arising
<p>Valuation of property, plant and equipment The Council revalues 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>	<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 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 significant issues in relation to the risk identified.</p> <p>We were satisfied that, based on review of the assessment undertaken by the Council supported by our own review of independently provided indices and other supporting information on valuation movements, that the Council's assessment that the carrying value of property, plant and equipment is not materially different from the current value at the balance sheet date is reasonable and based on appropriate evidence and assumptions.</p> <p>We noted that the Council's internal valuations team had not considered movements in building indices/tender prices when considering potential movements in the fair value of assets held at Depreciated Replacement Cost, such as school buildings. We consider that such indices would be the most appropriate to apply when considering the valuation of assets held at Depreciated Replacement Cost. However, our own assessment using national indices for building tender prices as supplied by independent valuers suggests that any potential movement on the value of assets held at Depreciated Replacement Cost would not be material (3.3% index for 2016/17, which on a asset value of £338m would give rise to a potential movement in the year of £10.263m).</p> <p>We have recommended that the Council's internal valuation team ensure that they include review of tender price indices as applied to the valuation of assets held at Depreciated Replacement Cost in all future reviews of whether the carrying value of assets is materially different to their current value.</p>

Audit findings against significant risks (continued)

Risks identified in our audit plan	Work completed	Assurance gained and issues arising
<p>Valuation of pension fund net liability The Council's pension fund net liability, as reflected in its balance sheet, represents a significant estimate in the financial statements.</p>	<ul style="list-style-type: none"> Identifying the controls put in place by management to ensure that the pension fund net liability is not materially misstated and assessing whether those controls were implemented as expected and whether they were sufficient to mitigate the risk of material misstatement. Review of the competence, expertise and objectivity of the actuary who carried out the Council's pension fund valuation. Gaining an understanding of the basis on which the IAS 19 valuation was carried out, undertaking procedures to confirm the reasonableness of the actuarial assumptions made. Review of the consistency of the pension fund net liability disclosures in notes to the financial statements with the actuarial report from your actuary. 	<p>Our audit work has not identified any significant issues in relation to the risk identified.</p>

Audit findings against significant risks (continued)

Risks identified in our audit plan	Work completed	Assurance gained and issues arising
<p>Changes to the presentation of local authority financial statements</p> <p>CIPFA has been working on the 'Telling the Story' project, for which the aim was to streamline the financial statements and improve accessibility to the user and this has resulted in changes to the 2016/17 CIPFA Code of Practice.</p> <p>The changes affect the presentation of income and expenditure in the financial statements and associated disclosure notes. A prior period adjustment (PPA) to restate the 2015/16 comparative figures is also required.</p>	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> documented and evaluated the process for the recording the required financial reporting changes to the 2016/17 financial statements reviewed the re-classification of the Comprehensive Income and Expenditure Statement (CIES) comparatives to ensure that they are in line with the Council's internal reporting structure reviewed the appropriateness of the revised grouping of entries within the Movement In Reserves Statement (MIRS) tested the classification of income and expenditure for 2016/17 recorded within the Cost of Services section of the CIES tested the completeness of income and expenditure by reviewing the reconciliation of the CIES to the general ledger tested the classification of income and expenditure reported within the new Expenditure and Funding Analysis (EFA) note to the financial statements reviewed the new segmental reporting disclosures within the 2016/17 financial statements to ensure compliance with the CIPFA Code of Practice. 	<p>We consider that the Council has met all requirements of the 2016/17 CIPFA Code of Practice in the preparation of its 2016/17 financial statements with the exception of the point noted below.</p> <p>The Code requires that, as well as restating the 2015/16 CIES comparative figures in line with the new reporting format, authorities should disclose "the amount of the adjustment for each financial statement line item affected" – i.e. provide a reconciliation between the 2015/16 CIES figures as previously reported in the 2015/16 financial statements and the restated comparatives included in the 2016/17 financial statements.</p> <p>Warwickshire County Council has not included this reconciliation in its 2016/17 financial statements on the basis that omission of this disclosure would not have a material impact on the understanding of users of the accounts as the Net Cost of Services and all lines below it in the CIES for 2015/16 remains unchanged. Instead the Council has included a general narrative statement to explain the impact of the change.</p> <p>We consider that, whilst the Council has not fully complied with the requirements of the 2016/17 CIPFA Code of Practice by providing disclosure of the impact of the restatement of the 2015/16 CIES figures on each financial statement line affected, we agree that this omission would not have a material impact on the understanding of users of the accounts and so do not consider that there is any impact on our opinion on the financial statements.</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.

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
Employee remuneration	<p>Payroll expenditure represents a significant percentage of the Council's gross expenditure.</p> <p>We identified the completeness of payroll expenditure in the financial statements as a risk requiring particular audit attention:</p> <ul style="list-style-type: none"> 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 carried out testing on a sample of payroll expenditure for the year reviewed the payroll reconciliation to ensure that information from the payroll system can be agreed to the ledger and financial statements reviewed the monthly trend analysis of total payroll. 	<p>Our audit work has not identified any significant issues in relation to the risk identified.</p>
Operating expenses	<p>Non-pay expenditure represents a significant percentage of the Council's gross expenditure. Management uses judgement to estimate accruals of un-invoiced non-pay costs.</p> <p>We identified the completeness of non- pay expenditure in the financial statements as a risk requiring particular audit attention:</p> <ul style="list-style-type: none"> 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 reviewed the accruals process carried out substantive testing on a sample of operating expenses for the year and creditor balances at year end carried out year end cut-off testing. 	<p>Our audit work has not identified any significant issues in relation to the risk identified.</p>

"In respect of some risks, the auditor may judge that it is not possible or practicable to obtain sufficient appropriate audit evidence only from substantive procedures. Such risks may relate to the inaccurate or incomplete recording of routine and significant classes of transactions or account balances, the characteristics of which often permit highly automated processing with little or no manual intervention. In such cases, the entity's controls over such risks are relevant to the audit and the auditor shall obtain an understanding of them." (ISA (UK&I) 315)

Audit findings against other risks continued

Going concern

As auditors, we are required to “obtain sufficient appropriate audit evidence about the appropriateness of management's use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the entity's ability to continue as a going concern” (ISA (UK&I) 570).

We reviewed the management's assessment of the going concern assumption and the disclosures in the financial statements and concluded that there are no material uncertainties relating to the Council’s ability to continue as a going concern which require disclosure in the financial statements.

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 2017/18, 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 2016/17 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
Revenue recognition	<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 to 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>
Judgements and estimates	<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 appropriate and disclosures sufficient


● Accounting policy appropriate but scope for improved disclosure

● Accounting policy

Accounting policies, estimates and judgements continued

Accounting area	Summary of policy	Comments	Assessment
Going concern	The Head of Finance has a reasonable expectation that the services provided by the Council will continue for the foreseeable future. Members concur with this view. For this reason, the Council continue to adopt the going concern basis in preparing the financial statements.	We have reviewed the Council's assessment and are satisfied with management's assessment that the going concern basis is appropriate for the 2016/17 financial statements.	 (Green)
Other accounting policies	Other accounting policies.	We have reviewed the Council's policies against the requirements of the CIPFA Code of Practice. The Council's accounting policies are appropriate and consistent with previous years.	 (Green)

Assessment

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

 Accounting policy appropriate but scope for improved disclosure

 Accounting policy

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 been made aware of one incident identified by the Council in 2016/17 but are satisfied that the impact of this incident would not be material to the financial statements. No other issues have been identified during the course of our audit procedures.
2.	Matters in relation to related parties	<ul style="list-style-type: none"> From the work we carried out, we have not identified any related party transactions which have not been disclosed.
3.	Matters in relation to laws and regulations	<ul style="list-style-type: none"> You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work.
4.	Written representations	<ul style="list-style-type: none"> A standard letter of representation has been requested from the Council, which is included in the Audit and Standards Committee papers.
5.	Confirmation requests from third parties	<ul style="list-style-type: none"> We requested from management permission to send requests to confirm year end bank and investment balances. This permission was granted and the requests were sent, and all received to confirm year end balances.
6.	Disclosures	<ul style="list-style-type: none"> Our review found no material omissions in the financial statements.
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 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 of £350m we examine and report on the consistency of the WGA consolidation pack with the Council's audited financial statements.</p> <p>We have not yet completed our work but will have done so by the date of the Audit and Standards Committee and so will provide a verbal update to the Committee.</p>

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

We agreed a number of classification, presentational and disclosure changes to the draft financial statements during the audit process.

Adjustment type	Value £m	Account balance	Impact on the financial statements
1 Misclassification	n/a	Note 8 – Property, Plant and Equipment – table of revaluations.	Reanalysis of total land, buildings and surplus asset figures (£787.8m total value) by year of revaluation – reclassification only, no impact on the total figure included.
2 Disclosure	Various	Our review of the accounts highlighted some presentational changes that were required to be made to the draft accounts. None of these were individually significant as per our previous discussions.	Disclosure

Section 3: Value for Money

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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 2016. AGN 03 identifies one single criterion for auditors to evaluate:

In all significant respects, the audited body takes properly informed decisions and deploys 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 March 2017 and identified a number of significant risks in respect of specific areas of proper arrangements using the guidance contained in AGN03. The significant risks identified related to:

- **Sustainable resource deployment** – progress in delivery of One Organisational Plan and extent of plans in place to deliver further savings required by 2020.
- **Working with other partners** – Impact of the effectiveness of working arrangements with other partners on achievement of key targets and ambitions as set out in the One Organisational Plan

We have continued our review of relevant documents up to the date of giving our report, and have not identified any further significant risks where we need to perform further work.

Our risk assessment is a dynamic process and we have had regard to new information which emerged since we issued our Audit Plan:

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** – Evidence of effectiveness of partnership arrangements in enabling the Council to deliver its strategic priorities.

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 23 to 24.

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.

Recommendations for improvement

We discussed findings arising from our work with management. We have not identified any recommendations for improvement.

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.

Significant risk	Work to address	Findings and conclusions
<p>Sustainable resource deployment</p> <p>The Council has a "One Organisation Plan 2014-2018" (now updated to OOP 2020) in place which identified the need to make significant savings. Our assessment in 2015/16 was that the Council had delivered required levels of savings identified since the OOP was first developed in 2014 but the update to 2020 in 2017 has identified the need for a further £67m of savings by 2020.</p>	<p>We reviewed</p> <ul style="list-style-type: none"> the extent to which the medium term financial plan (One Organisation Plan) remains robust and was based on reasonable assumptions arrangements for agreement and approval of 2017/18 budgets progress made in identification and agreement of plans to deliver savings of £67m by 2020 outturn against the plan for 2016/17 and progress made in 2017/18 to date 	<p>The One Organisational Plan (OOP) as updated in February 2017 now covers the period to 2020 and set out.</p> <ul style="list-style-type: none"> £92m savings delivered to date £67m further savings required by 2020. <p>The full 2017/18 revenue budget was approved by Council in February 2017 and sets out:</p> <ul style="list-style-type: none"> Overall direction of travel – i.e. setting this in the context of the OOP 2020 Key focus is on delivery of savings - £67m by 2020 – and the impact that this has on 2017/18 1.99% increase in council tax and 2% ASC levy on top, so 3.99% total increase Specific provision for key changes such as the impact of apprenticeship levy and the living wage Includes commentary on key risks to delivery of the budget. <p>The 2017/18 budget document includes full listing of the areas of agreed delivery savings which support the £67m required figure over 3 years to 2020. These agreed savings were developed based on extensive consultation with and scrutiny by heads of service and staff, staff within finance service, corporate board and members.</p> <p>The 2016/17 outturn report presented to cabinet in July 2017 shows:</p> <ul style="list-style-type: none"> Underspend vs revenue budgets in 2016/17 of £9.864m, largely due to one off income and early delivery of some savings Savings delivered in 2016/17 of £14.536m vs target of £16.262m. The shortfall of £1.724m to be carried forward and delivered in 2017/18 £17.791m slippage on capital programme, mainly due to slippage on transport schemes. Overall total savings delivered over period 2014 – 2017 totalled £45.645m compared to target of £46.055. <p>Review of evidence of progress on delivery of the 2017/18 savings plans and budgets to July 2017 does not highlight any significant issues which would suggest overall delivery is at risk. On this basis we concluded that the risk was sufficiently mitigated and the Council has proper arrangements for planning finances effectively to support the sustainable delivery of strategic priorities and maintain statutory functions.</p>

Key findings (continued)

Significant risk	Work to address	Findings and conclusions
<p>Working with other partners A number of the Council's key ambitions within the OOP rely on the effectiveness of working arrangements with other partners such as health bodies.</p>	<p>We reviewed evidence from the Council's progress in hitting targets and ambitions as set out in the One Organisational Plan to assess what evidence this provides at to the effectiveness of partnership working arrangements.</p>	<p>The One Organisational Plan Year End Progress report for 2016/17 was presented to Cabinet in July 2017.</p> <p>The overall rating on performance against targets for 2016/17 as set out in this report was "Amber". This was in line with the overall rating for 2015/16 which was also "Amber".</p> <p>The commentary states that 2016/17 was considered to be the most challenging year of the OOP 2014-2017 and the overall amber rating is a reflection of this.</p> <p>59% of Key Business Measures supporting OOP outcomes had been achieved for 2016/17, which is in line with performance in previous years of the OOP (55% of targets were achieved in 2015/16, 59% in 2014/15). The range of targets not met is broad and does not point to a particular failing in any one particular area, and the overall level of performance is consistent with that reported in the 2 previous years around delivery of OOP objectives.</p> <p>Key themes set out in the OOP were around</p> <ul style="list-style-type: none"> • Delivery of savings • Transformation of ASC • Working with health partners to maximise and align resources • Modernisation and collaboration for fire and rescue services • Economic growth supported by Capital Growth Fund • Investing in assets to support service delivery • Highways drainage and flooding improvements • Investing in safer transport for public, schools and social care • Reduce workforce by 11% <p>The OOP outturn report confirms that progress continues to be made against all these themes but challenges remain. The report sets out clear actions and responses in all areas where targets were not met in 2016/17.</p> <p>Review of the detailed report does not highlight any areas where there have been significant failings or weaknesses in arrangements in 2016/17. On this basis we concluded that the risk was sufficiently mitigated and the Council has proper arrangements for working with third parties effectively to deliver strategic priorities.</p>

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 publicly
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 during 2016/17
4.	Issue of an advisory notice	<ul style="list-style-type: none">• We have not used this duty during 2016/17
5.	Application for judicial review	<ul style="list-style-type: none">• We have not used this duty during 2016/17

An objection was received in respect of the 2015/16 financial statements. The Council has met with the objector and is seeking to resolve the matter directly with them. We are awaiting the outcome of these discussions before determining whether there is further action we are required to take. We are seeking to resolve this before 30 September 2017. If we are unable to do so then we will not be able to certify the audit closed.

No objections were received relating to the 2016/17 financial statements during the public inspection period, which has now ended.

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.

Fees

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

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

Additional fees are likely to be necessary relating to the 2015/16 objection. The level of fees are yet to be agreed with PSAA.

Independence and ethics

- Ethical Standards and ISA (UK&I) 260 require us to give you timely disclosure of matters relating to our independence. In this context, we disclose the following to you:
- 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 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.
- For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council. The table below summarises all other services which were identified.

Fees for other services

Service	Fees £
Audit related services:	
• Teacher's Pension return certification	£4,200
Non-audit services	
• CFO Insights	£0*

* A £30,000 for a three year subscription to CFO insights was paid by the Council in 2015/16 and reported in our 2015/16 Audit Findings Report.

Independence and other services

We have considered whether other services might be perceived as a threat to our independence as the Council's auditor and have ensured that appropriate safeguards are put in place

	Service provided to	Fees	Threat?	Safeguard
Audit related services	Certification of Teachers Pension return for Warwickshire County Council (2016-17)	£4,200	<ul style="list-style-type: none"> Self interest 	<p>This is a recurring fee and therefore a self interest threat exists. However, the level of this recurring fee taken on its own is not considered to be a significant threat to independence as the fee for this work in comparison to the total fee for the audit (£94,539) for the Council and in particular to Grant Thornton UK LLP overall turnover. Furthermore, the work relates to audit related services for which there is a fixed fee and no contingent element to the fee.</p> <p>These factors are deemed to adequately mitigate the perceived self interest threat to an acceptable level.</p>
Non-audit services	CFO Insights	£0*	<ul style="list-style-type: none"> Self interest 	<p>A £30,000 for a three year subscription to CFO insights was paid by the Council in 2015/16 and reported in our 2015/16 Audit Findings Report.</p> <p>This is a recurring fee and therefore a self interest threat exists. However, the level of this recurring fee taken on its own is not considered to be a significant threat to independence as the fee for this work in comparison to the total fee for the audit (£94,539) for the Council and in particular to Grant Thornton UK LLP overall turnover. Furthermore, the work relates to non-audit related services for which there is a fixed fee and no contingent element to the fee.</p> <p>These factors are deemed to adequately mitigate the perceived self interest threat to an acceptable level.</p>
	TOTAL	£4,200		

The above non-audit services are consistent with the Council's policy on the allotment of non-audit work to your auditor.

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

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.

This document, The Audit Findings, outlines those key issues and other matters arising from the audit, which we consider should be communicated in writing rather than orally, 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, or emphasis of matter		✓
Unadjusted misstatements and material disclosure omissions		✓
Significant matters arising in connection with related parties		✓
Significant matters in relation to going concern	✓	✓

Appendices

- A. Action Plan
- B. Audit Opinion

A. Action plan

Priority

Rec no.	Recommendation	Priority	Management response	Implementation date and responsibility
1.	We recommend that the Council's internal valuation team ensure that they include review of tender price indices as applied to the valuation of assets held at Depreciated Replacement Cost in all future reviews of whether the carrying value of assets is materially different to fair value.	Medium	We will review the approach to the valuation of the Council's assets, including consideration of the use of indices, as part of preparing the 2017/18 accounts.	31 March 2018 Virginia Rennie (Finance), Steve Smith (Property Services)

Controls

- High – Significant effect on control system
- Medium – Effect on control system
- Low – Best practice

B: Audit opinion

We anticipate we will provide the Council with an 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 2017 under the Local Audit and Accountability Act 2014 (the "Act"). The financial statements comprise the Comprehensive Income and Expenditure Statement, the Movement in Reserves 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 2016/17.

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 Authority's members those matters we are required to state to them 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 responsibilities for the statement of accounts, 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 2016/17, 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, the Code of Audit Practice published by the National Audit Office on behalf of the Comptroller and Auditor General (the "Code of Audit Practice") 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 Report by the Head of Finance 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 2017 and of its expenditure and income for the year then ended; and
- the financial statements have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 and applicable law.

Opinion on other matters

In our opinion, the other information published together with the audited financial statements in the Narrative Report by the Head of Finance and the Annual Governance Statement for the financial year for which the financial statements are prepared 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: Framework (2016)' published by CIPFA and SOLACE; or
- we have reported a matter in the public interest under section 24 of the Act in the course of, or at the conclusion of the audit; or
- we have made a written recommendation to the Authority under section 24 of the Act in the course of, or at the conclusion of the audit; or
- we have exercised any other special powers of the auditor under the Act.

We have nothing to report in respect of the above matters.

Conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

Respective responsibilities of the Authority and auditor

The Authority is responsible for putting in place proper arrangements for securing 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 for securing economy, efficiency and effectiveness in its use of resources

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria issued by the Comptroller and Auditor General in November 2016, 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 this criteria as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2017.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to form a view on whether in all significant respects the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

Conclusion

On the basis of our work, having regard to the guidance on the specified criteria issued by the Comptroller and Auditor General in November 2016, we are satisfied that in all significant respects *the Authority* put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2017.

Certificate

Position on certificate to be finalised as at date of opinion.

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

The Colmore Building
20 Colmore Circus
Birmingham
B4 6AT

[Date]



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