

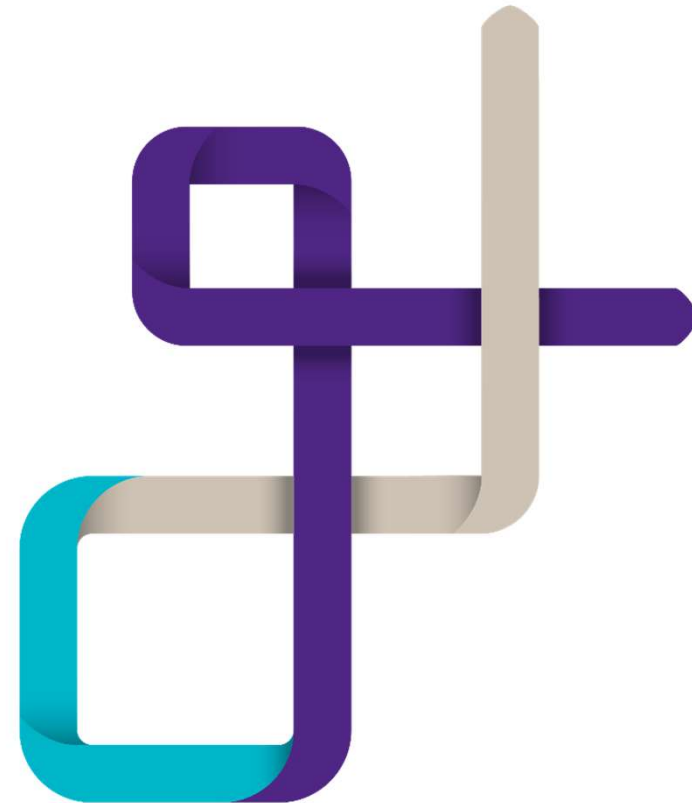
Audit Findings

Year ending 31 March 2018

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.

Warwickshire County Council

12 July 2018



Contents



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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 for the purpose of expressing our opinion on the financial statements. 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 control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose all defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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Headlines

This table summarises the key issues arising from the statutory audit of Warwickshire County Council ('the Council') and the preparation of the Council's financial statements for the year ended 31 March 2018 for those charged with governance.

Financial Statements	<p>Under the International Standards of Auditing (UK) (ISAs), we are required to report whether, in our opinion:</p> <ul style="list-style-type: none"> the Council's financial statements give a true and fair view of the Council's financial position and of the group and Council's expenditure and income for the year; and have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting and prepared in accordance with the Local Audit and Accountability Act 2014. <p>We are also required to report whether other information published together with the audited financial statements (including the Statement of Accounts, Annual Governance Statement (AGS), Pension Fund Accounts and Narrative Report), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.</p>	<p>Subject to outstanding matters being resolved, we anticipate issuing an unqualified audit opinion following presentation of this report to the Audit & Standards Committee meeting on 25 July 2018 and approval of the financial statements by the Council on 26 July 2018, as detailed in Appendix E. These outstanding items include:</p> <ul style="list-style-type: none"> receipt of management representation letter; and review of the final set of financial statements. <p>We have concluded that the other information published with the financial statements, which includes the Pension Fund Accounts, Annual Governance Statement and Narrative Report, are consistent our knowledge of your organisation and with the financial statements we have audited.</p>
Value for Money arrangements	<p>Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion:</p> <ul style="list-style-type: none"> the Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources ('the value for money (VFM) conclusion'). 	<p>We have completed our risk based review of the Council's value for money arrangements. We have concluded that Warwickshire County Council has proper arrangements to secure economy, efficiency and effectiveness in its use of resources.</p> <p>We therefore anticipate issuing an unqualified value for money conclusion, as detailed in Appendix E. Our findings are summarised on pages 14 to 18.</p>
Statutory duties	<p>The Local Audit and Accountability Act 2014 ('the Act') also requires us to:</p> <ul style="list-style-type: none"> report to you if we have applied any of the additional powers and duties ascribed to us under the Act; and certify the closure of the audit. 	<p>We have not exercised any of our additional statutory powers or duties in respect to the 2017/18 financial year.</p> <p>We have completed the majority of work under the Code, however, we do not expect to be able to certify the conclusion of the audit yet as:</p> <ul style="list-style-type: none"> We are required to give an opinion on the consistency of the pension fund financial statements of the Council included in the Pension Fund Annual Report with the pension fund financial statements included in the Statement of Accounts. The Council has not prepared the Pension Fund Annual Report at the time of this report and we have yet to issue our report on the consistency of the pension fund financial statements. We have issued provisional reviews in respect of two objections related to the 2015/16 accounts and are awaiting responses. Once these are resolved we will conclude the audits. Further details are noted on page 12.

Acknowledgements

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.

Summary

Overview of the scope of our audit

This Audit Findings Report presents the observations arising from the audit that are significant to the responsibility of those charged with governance to oversee the financial reporting process, as required by International Standard on Auditing (UK) 260 and the Code of Audit Practice ('the Code'). Its contents will be discussed with management and the Audit & Standards Committee.

As auditor we are responsible for performing the audit, in accordance with International Standards on Auditing (UK), 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.

Audit approach

Our audit approach was based on a thorough understanding of the Council's business and is risk based, and in particular included:

- An evaluation of the Council's internal controls environment including its IT systems and controls;

- An evaluation of the components of the group based on a measure of materiality considering each as a percentage of total group assets and revenues to assess the significance of the component and to determine the planned audit response. For 2017/18 we determined that group accounting was not required on the grounds of materiality; and
- Substantive testing on significant transactions and material account balances, including the procedures outlined in this report in relation to the key audit risks.

Conclusion

We have substantially completed our audit of your financial statements and subject to outstanding queries being resolved, we anticipate issuing an unqualified audit opinion following presentation of this report to the Audit & Standards Committee meeting on 25 July 2018 and approval of the financial statements by the Council on 26 July 2018, as detailed in Appendix E. These outstanding items include:

- Completion of payroll reconciliation testing;
- Completion of journal testing;
- receipt of management representation letter; and
- review of the final set of financial statements.

Our approach to materiality

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law. Materiality calculations remain the same as reported in our audit plan.

	Amount (£m)	Qualitative factors considered
Materiality for the financial statements	14.351	Based on a proportion of forecast gross expenditure (1.8%) for the financial year. In the prior year we used the same benchmark.
Performance materiality	10.764	Quality of financial systems and processes and the nature of the Council's income and expenditure streams. Quality of accounts and working papers in previous years and level of amendments arising from audit process.
Trivial matters	0.717	
Materiality for specific transactions, balances or disclosures	0.1	Lower materiality applied to remuneration disclosures due to their sensitive nature and public interest.

Significant audit risks

Risks identified in our Audit Plan

Commentary

1

Improper revenue recognition

Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue. We have rebutted this risk due to nature of the revenue streams within Warwickshire County Council.

Auditor commentary

Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the Council, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:

- there is little incentive to manipulate revenue recognition.
- opportunities to manipulate revenue recognition are very limited.
- the culture and ethical frameworks of local authorities, including Warwickshire County Council, mean that all forms of fraud are seen as unacceptable.

Therefore we did not consider this to be a significant risk for Warwickshire County Council.

2

Management override of controls

Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. We identified management override of controls as a risk requiring special audit consideration.

Auditor commentary

We have undertaken the following work in relation to this risk:

- gained an understanding of the accounting estimates, judgements applied and decisions made by management and consider their reasonableness
- reviewed the journal entry process and the control environment around journal entries
- obtained a full listing of journal entries, identified and tested unusual journal entries for appropriateness
- evaluated the rationale for any changes in accounting policies or significant unusual transactions.

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.

3

Valuation of property, plant and equipment

The Council revalues its land and buildings on a rolling basis over a five year period to ensure that carrying value is not materially different from fair value. This represents a significant estimate by management in the financial statements. We identified the valuation of land and buildings revaluations and impairments as a risk requiring special audit consideration.

We have undertaken the following work in relation to this risk:

- Reviewed management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work
- Consideration of the competence, expertise and objectivity of any management experts used.
- Discussions with the valuer about the basis on which the valuation is carried out and challenge of the key assumptions.
- Review and challenge of the information used by the valuer to ensure it is robust and consistent with our understanding.
- Testing of revaluations made during the year to ensure they are 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 has satisfied themselves that these are not materially different to current value.

Our work has not identified any significant issues in respect of this risk.

Significant audit risks

Risks identified in our Audit Plan

Commentary

4

Valuation of pension fund net liability

The Council's pension fund asset and liability as reflected in its balance sheet represent a significant estimate in the financial statements

We identified the valuation of the pension fund net liability as a risk requiring special audit consideration.

Auditor commentary

We have undertaken the following work in relation to this risk:

- Identified the controls put in place by management to ensure that the pension fund liability is not materially misstated. We also assessed whether these controls were implemented as expected and whether they are sufficient to mitigate the risk of material misstatement.
- Evaluated the competence, expertise and objectivity of the actuary who carried out your pension fund valuation. We gained an understanding of the basis on which the valuation was carried out.
- Undertook procedures to confirm the reasonableness of the actuarial assumptions made.
- Tested accuracy of data provided to the actuary.
- Checked the consistency of the pension fund asset and liability and disclosures in notes to the financial statements with the actuarial report from your actuary.

Our work has not identified any significant issues in respect of this risk.

5

Implementation of new payroll system

Payroll expenditure represents a significant percentage (35%) of the Council's operating expenses. The Council is rolling out a new payroll system during 2017/18.

As a key change to a material financial system we will need to ensure we obtain sufficient assurance on the effective operation of the system throughout 2017/18.

We have undertaken the following work in relation to this risk:

- Documented of our understanding of the processes and key controls for payroll.
- Documented of our understanding of the management of the changeover process.
- Reviewed monthly payroll figures produced by the payroll system in the periods before and after the date of changeover and investigation of any significant variances.
- Performed of analytical procedures on the total payroll figures for 2017/18.

Our work has not identified any significant issues in respect of this risk.

Reasonably possible audit risks

Risks identified in our Audit Plan

Commentary

6

Employee remuneration

Payroll expenditure represents a significant percentage (35%) of the Council's operating expenses. As the payroll expenditure comes from a number of individual transactions and an interface with a number of different sub-systems there is a risk that payroll expenditure in the accounts could be understated. We therefore identified completeness of payroll expenses as a risk requiring particular audit attention.

Auditor commentary

We have undertaken the following work in relation to this risk:

- evaluated the Council's accounting policy for recognition of payroll expenditure for appropriateness.
- gained an understanding of the Council's system for accounting for payroll expenditure and evaluated the design of the associated controls.
- performed substantive analytical procedures, disaggregated by month.
- obtained year-end payroll reconciliations and ensure amount in accounts can be reconciled to ledger and through to payroll reports. Investigated significant adjusting items.
- agreed payroll related accruals to supporting documents and reviewed any estimates for reasonableness.

Our audit work has not identified any significant issues in relation to the risk identified.

7

Operating expenses

Non-pay expenses on other goods and services also represents a significant percentage (65%) of the Council's operating expenses. Management uses judgement to estimate accruals of un-invoiced costs. We identified completeness of non-pay expenses as a risk requiring particular audit attention.

Auditor commentary

We have undertaken the following work in relation to this risk:

- evaluated the Council's accounting policy for recognition of non-pay expenditure for appropriateness;
- gained an understanding of the Council's system for accounting for non-pay expenditure and evaluated the design of the associated controls.
- reviewed the accruals process.
- tested a sample of operating expenses recorded in year.
- tested the completeness of the subsidiary system interfaces and control account reconciliations.
- tested a sample of year end creditor balances.
- tested a sample of payments immediately prior to and after the year end to ensure that appropriate cut-off has been applied, and therefore that the expenditure has been recognised in the correct period.

Our audit work has not identified any significant issues in relation to the risk identified.

Other issues

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




	Issue	Commentary	Auditor view
<p data-bbox="69 510 112 550">1</p> <p data-bbox="145 510 750 566">Application of Indices to Assets not revalued in year</p> <ul data-bbox="145 582 750 997" style="list-style-type: none"> <li data-bbox="145 582 750 710">• The Council holds £100.2m of land and buildings assets which have not been subject to formal valuation in 2017-18. A large proportion of these, £87.3m, were last valued in 2013-14. <li data-bbox="145 718 750 997">• The Council have calculated the potential impact on the carrying value of the assets using indices provided by their internal valuers which indicate a potential understatement in assets valuation of £2.5m. In determining the appropriate indices for use the internal valuers have considered a number of factors including geographic location and asset type (land or building, commercial or residential, smallholdings). 	<p data-bbox="761 510 1030 534">We have considered:</p> <ul data-bbox="761 550 1444 686" style="list-style-type: none"> <li data-bbox="761 550 1444 582">• the use of the indices used by the Council; and <li data-bbox="761 590 1444 686">• have compared these to independent indices provided to Grant Thornton by Gerard Eve, as independent valuers. <p data-bbox="761 742 1444 805">Application of the indices provided by Gerard Eve indicate a potential understatement of £8.8m.</p> <p data-bbox="761 813 1444 909">The Council's entire asset base (excluding schools) will be revalued in 2018/19 in line with its five year revaluation policy.</p>	<p data-bbox="1456 510 2159 734">This difference is not material and is below our expectation of tolerable error. A full revaluation is due in 2018-19. We are therefore satisfied that the estimate is a result of applying an appropriate estimation technique and are not minded to challenge the Council's estimate as being unreasonable.</p>	

Significant matters discussed with management




This section provides commentary on the significant matters we discussed with management during the course of the audit.

	Significant matter	Commentary	Auditor view
1	Group Accounting	<p>During 2017/18, the Council created two new Local Authority Trading Companies (LATC's) which are wholly owned by the authority.</p> <p>As part of the accounts production process the Council was required to consider whether it should produce Group financial statements for the 2017/2018 Statement of Accounts. It considered the arrangements in place for both entities for 2017-2018 and concluded that it would not be required to complete Group Financial Statements in line with the CIPFA Code of Practice on Local Authority Accounting having due regard for materiality.</p> <p>The Council's assessment concluded that both of the LATC's trading in the financial year 2017-2018 had combined external turnover significantly below an expected materiality level of £14.3m or any other consideration that would materially affect any single item in the primary financial statements.</p>	<p>We have considered managements assessment and concur with the conclusions reached for 2017/18. The Council will need to update its assessment for 2018/19 based on the actual turnover achieved.</p>
2	Valuation of PPE Assets held at Depreciated Replacement Cost	<p>The audit findings for the year ended 31 March 2017 highlighted that Council's internal valuations team had not considered building indices/tender prices when assessing the potential for material movements in the current value of assets held at depreciated replacement cost (DRC), such as school buildings.</p> <p>In January 2018, the Council's internal valuers reviewed the BCIS tenders indices and applied these to DRC building values. After further review, the Council determined that it would appoint external valuers to carry out a full valuation of all school land and buildings in 2017/18 and included this valuation in the accounts.</p>	<p>The move to a formal valuation by an independent valuer removed the requirement for a review of indices in the assessment of DRC assets not valued in in-year.</p>

Accounting policies

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 minimus level for non-system generated accruals of £50,000. We do not expect the effect to be material to the overall position. 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. 	The policies are considered appropriate under the accounting framework in place.	 (Green)
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 	The judgements and estimates are considered appropriate under the accounting framework in place.	 (Green)
Other critical 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 be open to challenge by regulators
-  Accounting policy appropriate but scope for improved disclosure
-  Accounting policy appropriate and disclosures sufficient

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	We have previously discussed the risk of fraud with the Audit and Standards Committee. We have been made aware of four cases currently under investigation by the Council but are satisfied that the impact of these cases 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	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	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	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	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	Our review found no material omissions in the financial statements.
⑦ Significant difficulties	We have not encountered any significant difficulties in the completion of our audit that we need to bring to your attention.

Other responsibilities under the Code

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

Issue	Commentary
① Other information	<p>We are required to give an opinion on whether the other information published together with the audited financial statements (including the Statement of Accounts, Annual Governance Statement (AGS) and Narrative Report), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.</p> <p>No inconsistencies have been identified. We plan to issue an unqualified opinion in this respect – refer to appendix E</p>
② Matters on which we report by exception	<p>We are required to report on a number of matters by exception in a number of areas:</p> <p>We have not identified any issues we would be required to report by exception in the following areas:</p> <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 Council acquired in the course of performing our audit, or otherwise misleading.
③ 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 £500m 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 and plan to carry this out in August 2018 to meet the end of August 2018 deadline.</p>
④ Certification of the closure of the audit	<p>We do not expect to be able to certify the completion of the 2017/18 audit of Warwickshire County Council in our auditor's report, as detailed in Appendix E as we are:</p> <ul style="list-style-type: none"> • awaiting the preparation of the Pension Fund's Annual Report upon which we are required to issue a 'consistency opinion', • yet to complete our work on the Council's Whole of Government Accounts Return; and • finalising our work, having issued provisional views, in respect of two objections received in relation to prior year accounts under sections 26 and 27 of the Act.

Other statutory powers and duties

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 Objections to Prior Year Accounts	<ul style="list-style-type: none"> • We received two highways related objections on prior year accounts. At the time of presenting this report we have issued provisional reviews. Once we have received and considered any further representations from the objector we will finalise our conclusions.

Value for Money

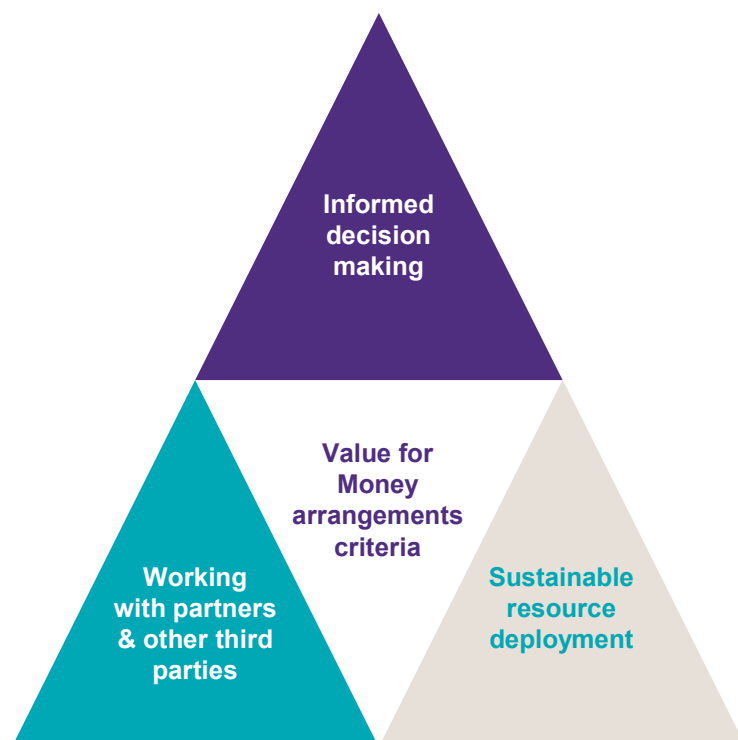
Background to our VFM approach

The NAO issued its guidance for auditors on Value for Money work for 2017/18 in November 2017. The guidance states that for local government bodies, auditors are required to give a conclusion on whether the Council has proper arrangements in place.

The guidance 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.”

This is supported by three sub-criteria, as set out below:



Risk assessment

We carried out an initial risk assessment in January 2018 and identified a significant risk in respect of a specific area of proper arrangements using the guidance contained in AGN03. We communicated this risk to you in our Audit Plan dated 29 March 2018.

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.

We carried out further work only in respect of the significant risk 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.

Value for Money

Our work

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 risk that we identified in the Council's arrangements. In arriving at our conclusion, our main considerations were:

- The Council has a "One Organisation Plan 2017-2020" in place which identified the need to make significant savings. The Council has a good track record of savings delivery for the previous One Organisational Plan 2014-2018 but the update to 2020 in 2017 identified the need for a further £67m of savings by 2020.

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 16 to 18.

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 E.

Recommendations for improvement

We discussed findings arising from our work with management and have agreed recommendation for improvement in terms of reporting at outturn against original budget. Our recommendation and management's response to this can be found in the Action Plan at Appendix A.

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.

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	Findings	Conclusion
1	<p>The Council has a "One Organisation Plan 2017-2020" in place which identified the need to make significant savings. The Council has a good track record of savings delivery for the previous One Organisational Plan 2014-2018 but the update to 2020 in 2017 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 2018/19 budgets progress made in identification and agreement of plans to deliver savings of £67m by 2020 outturn against the plan for 2017/18 and progress made in 2018/19 by the date of the issue of our opinion. 	<ul style="list-style-type: none"> The Council continued its strong historical record in financial control by delivering services within budget in 2017/18 and set a balanced budget for 2018-19 in line with requirements. The Council's General Fund reserve remains healthy. At the start of 2017/18 the Council held reserves of £133.395 million. With the approved in-year use of reserves and the effect of outturn, reserves increased to £146.801 million. The Council has reviewed the level of reserves and considers that they are consistent with Business Units/Directorates plans for managing the financial risks and demands facing services over the next two years. At the end of 2018/19 General Reserves are expected to be £27.273 million. This is £8.773 million above the £18.500 million minimum specified by the Head of Finance in his risk assessment when the 2018/19 budget was set. The Council is currently maintaining an over borrowed position. This means there is no current need for capital borrowing (the Capital Financing Requirement). Based on the estimates of medium term capital expenditure, the Council's gross borrowing covers the Capital Financing Requirement until 2020/21. The Council reported achieving savings of £29.225 million (91.5%), against the Authority's 2017/18 target of £31.935 million. The shortfall is now forecast to be delivered by the end of the OOP 2020. The outturn against plan was an under-spend against revenue budgets in 2017/18 of £8.359 million (3.3%). The Council is reporting that it is on-track with its 2018-19 budget plan as at month 2 with income in line with budget and expenditure below budget profile. 	<p>Auditor view</p> <p>Overall our work concluded that the Council has appropriate arrangements for delivering economy, efficiency and effectiveness. The Council's overall financial position remains challenging, given the level of savings that it needs to find in order to set balanced budgets in future years.</p>

Value for Money- Financial Resilience & Going Concern

Our responsibility

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) 570).

Financial Resilience & Going concern commentary

Management's assessment process

Management have carried out a written assessment which confirms:

- There are no events, of which they are aware, that could cause sufficient material uncertainty to cast significant doubt on the Council's ability to continue as a going concern. This extends but is not limited to at least twelve months from the Balance Sheet date.
- The Council monitor our cash flow on a daily basis, including maintaining an up to date forecast position for at least the next 12 months. These cash flow forecasts covering over 14 months from July 2018 do not indicate any material uncertainty relating to the Council's continuing ability to meet financial obligations.
- The Council has a strong balance sheet, with net assets of £243 million, net current assets of £226 million and cash and cash equivalents of £190 million.

Auditor commentary

The CIPFA Code of Practice 2017/18 Code, paragraph 3.4.2.23, states "Local authorities that can only be discontinued under statutory prescription shall prepare their financial statements on a going concern basis of accounting; that is, the financial statements shall be prepared on the assumption that the functions of the authority will continue in operational existence for the foreseeable future".

The presumption in local government is therefore that the going concern assumption does apply unless there is specific evidence to the contrary from factors such as:

- announcement to wind up the authority.
- failure to set a balanced budget.
- external assessment concludes unsustainable.
- financial plans show unable to meet obligations for foreseeable future.
- significant doubts over forward financial planning arrangements.

Management's assessment has considered these areas and concluded that no material uncertainty in respect of going concern exists.

In addition, based on our own knowledge of the Council we are aware that the Council has set an approved budget for 2018/19 and has a longer term financial plan (One Organisational Plan). The going concern assessment includes a cash flow forecast to September 2019, which is one year and two months from date of signing. The cashflow forecast does not indicate any signs of significant financial difficulty that would cause concern.

As such we consider that the assessment undertaken by the Council on going concern is a reasonable and valid one and there are no indications of material uncertainty.

Value for Money- Financial Resilience & Going Concern

Our responsibility

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) 570).

Financial Resilience & Going concern commentary

Work performed

We reviewed management’s written assessment of going concern including the cash flow forecast to September 2019. We reviewed the month 2 financial and performance monitoring dashboard.

We undertook an exercise to compare the unaudited 2017/18 accounts for county councils to benchmark their reserves positions.

Warwickshire County Council - benchmarking of reserves relative to other County Councils

Measure *	Warwickshire County Council	Average for County Councils in England	Ranking relative to other County Councils in England
Unrestricted general fund reserves as at 31 March 2018 (£m)	29,300	24,456	7 / 27
General fund and non-schools earmarked general fund reserves as at 31 March 2018 (£m)	133,400	143,561	12 / 27
General fund and earmarked general fund reserves as at 31 March 2018 (£m)	146,900	167,747	15 / 27
Total usable revenue and capital reserves as at 31 March 2018 (£m)	148,300	226,679	20 / 27
General fund and earmarked general fund reserves as a percentage of gross service revenue	16.5%	13.7%	9 / 27

* Based upon unaudited financial statements as at 31 March 2018

Auditor commentary

- Our audit did not identify any events or conditions which may cast significant doubt on going concern assumption.
- The Council has a positive balance sheet position with usable reserves of £148.2m and cash of £190.3m plus short term investments of £93.8m compared to current liabilities of £122.7m.
- The Council only has PWLB debt and there is no requirement to borrow further to meet any immediate liabilities falling due.
- The Council set a budget in line with local government requirements for 2018-19.
- The Council is reporting that it is on-track with its 2018-19 budget plan as at Month 2 with income in line with budget and expenditure below budget profile.
- Our benchmarking of reserves identified that overall the Council has a reserves position which is broadly at the average or mid-point based on a comparison of 27 County Councils. This would indicate a reasonable financial position given the future risks identified in the One Organisation Plan.
- We considered the Council’s internal financial reporting and noted that committee reports report quarterly against the revised budget position, which is considered good practice. We note the Council's recent introduction of monthly finance and performance dashboards, which include the original baseline budget, as an improvement to the clarity of reporting. The Council should consider extending this to the revenue and capital reporting as part of its annual reporting process.

Concluding comments

Auditor commentary

We propose to issue an unmodified opinion for 2017/18.

Independence and ethics

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 Financial Reporting Council's Ethical Standard and confirm that we, as a firm, and each covered person, are independent and are able to express an objective opinion on the financial statements

Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in December 2017 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

Details of fees charged are detailed in Appendix D

Audit and Non-audit services

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council. The following non-audit services were identified.

Service	£	Threats	Safeguards
Audit related			
<ul style="list-style-type: none"> Certification of Teachers Pension return 	4,200	Self-Interest (because this is a recurring fee)	<p>The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £4,200 in comparison to the total fee for the audit of £94,539 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it.</p> <p>These factors all mitigate the perceived self-interest threat to an acceptable level.</p>
Non-audit related			
<ul style="list-style-type: none"> CFO Insights 	0*	Self-Interest (because this is a recurring fee)	<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>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 all mitigate the perceived self-interest threat to an acceptable level.</p>

The amounts detailed are fees agreed to-date for audit related and non-audit services to be undertaken by Grant Thornton UK LLP in the current financial year. These services are consistent with the Council's policy on the allotment of non-audit work to your auditors. Any changes and full details of all fees charged for audit related and non-audit related services by Grant Thornton UK LLP and by Grant Thornton International Limited network member Firms are included in our Audit Findings Report at the conclusion of the audit.

Action plan

We have identified one recommendation for the Council as a result of issues identified during the course of our audit. We have agreed our recommendations with management and we will report on progress on these recommendations during the course of the 2018/19 audit. The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

Assessment	Issue and risk	Recommendations
<p>1</p> <p>●</p> <p>(Low)</p>	<p>We considered the Council's internal financial reporting and noted that committee reports report quarterly against the revised budget position, which is considered good practice. We note the Council's recent introduction of monthly finance and performance dashboards, which include the original baseline budget, as an improvement to the clarity of reporting. The Council should consider extending this to the revenue and capital reporting as part of its annual reporting process.</p>	<p>The Council should consider extending reporting against baseline budget to both revenue and capital reporting as part of its annual reporting process.</p> <p>Management response</p> <p>Reporting against baseline budget has been introduced in 2018/19 against capital projects and will be considered for revenue monitoring.</p>

Controls

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

Follow up of prior year recommendations

We identified the following issues in the audit of Warwickshire County Council's 2016/17 financial statements, which resulted in one recommendations being reported in our 2016/17 Audit Findings report. We are pleased to report that management have implemented our recommendation.

1	Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
	✓	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.	This recommendation was superceded by the Council's change in approach for 2017/18 for assets held at depreciated replacement cost. The Council employed independent valuers, Bruton Knowles, to undertake a full revaluation of all schools land and buildings held on the Council's balance sheet. This resulted in a net downward revaluation of £90.1m.

Assessment

- ✓ Action completed
- X Not yet addressed

Fees

We confirm below our final fees charged for the audit and provision of non-audit services..

Audit 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). Our fees for grant certification cover only housing benefit subsidy certification, which falls under the remit of Public Sector Audit Appointments Limited. Fees in respect of other grant work, such as reasonable assurance reports, are shown under 'Fees for other services'.

Non Audit Fees

Fees for other services	Fees £
Audit related services:	4,200
• Certification of Teachers Pension return	
Non-audit services	0*
• CFO Insights	
	4,200

Teachers Pension Scheme - 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.

* 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.

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.

These factors are deemed to adequately mitigate the perceived self interest threat to an acceptable level.

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

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Warwickshire County Council (the 'Authority') for the year ended 31 March 2018 which comprise the Comprehensive Income and Expenditure Statement, the Movement in Reserves Statement, the Balance Sheet, the Cash Flow Statement, a Statement of Accounting Policies, Notes to the Core Financial Statements, and include the Firefighters' Pension Fund financial statements comprising the Fund Account, the Firefighters' Pension Fund Net Assets Statement and Note to the Firefighters' Pension Fund Statements. 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 2017/18.

In our opinion the financial statements:

- give a true and fair view of the financial position of the Authority as at 31 March 2018 and of its expenditure and income for the year then ended;
- have been prepared properly in accordance with the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2017/18; and
- have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Authority in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Who we are reporting to

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 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.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Head of Finance's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Head of Finance has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Authority's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Other information

The Head of Finance is responsible for the other information. The other information comprises the information included in the Statement of Accounts and the Annual Governance Statement, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge of the Authority obtained in the course of our work including that gained through work in relation to the Authority's arrangements for securing value for money through economy, efficiency and effectiveness in the use of its resources or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Other information we are required to report on by exception under the Code of Audit Practice

Under the Code of Audit Practice published by the National Audit Office on behalf of the Comptroller and Auditor General (the Code of Audit Practice) we are required to consider whether the Annual Governance Statement does not comply with the 'Delivering Good Governance in Local Government: Framework (2016)' published by CIPFA and SOLACE or is misleading or inconsistent with the information of which we are aware from our audit. We are not required to consider whether the Annual Governance Statement addresses all risks and controls or that risks are satisfactorily addressed by internal controls.

We have nothing to report in this regard.

Opinion on other matter required by the Code of Audit Practice

In our opinion, based on the work undertaken in the course of the audit of the financial statements and our knowledge of the Authority gained through our work in relation to the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources, the other information published together with the financial statements in the Statement of Accounts, for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

Under the Code of Audit Practice we are required to report to you if:

- we have reported a matter in the public interest under section 24 of the Local Audit and Accountability Act 2014 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 Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we have exercised any other special powers of the auditor under the Local Audit and Accountability Act 2014.

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

Responsibilities of the Authority, the Head of Finance and Those Charged with Governance for the financial statements

As explained more fully in the Statement of Responsibilities [set out on page 8], the Authority is required to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the Head of Finance. 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 2017/18, which give a true and fair view, and for such internal control as the Head of Finance determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Head of Finance is responsible for assessing the Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Authority lacks funding for its continued existence or when policy decisions have been made that affect the services provided by the Authority.

The Audit & Standards Committee is 'Those Charged with Governance'.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Report on other legal and regulatory requirements - Conclusion on the Authority's 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 criterion issued by the Comptroller and Auditor General in November 2017, we are satisfied that *the Authority* put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2018.

Responsibilities of the Authority

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.

Auditor's responsibilities for the review of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 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.

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in November 2017, as to whether in all significant respects 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 criterion 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 2018.

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 be satisfied that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

Report on other legal and regulatory requirements - *Delay in certification of completion of the audit*

We cannot formally conclude the audit and issue an audit certificate in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice until we have:

- given 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 2018. 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;
- completed the work necessary to issue our Whole of Government Accounts (WGA) Component Assurance statement for the Authority for the year ended 31 March 2018. 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 economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2018; and
- completed our consideration of objections brought to our attention in prior years by local authority electors under Section 27 of the Local Audit and Accountability Act 2014. We are satisfied that these matters do not have a material effect on the financial statements or on our conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2018.

[Signature]

GRANT PATTERSON

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

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25 July 2018



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