

# The Audit Findings for Warwickshire County Council and Warwickshire Pension Fund

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Year ended 31 March 2019

24 July 2019



# Contents



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## Section

1. Headlines
2. Financial statements
3. Value for money
4. Independence and ethics

## Page

- 3
- 5
- 19
- 22

## Appendices

- A. Follow up of prior year recommendations
- B. Audit adjustments
- C. Fees
- D. Audit Opinion

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 – Warwickshire County Council

This table summarises the key findings and other matters 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 2019 for those charged with governance.

<b>Financial Statements</b>	<p>Under International Standards of Audit (UK) (ISAs) and the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion, the Council's and Pension Fund's financial statements:</p> <ul style="list-style-type: none"> <li>• give a true and fair view of the financial position of the Council and Pension Fund and income and expenditure for the year; and</li> <li>• 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.</li> </ul> <p>We are also required to report whether other information published together with the audited financial statements (including the Annual Governance Statement (AGS), Narrative Report and Pension Fund Financial Statements), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.</p>	<p>Our audit work was completed on site during June and July. Our findings are summarised on pages 7 to 18.</p> <p>We have identified one adjustment to the financial statements, this is detailed in Appendix B.</p> <p>Our work is substantially complete and there are no matters of which we are aware that would require modification of our audit opinion at Appendix D or material changes to the financial statements, subject to the following outstanding matters;</p> <ul style="list-style-type: none"> <li>• Completion of our audit work on other material balances and transactions – see page 5 for further information</li> <li>• Response to points raised by our technical team as a result of their review of the draft financial statements</li> <li>• Whole of Government Accounts</li> <li>• Updating our post balance sheet events review, to the date of signing the opinion</li> <li>• Receipt of management representation letter; and</li> <li>• Review of the final set of financial statements.</li> </ul> <p>We have concluded that the other information to be published with the financial statements is consistent with our knowledge of your organisation and the financial statements we have audited.</p> <p>Our anticipated audit report opinions will be unmodified</p>
<b>Value for Money arrangements</b>	<p>Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report if, in our opinion, the Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources ('the value for money (VFM) conclusion').</p>	<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 D. Our findings are summarised on pages 19 to 21.</p>
<b>Statutory duties</b>	<p>The Local Audit and Accountability Act 2014 ('the Act') also requires us to:</p> <ul style="list-style-type: none"> <li>• report to you if we have applied any of the additional powers and duties ascribed to us under the Act; and</li> <li>• To certify the closure of the audit.</li> </ul>	<p>We have not exercised any of our additional statutory powers or duties</p> <p>We have completed the majority of work under the Code but are unable to issue our completion certificate until we complete our work on the Whole Government Accounts review and open objection.</p>

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# Headlines – Warwickshire Pension Fund

This table summarises the key findings and other matters arising from the statutory audit of Warwickshire Pension Fund ('the Pension Fund') and the preparation of the Pension Fund's financial statements for the year ended 31 March 2019 for those charged with governance.

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<b>Financial Statements</b>	<p>Under International Standards of Audit (UK) (ISAs) and the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion, the Pension Fund's financial statements:</p> <ul style="list-style-type: none"><li>• give a true and fair view of the financial position of the Pension Fund and its income and expenditure for the year ended 31 March 2019; and</li><li>• 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.</li></ul>	<p>Our audit work was completed on site during June and July. Our findings are summarised on pages 7 to 18. Our audit of the Fund did not identify any material adjustments to the financial statements. Audit adjustments are detailed in Appendix C.</p> <p>Our work is substantially complete and there are no matters of which we are aware that would require modification of our audit opinion at Appendix D or material changes to the financial statements, subject to the following outstanding matters;</p> <ul style="list-style-type: none"><li>• Completion of our audit work on other material balances and transactions – see page 5 for further information</li><li>• Updating our post balance sheet events review, to the date of signing the opinion</li><li>• Receipt of management representation letter; and</li><li>• Review of the final set of financial statements.</li></ul> <p>Our anticipated audit report opinion will be unmodified.</p>
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## 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) and the Code, 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 and Pension Fund's business and is risk based, and included:

- An evaluation of the Council's and Pension Funds internal controls environment, including its IT systems and controls;
- Substantive testing on significant transactions and material account balances, including the procedures outlined in this report in relation to the key audit risks

We have not had to alter or change our audit plan, as communicated to you on 13 March 2019.

**Our work is substantially complete and there are currently no matters of which we are aware that would require modification of our audit opinion, subject to the outstanding matters detailed below.**

### Local Authority

- Agreement of financial instruments disclosed to corresponding areas of the accounts and that the requirements of IFRS 9 have been met
- Agreement of related party transactions disclosed to underlying support
- Substantive analytical procedures on Council Tax and NNDR
- Agreement of DSG income and expenditure to underlying support and consideration of question received from local elector
- Completion of our procedures on the valuation of land and buildings following recent receipt of the valuer report

### Pension Fund

- Completion of IAS 19 assurance work for other auditors
- Completion of benefits payable testing

# Audit opinion

**We have substantially completed our audit of your financial statements and subject to the satisfactory conclusion of the outstanding matters listed above our anticipated audit report opinion will be unmodified and will be issued following the Audit & Standards Committee meeting on 24 July 2019 and the Council meeting on 25 July, as detailed in Appendix E .**

# 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. 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.

Matter	Description	Planned audit response to the Council
1	<p><b>Calculation and determination</b></p> <p>We have determined planning materiality (financial statement materiality determined at the planning stage of the audit) based on professional judgment in the context of our knowledge of the Authority and the Fund, including consideration of factors such as stakeholder expectations, financial stability and reporting requirements for the financial statements.</p> <p>We determine planning materiality in order to:</p> <ul style="list-style-type: none"> <li>– estimate the tolerable level of misstatement in the financial statements</li> <li>– assist in establishing the scope of our audit engagement and audit tests</li> <li>– calculate sample sizes and</li> <li>– assist in evaluating the effect of known and likely misstatements in the financial statements</li> </ul>	<ul style="list-style-type: none"> <li>• For the Council, we have determined financial statement materiality at the planning stage of our audit to be £15m for the Authority. We believe the appropriate benchmark to consider this against is the proportion of the gross expenditure of the Authority for the financial year and it equated to 1.8% of your prior year gross expenditure for the year (cost of services). This is within the acceptable range for the sector. We did not amend our materiality on receipt of the draft financial statements.</li> <li>• For the Pension Fund, we determined financial statement at the planning stage was £20m. We believe the appropriate benchmark to consider this against is the proportion of the Pension Fund's net assets and it equated to 1% of your actual net assets for the year ended 31 March 2018. This is within the acceptable range for the sector. We did not amend our materiality on receipt of the draft financial statements.</li> </ul>
2	<p><b>Other factors</b></p> <p>An item does not necessarily have to be large to be considered to have a material effect on the financial statements. We design our procedures to detect errors in specific accounts at a lower level of precision which we deem to be relevant to stakeholders.</p>	<ul style="list-style-type: none"> <li>• For the Council, we have determined a lower specific materiality level of £25K for senior officer remuneration disclosures.</li> <li>• For the Pension Fund, no lower specific materiality levels were set.</li> </ul>
3	<p><b>Reassessment of materiality</b></p> <p>Our assessment of materiality is kept under review throughout the audit process.</p>	<ul style="list-style-type: none"> <li>• Materiality calculations remain the same as reported in our audit plan for both the Council and Pension Fund</li> </ul>
4	<p><b>Matters we will report to the Audit &amp; Standards Committee</b></p> <p>Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Audit and Standards Committee any unadjusted misstatements of lesser amounts, other than those which are 'clearly trivial', to those charged with governance. ISA 260 (UK) defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria.</p>	<ul style="list-style-type: none"> <li>• In the context of the Authority, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £750k.</li> <li>• In the context of the Pension Fund, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £1m.</li> <li>• If management have corrected material misstatements identified during the course of the audit, we will consider whether those corrections should be communicated to the Audit &amp; Standards Committee to assist it in fulfilling its governance responsibilities.</li> </ul>

# Significant findings – audit risks

Matter	Risks identified in our Audit Plan	Risk relates to	Commentary
1	<p><b>Fraudulent revenue recognition</b></p> <p>Under ISA (UK) 240 there is a rebuttable 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 the Authority and the Fund, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:</p> <p>there is little incentive to manipulate revenue recognition</p> <p>opportunities to manipulate revenue recognition are very limited</p> <p>the culture and ethical frameworks of local authorities, including Warwickshire County Council and Warwickshire Pension Fund, mean that all forms of fraud are seen as unacceptable</p> <p>Therefore we do not consider this to be a significant risk for Warwickshire County Council and Warwickshire Pension Fund.</p>	Authority and Pension Fund	<p>We have not altered our assessment as reported in the audit plan and therefore have no issues to report n this regard.</p> <p>Whilst not a significant risk, as part of our audit work we did undertake work on material revenue items. Our work did not identify any matters that would indicate our rebuttal was incorrect.</p>
2	<p><b>Management override of controls</b></p> <p>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. The Authority and Fund faces external scrutiny of its spending and this could potentially place management under undue pressure in terms of how they report performance.</p> <p>We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk for both the Authority and Fund</p>	Authority and Pension Fund	<p>We have:</p> <ul style="list-style-type: none"> <li>• evaluated the design effectiveness of management controls over journals</li> <li>• analysed the journals listing and determined the criteria for selecting high risk unusual journals</li> <li>• tested unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration</li> <li>• gained an understanding of the accounting estimates and critical judgements applied made by management and considered their reasonableness with regard to corroborative evidence</li> <li>• evaluate the rationale for any changes in accounting policies, estimates or significant unusual transactions.</li> </ul> <p><b>Conclusion</b></p> <p>Our audit work has not identified any issues in respect of management override of controls.</p>

# Significant findings – audit risks

Risks identified in our Audit Plan	Risk relates to	Commentary
<p><b>3 Valuation of Land and Buildings</b>            The Authority revalues its land and buildings on a rolling five-yearly basis. In 2018/19, the entire asset base will be revalued in line with this policy.</p> <p>This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved and the sensitivity of this estimate to changes in key assumptions.</p> <p>We therefore identified valuation of land and buildings, particularly revaluations and impairments, as a significant risk.</p>	Authority	<p>We have:</p> <ul style="list-style-type: none"> <li>• evaluate management's processes and assumptions for the calculation of the estimate, the instructions issued to the valuation experts and the scope of their work</li> <li>• evaluated the competence, capabilities and objectivity of the valuation expert</li> <li>• written to the valuer, with follow up discussions as necessary, to confirm the basis on which the valuations were carried out</li> <li>• challenged the information and assumptions used by the valuer to assess completeness and consistency with our understanding</li> <li>• tested, on a sample basis, revaluations made during the year to ensure they have are consistent with the valuer's report and have been input correctly into the Authority's asset register</li> </ul> <p><b>Conclusion</b></p> <p>Our audit work has not identified any issues in respect of the valuation of land and buildings.</p>



# Significant findings – audit risks

	Risks identified in our Audit Plan	Risk relates to	Commentary
4	<p><b>Valuation of the pension fund net liability</b></p> <p>The Authority's pension fund net liability, as reflected in its balance sheet as the net defined benefit liability, represents a significant estimate in the financial statements.</p> <p>The pension fund net liability is considered a significant estimate due to the size of the numbers involved (£912.3m million in the Authority's balance sheet) and the sensitivity of the estimate to changes in key assumptions. We therefore identified valuation of the Authority's pension fund net liability as a significant risk.</p>	Authority	<p>We have:</p> <ul style="list-style-type: none"> <li>• updated our understanding of the processes and controls put in place by management to ensure that the Authority's pension fund net liability is not materially misstated and evaluated the design of the associated controls;</li> <li>• evaluated the instructions issued by management to their management expert (Hymans Robertson) for this estimate and the scope of the actuary's work;</li> <li>• assessed the competence, capabilities and objectivity of the actuary who carried out the Authority's pension fund valuation;</li> <li>• assessed the accuracy and completeness of the information provided by the Authority to the actuary to estimate the liability;</li> <li>• tested the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial report from the actuary;</li> <li>• undertaken procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performing any additional procedures suggested within the report; and</li> <li>• obtained assurances from our audit of the Warwickshire Pension Fund as to the controls surrounding the validity and accuracy of membership data; contributions data and benefits data sent to the actuary by the pension fund and the fund assets valuation in the pension fund financial statements.</li> </ul> <p><b>Conclusion</b></p> <p>Our audit identified one issue in relation to accounting for the impact of the McCloud Court of Appeal judgement and Guaranteed Minimum Pension (GMP) equalisation. This is considered under section "Significant findings – key judgements and estimates" at page 11.</p>

# Significant findings – audit risks


Risks identified in our Audit Plan	Risk relates to	Commentary
<p><b>5 Valuation of Level 3 (hard to value) Investment Assets</b></p> <p>The Fund revalues its investments on an annual basis to ensure that the carrying value is not materially different from the fair value at the financial statements date.</p> <p>By their nature Level 3 investment valuations lack observable inputs. These valuations therefore represent a significant estimate by management in the financial statements due to the size of the numbers involved (£211.2 million) and the sensitivity of this estimate to changes in key assumptions.</p> <p>Under ISA 315 significant risks often relate to significant non-routine transactions and judgemental matters. Level 3 investments by their very nature require a significant degree of judgement to reach an appropriate valuation at year end.</p> <p>Management utilise the services of investment managers and the custodians as valuation experts to estimate the fair value as at 31 March 2019.</p> <p>We therefore identified valuation of Level 3 investments as a significant risk.</p>	<p><b>Pension Fund</b></p>	<p>We have:</p> <ul style="list-style-type: none"> <li>evaluated management's processes for valuing Level 3 investments</li> <li>reviewed the nature and basis of estimated values and consider what assurance management has over the year end valuations provided for these types of investments; to ensure that the requirements of the Code are met</li> <li>for a sample of investments, tested the valuation by obtaining and reviewing the audited accounts, (where available) at the latest date for individual investments and agreeing these to the fund manager reports at that date. We have reconciled those values to the values at 31 March 2019 with reference to known movements in the intervening period</li> </ul> <p><b>Conclusion</b></p> <p>Management estimate the value of investment assets at the year end. Subsequently, the Council receives quarterly valuation reports in arrears from investment managers. During the course of our work we noted that the fund's value of holdings varied by £14.4m to the confirmation received from investment managers.</p> <p>The Council's estimation approach is required due to the earlier reporting deadlines. The variance noted is above triviality but below our performance materiality and therefore in line with the acceptable difference for assessing the estimate. We are bringing it to the attention of those charged with governance for information and ultimately we are satisfied that the Council's estimation approach is appropriate.</p>

# Significant findings - 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 and a summary of any significant control deficiencies identified during the year.

Issue	Commentary	Auditor view
<p><b>1 Impact of the McCloud judgement and GMP equalisation</b></p> <p>The Court of Appeal has ruled that there was age discrimination in the judges and firefighters pension schemes where transitional protections were given to scheme members.</p> <p>Our Grant Thornton view was that this gave rise to a past service cost and liability within the scope of IAS 19 as the ruling created a new obligation.</p> <p>The Government applied to the Supreme Court for permission to appeal this ruling, but this permission to appeal was unsuccessful. The case will now be remitted back to employment tribunal for remedy.</p> <p>The legal ruling around age discrimination (McCloud - Court of Appeal) has implications not just for pension funds, but also for other pension schemes where they have implemented transitional arrangements on changing benefits.</p> <p>This was confirmed on 15 July 2019 in a statement released by The Chief Secretary to the Treasury. The quote extracted and shown below is of greatest interest as it recognises remedies will need to be applied to the LGPS and hence supports the Authority's stance in the recognition of increased liabilities:</p> <p><i>“As ‘transitional protection’ was offered to members of all the main public service pension schemes, the government believes that the difference in treatment will need to be remedied across all those schemes. This includes schemes for the NHS, civil service, local government, teachers, police, armed forces, judiciary and fire and rescue workers. Continuing to resist the full implications of the judgment in Court would only add to the uncertainty experienced by members.”</i></p> <p><a href="https://www.parliament.uk/business/publications/written-questions-answers-statements/written-statement/Commons/2019-07-15/HCWS1725/">https://www.parliament.uk/business/publications/written-questions-answers-statements/written-statement/Commons/2019-07-15/HCWS1725/</a></p>	<p>The Council has requested an estimate from its actuary of the potential impact of the McCloud ruling and GMP equalisation. The actuary's estimate was as follows:</p> <ul style="list-style-type: none"> <li>• LGPS - £8.797m; and</li> <li>• FFPS - £12.500m</li> </ul> <p>Management have amended the financial statements to reflect the actuarial review of the impact of the McCloud judgement and GMP equalisation for FFPS.</p> <p>Having considered the potential impact of the McCloud judgement and GMP equalisation on the LGPS management do not consider the potential impact to be material. The financial statements have therefore not be amended and a 'contingent liability' disclosure has been retained.</p>	<p>We have reviewed the analysis performed by the actuary, and consider that the approach that has been taken to arrive at this estimate is reasonable.</p> <p>Our audit procedures have confirmed the relevant adjustments have been made to the financial statements in regard to the FFPS.</p> <p>As a result of the Court of Appeal judgment we are of the view that it is now probable that the Council will need to recognise (as employer) the increased liabilities in respect of LGPS members (primarily as a past service cost). The Council has determined not to amend the financial statements on the basis of materiality and the anticipation that it will be reflected in the 2019 actuarial valuation going forward. We are not minded to challenge the Council's approach and are satisfied that there is sufficient information such that a reader of the accounts will not be misled. However, in line with auditing standards we are required to record this as an unadjusted audit difference and seek the Audit &amp; Standards Committee agreement to management's decision not to make an amendment. A specific reference to this is made in the Letter of Representation.</p> <p>In respect of the Pension Fund the Council discloses the present value of retirement benefits through reproducing the actuary's statement in a note to the accounts (Option B). The Council has not requested a fully updated actuarial statement to reflect the potential impact upon the pension fund liability. However, it has increased disclosure to reflect the actuary's view that the impact, at £17.537m, would not be material to the overall present value of retirement of £3.2bn shown in Note 28. We are satisfied that there is sufficient information for a reader within the disclosure to understand the position.</p>

















# Significant findings – key judgements and estimates (Council)

Issue	Summary of management's policy	Auditor view	Assessment
<b>1 Land and Buildings</b>	<p>Other land and buildings comprises specialised assets such as schools and libraries, which are required to be valued at depreciated replacement cost (DRC) at year end, reflecting the cost of a modern equivalent asset necessary to deliver the same service provision.</p> <p>The remainder of other land and buildings are not specialised in nature and are required to be valued at existing use in value (EUV) at year end.</p> <p>The Council has engaged its Internal Valuer to complete the valuation of properties as at 31/03/19 on a cyclical basis however 100% of total assets were revalued during 2018/19.</p> <p>The valuation of properties valued by the valuer has resulted in a net surplus on revaluation of £58.2m.</p>	<p>We have</p> <ul style="list-style-type: none"> <li>• Undertaken an assessment of management's expert,</li> <li>• Reviewed the completeness and accuracy of the underlying information used to determine the estimate</li> <li>• Reviewed the impact of any changes to valuation method</li> <li>• Agreed the reasonableness of increase in estimate</li> <li>• Reviewed the adequacy of disclosure of estimate in the financial statements</li> </ul> <p><b>Conclusion</b></p> <p>We consider managements assessment of the valuation of land and buildings to be reasonable</p>	 <b>Green</b>





## Assessment

- We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- We consider management's process is appropriate and key assumptions are neither optimistic or cautious


# Significant findings – key judgements and estimates (Council)

Issue	Summary of management’s policy	Auditor view	Assessment																								
<p>2 <b>Net pension liability – £924.8m</b></p>	<p>The Council’s net pension liability at 31 March 2019 is £924.8m comprising the LGPS, unfunded defined benefit pension scheme obligations and the FFPS.</p> <p>The Council uses Hymans Robertson to provide actuarial valuations of the Council’s assets and liabilities derived from these schemes. A full actuarial valuation is required every three years.</p> <p>The latest full actuarial valuation was completed in 2016. A roll forward approach is used in intervening periods, which utilises key assumptions such as life expectancy, discount rates, salary growth and investment returns.</p> <p>Given the significant value of the net pension fund liability, small changes in assumptions can result in significant valuation movements.</p>	<p>We have</p> <ul style="list-style-type: none"> <li>Undertaken an assessment of management’s expert</li> <li>Reviewed and assessed the actuary’s roll forward approach taken,</li> <li>Used an auditors expert (PWC) to assess the actuary and assumptions made by the actuary</li> </ul>	<p> <b>Green</b></p>																								
<table border="1"> <thead> <tr> <th data-bbox="920 501 1536 564">Assumption</th> <th data-bbox="1536 501 1727 564">Actuary Value</th> <th data-bbox="1727 501 1962 564">PwC range</th> <th data-bbox="1962 501 2170 564">Assessment</th> </tr> </thead> <tbody> <tr> <td data-bbox="920 564 1536 612">Discount rate</td> <td data-bbox="1536 564 1727 612">2.4%</td> <td data-bbox="1727 564 1962 612">2.4% - 2.5%</td> <td data-bbox="1962 564 2170 612"></td> </tr> <tr> <td data-bbox="920 612 1536 716">Pension increase rate</td> <td data-bbox="1536 612 1727 716">2.5%</td> <td data-bbox="1727 612 1962 716">2.4% - 2.5%</td> <td data-bbox="1962 612 2170 716"></td> </tr> <tr> <td data-bbox="920 716 1536 820">Salary growth</td> <td data-bbox="1536 716 1727 820">3.1%</td> <td data-bbox="1727 716 1962 820">Scheme and employer specific</td> <td data-bbox="1962 716 2170 820"></td> </tr> <tr> <td data-bbox="920 820 1536 895">Life expectancy – Males currently aged 45 / 65</td> <td data-bbox="1536 820 1727 895">24.3/ 22.5</td> <td data-bbox="1727 820 1962 895">23.7 – 24.4/ 21.5 – 22.8</td> <td data-bbox="1962 820 2170 895"></td> </tr> <tr> <td data-bbox="920 895 1536 963">Life expectancy – Females currently aged 45 / 65</td> <td data-bbox="1536 895 1727 963">26.7/ 24.7</td> <td data-bbox="1727 895 1962 963">26.2 – 26.9/ 24.1 – 25.1</td> <td data-bbox="1962 895 2170 963"></td> </tr> </tbody> </table>				Assumption	Actuary Value	PwC range	Assessment	Discount rate	2.4%	2.4% - 2.5%		Pension increase rate	2.5%	2.4% - 2.5%		Salary growth	3.1%	Scheme and employer specific		Life expectancy – Males currently aged 45 / 65	24.3/ 22.5	23.7 – 24.4/ 21.5 – 22.8		Life expectancy – Females currently aged 45 / 65	26.7/ 24.7	26.2 – 26.9/ 24.1 – 25.1	
Assumption	Actuary Value	PwC range	Assessment																								
Discount rate	2.4%	2.4% - 2.5%																									
Pension increase rate	2.5%	2.4% - 2.5%																									
Salary growth	3.1%	Scheme and employer specific																									
Life expectancy – Males currently aged 45 / 65	24.3/ 22.5	23.7 – 24.4/ 21.5 – 22.8																									
Life expectancy – Females currently aged 45 / 65	26.7/ 24.7	26.2 – 26.9/ 24.1 – 25.1																									
<p>Reviewed</p> <ul style="list-style-type: none"> <li>the completeness and accuracy of the underlying information used to determine the estimate</li> <li>Impact of any changes to valuation method</li> <li>Reasonableness of the Council’s share of pension assets.</li> <li>Reasonableness of increase/decrease in estimate</li> <li>Adequacy of disclosure of estimate in the financial statements</li> </ul>																											
<p><b>Conclusion</b></p>																											
<p>We consider managements assessment of the net defined liability to be reasonable</p>																											





**Assessment**

-  We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
-  We consider the estimate is unlikely to be materially misstated however management’s estimation process contains assumptions we consider optimistic
-  We consider the estimate is unlikely to be materially misstated however management’s estimation process contains assumptions we consider cautious
-  We consider management’s process is appropriate and key assumptions are neither optimistic or cautious

# Significant findings – key judgements and estimates (Pension Fund)

Issue	Summary of management's policy	Auditor view	Assessment
<b>1</b> Level 3 and Level 2 investments	<p>The Pension Fund has investments classified as level 3 which are valued on the net asset statement as at 31 March 2019 at £211.2m. These investments are not traded on an open market and the valuation of the investment is highly subjective due to a lack of observable inputs. In order to determine the value, management use fund managers who value within industry accepted guidelines.</p> <p>In addition to this, the Pension Fund have investments classified as level 2 which are valued on the net asset statement as at 31 March 2019 at £1,395m. The investments are not traded on an open exchange and the valuation of the investment is subjective. In order to determine the value, management use valuation techniques based on observable inputs.</p>	<ul style="list-style-type: none"> <li>The fund has a material balance of investments with significant unobservable inputs and also those with some observable inputs. The valuation of these investments is subject to varying degrees of estimation uncertainty. The Fund discloses the differing methods of valuation for these funds within the accounts. In each case the Fund chooses to rely on the valuation provided by the fund manager.</li> <li>Appropriateness of the underlying information used to determine the estimate is reasonable – we note a non-material difference in estimate between the fund/ custodian and the individual investment managers. See page 10 for further information</li> <li>The methodology applied in calculating these estimates is consistent with peers and industry practice.</li> <li>Disclosure of estimate in the financial statements is adequate</li> </ul>	 <b>Green</b>

## Assessment

-  We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
-  We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
-  We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
-  We consider management's process is appropriate and key assumptions are neither optimistic or cautious

# Significant findings - Going concern - Council

## 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).

## Going concern commentary - Council

### Management's assessment process

Management have assessed the Council as a going concern on the basis that:

- There are no events, of which they are aware, that could cause sufficient material uncertainty to cast significant doubt on the Fund's ability to continue as a going concern. This extends but is not limited to at least twelve months from the reporting date.
- The Authority are required by statute to produce an annual balanced budget, this is supplemented by the MTFP which currently covers the period to 30 March 2020 and is in the process of being updated to 2025
- The Authority, has a strong balance sheet as at 31 March 2019

### Auditor commentary

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).

Management's assessment has considered the applicable guidance relating to public sector bodies which presumes in local government is that the going concern assumption does apply unless there is specific evidence to the contrary. Management assessment has concluded that no material uncertainty in respect of going concern exists.

In addition based on our own review of the Council, we are aware that the Council has set an "approved budget" for 2019/20 and has a longer term financial plan.

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

## Work performed

- Detailed audit work performed on management's assessment

### Auditor commentary

- Our audit did not identify any events or conditions which may cast significant doubt on going concern assumption.
- The reported position of the council at 31 March 2019 per the draft financial statements shows that they have total current assets of £441.7m compared to £144.6m current liabilities, £204.7m and £154.3m of total current assets are cash and short term investments respectively and are therefore highly liquid.
- The borrowings of the council, while significant are entirely with PWLB and therefore low risk.
- The council will remain a going concern throughout the life of the MTFP however there are funding gaps which must be met through the achievement of savings targets

## Concluding comments

### Auditor commentary

- Overall, we are satisfied that the preparation of the financial statements using the going concern principal is reasonable
- Based on the above comments, we anticipate being able to issue an unmodified opinion.



# Significant findings - Going concern Pension Fund

## 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).

## Going concern commentary - Council

### Management's assessment process

Management have assessed the Pension Fund as a going concern on the basis that:

- There are no events, of which they are aware, that could cause sufficient material uncertainty to cast significant doubt on the Fund's ability to continue as a going concern. This extends but is not limited to at least twelve months from the reporting date.
- The Fund account has a strong asset balance at 31 March 2019

### Auditor commentary

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).

Management's assessment has considered the applicable guidance relating to public sector bodies which presumes in local government is that the going concern assumption does apply unless there is specific evidence to the contrary. Management assessment has concluded that no material uncertainty in respect of going concern exists. The purpose of the review is to ensure that cash is available to meet liabilities as and when they fall due.

The fund continues to have a positive net cash flow due to investment income and any downward cashflow trend is reversed by large employers contributions.

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.

### Work performed

- Detailed audit work performed on management's assessment

### Auditor commentary

- Our audit did not identify any events or conditions which may cast significant doubt on going concern assumption.
- The Fund account has a strong asset balance of £2,165.7m and net return on investments of £141.9m is in excess of benefits paid by £57.1m.

### Concluding comments

### Auditor commentary

- Overall, we are satisfied that the preparation of the financial statements using the going concern principal is reasonable
- Based on the above comments, we anticipate being able to issue an unmodified opinion.



# 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 of both the Council and Pension Fund.

	Issue	Commentary
1	<b>Matters in relation to fraud</b>	<ul style="list-style-type: none"> <li>We have previously discussed the risk of fraud with the Audit and Standards Committee. We have been made aware of three incidents in the period relating to the Council which are immaterial. No other issues have been identified during the course of our audit procedures</li> </ul>
2	<b>Matters in relation to related parties</b>	<ul style="list-style-type: none"> <li>We are not aware of any related parties or related party transactions which have not been disclosed</li> </ul>
3	<b>Matters in relation to laws and regulations</b>	<ul style="list-style-type: none"> <li>We have not been made aware of any incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work.</li> </ul>
4	<b>Written representations</b>	<ul style="list-style-type: none"> <li>A letter of representation has been requested from the Council, and the Pension Fund which are included in the Audit and Standards Committee papers. We have requested specific disclosures in respect of management's decisions on how to disclose the potential impact of the McCloud judgment.</li> </ul>
5	<b>Confirmation requests from third parties</b>	<ul style="list-style-type: none"> <li>We requested from management permission to send confirmation requests to banks and investment bodies. This permission was granted and the requests were sent. All requests were returned with positive confirmation.</li> </ul>
6	<b>Disclosures</b>	<ul style="list-style-type: none"> <li>Our review found no material omissions in the Councils and Pension Fund financial statements</li> </ul>
7	<b>Audit evidence and explanations/significant difficulties</b>	<ul style="list-style-type: none"> <li>All information and explanations requested from management for the Council and the Pension Fund were provided.</li> </ul>

# Other responsibilities of the Council under the Code

Issue	Commentary
<b>1 Other information</b>	<p>We are required to give an opinion on whether the other information published together with the Councils audited financial statements (including the Annual Governance Statement, Narrative Report and Pension Fund Financial Statements), 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 unmodified opinion in this respect – refer to appendix D</p>
<b>2 Matters on which we report by exception</b>	<p>We are required to report on a number of matters by exception in a number of areas:</p> <ul style="list-style-type: none"> <li>• 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 other information of which we are aware from our audit</li> <li>• If we have applied any of our statutory powers or duties</li> </ul> <p>We have nothing to report on these matters</p> <p>We are required to give a separate opinion for the Pension Fund Annual Report on whether the financial statements included therein are consistent with the audited financial statements.</p> <p>Due to statutory deadlines the Pension Fund Annual Report is not required to be published until the 1<sup>st</sup> December 2019 and therefore this report has not yet been produced. We have therefore not given this separate opinion at this time and are unable to certify completion of the audit of the administering authority until this work has been completed.</p>
<b>3 Specified procedures for Whole of Government Accounts</b>	<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>Note that work is not yet completed, plans are in place to complete this work in August to meet the submission deadline of 13 September 2019</p>
<b>4 Certification of the closure of the audit</b>	<p>We are unable to certify the closure of the 2018/19 audit of Warwickshire County Council, this is due to outstanding consideration of an objection to the 2017-18 accounts, review of the pension fund annual report and completion of our WGA procedures.</p>

# Value for Money

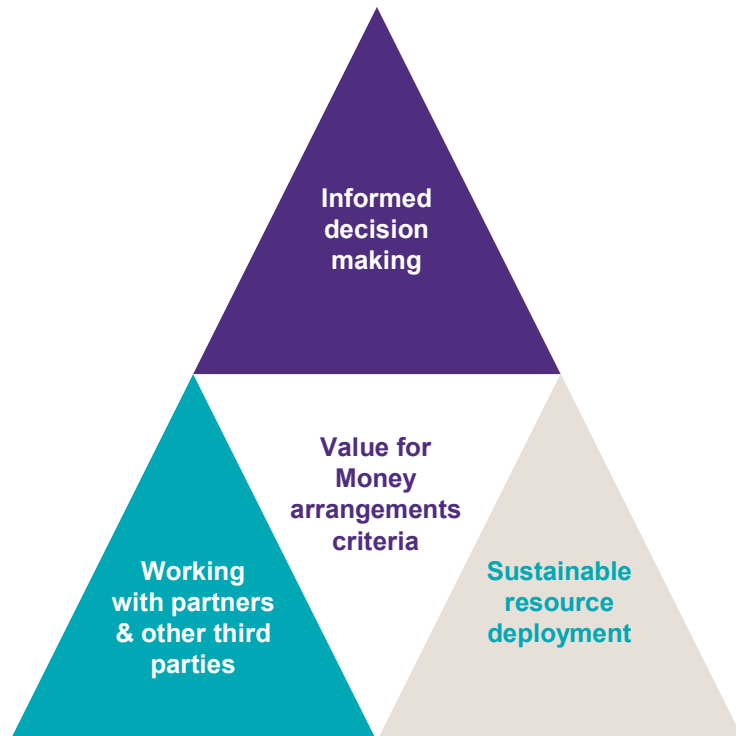
## Background to our VFM approach

We are required to satisfy ourselves that the Council has made 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. In carrying out this work, we are required to follow the NAO's Auditor Guidance Note 3 (AGN 03) issued in November 2017. 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."*

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



## Risk assessment

We carried out an initial risk assessment in January/February 2019 and identified a number of significant risks in respect of specific areas of proper arrangements using the guidance contained in AGN03. We communicated these risks to you in our Audit Plan dated March 2019.

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 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.

# 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 relation to financial sustainability and delivery of the medium term financial plan. In arriving at our conclusion, our main considerations were:

- Outturn in the period to planned budget
- Ability to set a balanced budget for the 2019/20 financial period; and
- Plans for future following the end of the current One Organisational Plan

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 page 21.

## Overall conclusion

Based on the work we performed to address the significant risks, we are satisfied that the Council had proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

The text of our report, which confirms this can be found at Appendix D.

## 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><b>Financial Sustainability</b></p> <p>The Council are in the final year of their 'One Organisational Plan' and while they have a strong track record of delivering in year budgets and savings targets, this remains a significant risk in 2018/19 against the backdrop of a challenging Local Government landscape. This risk relates to the sub-criteria of Sustainable Resource Deployment.</p>	<p>In 2018/19:</p> <ul style="list-style-type: none"> <li>56% or 35 key business measures achieved target while 37% or 23 of these are behind target.</li> <li>The reported underspend at 31 March 2019 is £14.213m equivalent to 2.89% of the council's annual revenue budget. This figure compares favourably to forecast underspend of £1.651m.</li> <li>In regard to savings, the council delivered £1.3m in 2018/19 ahead of schedule</li> <li>On an individual directorate level, overspends were identified, Cabinet has agreed that these will be funded from general reserves</li> <li>Financial performance is reported to the Cabinet for monitoring and scrutiny on a quarterly basis</li> </ul> <p>The 2019/ 20 budget process:</p> <ul style="list-style-type: none"> <li>The Council has set a balance budget of £298.377m for 2019/20. This includes savings to be generated of £14.221m.</li> <li>The assumptions in the 2019/20 budget appear reasonable and in line with our expectation</li> </ul> <p>MTFP:</p> <ul style="list-style-type: none"> <li>The Council have undertaken a significant amount of work in 2018/19 in relation to the transformation programme which will lay the foundations for the medium term outlook</li> <li>We note that while resources continue to increase so do the cost pressures and rise in demand. This creates a cumulative £30m gap in the budget by 2025.</li> <li>The proposition is that this will be met by savings over the lifetime of the MTFP of which a number of options have been put forward by directorates</li> <li>The Council predict healthy cash balances during the period as loan repayments are made and borrowing decreases</li> </ul>	<p><b>Auditor view</b></p> <p>We are satisfied that overall the Council have adequate arrangements in place to ensure the ongoing financial sustainability of the organisation.</p> <p>This includes achievement of the 2018/19 financial plan and therefore demonstrating an ability to manage resources in order to meet targets set, as well as having the appropriate mechanisms in place to develop robust medium term strategies based on reasonable underlying assumptions.</p> <p>In addition to this, the financial position per the balance sheet of the council at 31/03/2019 is strong and compares favourably to peers in the sector and therefore gives further comfort over financial sustainability.</p> <p>We note the fact that the MTFP is underpinned by a number of assumptions and also includes the achievement of challenging savings targets. Although the Authority have a strong track record in this area, this remains a significant risk to overall financial sustainability in what are increasingly uncertain times. We will continue to monitor this going forward</p>

# 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

We confirm that we have implemented policies and procedures to meet the requirements of the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we 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 C

## 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 which were charged from the beginning of the financial year to the current date, as well as the threats to our independence and safeguards that have been applied to mitigate these threats.

	Fees £	Threats identified	Safeguards
<b>Audit related</b>			
Certification of Teachers Pension return	5,200	Self-Interest (because this is a recurring fee)	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 £5,250 in comparison to the total fee for the audit of £72,795 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. These factors all mitigate the perceived self-interest threat to an acceptable level.
<b>Non-audit related</b>			
CFO Insights	10,000	Self-Interest (because this is a recurring fee)	A £30,000 for a three year subscription to CFO insights (£10,000 per year) was paid by the Council in 2018/19. 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 (£72,795) 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.

These services are consistent with the Council's policy on the allotment of non-audit work to your None of the services provided are subject to contingent fees.

# Follow up of prior year recommendations

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
<p>1 ✓</p>	<p><b>Internal financial reporting</b></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.</p> <p>We noted the Council's introduction of monthly finance and performance dashboards, which include the original baseline budget, as an improvement to the clarity of reporting, and recommended that the Council should consider extending this to the revenue and capital reporting as part of its annual reporting process.</p>	<p>To aid transparency in reporting as part of the outturn report an appendix is now included reflecting the position against the baseline budget.</p> <p>The Council is at the beginning of its transformation programme and work will continue to ensure reporting evolves to meet the requirements of the Council as this progresses.</p>

## Assessment

- ✓ Action completed
- X Not yet addressed

# Audit Adjustments - Council

We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management.

## Impact of adjusted misstatements

All adjusted misstatements are set out in detail below along with the impact on the key statements and the reported net expenditure for the year ending 31 March 2019.

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000
1 Adjustment to the firefighters pension scheme in respect of the McCloud judgement and GMP equalisation	12,500	(12,500)	Nil
<b>Overall impact</b>	<b>£12,500</b>	<b>(£12,500)</b>	<b>£Nil</b>

## Impact of unadjusted misstatements

All unadjusted misstatements are set out in detail below along with the impact on the key statements and the reported net expenditure for the year ending 31 March 2019.

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000
1 Adjustment to the Local Government pension scheme in respect of the McCloud judgement and GMP equalisation	8,797	(8,797)	Nil
<b>Overall impact</b>	<b>£8,797</b>	<b>(£8,797)</b>	<b>£Nil</b>



# Audit Adjustments – Council (continued)

## Misclassification and disclosure changes

The table below provides details of misclassification and disclosure changes identified during the audit which have been made in the final set of financial statements.

Disclosure	Amendment	Adjusted?
<b>Accounting policies</b>	Reference to the use of the financial instrument revaluation reserve to offset volatility in assets held at FVPL was not included in the financial instruments accounting policy	✓
<b>Accounting policies</b>	Accounting policy for schools and schools assets did not include explanation of how these assets are derecognised in the accounts	✓
<b>Prior period adjustment</b>	The disclosure requirements per Code para 3.4.2.31 for a prior period adjustment were not fully met in the draft accounts	✓
<b>Investment properties</b>	The analysis of investments properties by fair value hierarchy incorrectly included a transfer of amounts to level 3 in the hierarchy. This should have been classified as level 2	✓
<b>Pension fund – nature of assets table</b>	The breakdown of assets by nature included in the pensions note did not agree to actuarial reports provided by Hymans Robertson	✓
<b>Audit fees</b>	The disclosure of fees payable to the external auditor was not split accordingly by amounts payable for audit services and amounts payable for non-audit services	✓
<b>Contingent Liabilities</b>	The contingent liabilities disclosure did not include reflection of potential liability in relation to the McCloud judgment and GMP equalisation	✓
<b>Investment Properties</b>	Analysis of fair value of investment properties included transfers in to level 3 (unobservable inputs) where this should have been level 2	✓
<b>Financial instruments</b>	The disclosure of financial assets and liabilities included some old terminology and narrative which was required to be enhanced	✓
<b>Various</b>	As a result of audit procedures performed, we have identified a number of minor changes to the disclosures within the financial statements	✓

# Audit Adjustments – Pension Fund

We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management.

## Impact of adjusted/ unadjusted misstatements

As a result of audit procedures undertaken, we have not identified any misstatement for adjustment for the year ending 31 March 2019.

## Misclassification and disclosure changes

The table below provides details of misclassification and disclosure changes identified during the audit which have been made in the final set of financial statements.

Disclosure omission	Amendment	Adjusted?
<b>Accounting policies</b>	The accounting policies per the draft accounts did not include a policy for the pooling of investments arrangement with the Border to Coast Pension Partnership	✓
<b>Significant judgment in applying accounting policies</b>	The disclosure of significant judgments in applying accounting policies did not include a judgment in relation to the valuation of equity held in Border to Coast Pension Partnership	✓
<b>Actuarial present value of promised retirement benefits</b>	The disclosure of the actuarial present value of promised retirement benefits did not include allowance for the impact of the McCloud judgment and GMP equalisation	✓
<b>Related party transactions – Key Management Personnel</b>	The disclosure of key management personnel included in the draft accounts did not include the previous Head of Finance in their capacity as s151 officer despite being in post until January 2019	✓
<b>Related party transactions – Key Management Personnel</b>	The disclosure of Key Management Personnel employee benefits should be calculated on an IAS 19 basis rather than CETV per Code requirement reference 3.9.4.2. The principle is that these reflect in year cost recognised by the reporting entity. Management have determined not to adjust and we have requested a representation within the Letter of Representation on this matter.	X
<b>Various</b>	As a result of audit procedures performed, we have identified a number of minor changes to the disclosures within the financial statements	✓

# Fees

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

## Audit Fees

	Proposed fee	Final fee
<b>Council Audit*</b>	£72,795	£TBC
<b>Pension Fund Audit**</b>	£18,397	£TBC
<b>Total audit fees (excluding VAT)</b>	<b>£91,192</b>	<b>£TBC</b>

The fees reconcile to the financial statements.

\* We are currently in discussion with officers in regard to the potential for fee variations based on the additional work undertaken in a number of areas driven by regulatory change that has been imposed since our initial fee tender, or other issues which arise on an ad-hoc basis such as McCloud and GMP Equalisation.

\*\* We are required to undertake work for other auditors in respect of providing assurance on information used by actuaries when undertaking IAS 19 assurance to other auditors, we seek fee variations to meet the cost of this work which is estimated to be in the region of £500-£750 per letter, subject to consultation with PSAA.

## Non Audit Fees

Fees for other services	Fees £'000
<b>Audit related services:</b>	5,200
• Certification of Teachers Pension Return	
<b>Non-audit services:</b>	10,000
• CFO Insights	
	<b>£15,200</b>

# Audit opinion – Warwickshire County Council

**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 2019 which comprise the Comprehensive Income and Expenditure Statement, the Movement in Reserves Statement, the Balance Sheet, the Cash Flow Statement and notes to the financial statements, including the statement of accounting policies, and include the firefighters’ pension fund financial statements comprising the Fund Account, the Firefighters’ Pension Fund Net Assets Statement and notes to Firefighters’ Pension Fund Statements financial 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 2018/19.

In our opinion, the financial statements:

- give a true and fair view of the financial position of the Authority as at 31 March 2019 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 2018/19; 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.

### **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 Strategic Director of Resources use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Strategic Director of Resources 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 Strategic Director of Resources is responsible for the other information. The other information comprises the information included in the Statement of Accounts, the Narrative Report and the Annual Governance Statement, other than the financial statements and our auditor’s report thereon and our auditor’s report on the pension fund financial statements. 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 audit 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, the Narrative Report and the Annual Governance Statement for the financial year for which the financial statements are prepared is consistent with the financial statements.

# Audit opinion – Warwickshire County Council (continued)

## 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 issue a report 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 make 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 make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or;
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014, in the course of, or at the conclusion of the audit.

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

## Responsibilities of the Authority, the Strategic Director Resources and Those Charged with Governance for the financial statements

As explained more fully in the Statement of Responsibilities for the Statement of Accounts 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 Strategic Director of Resources. The Strategic Director of Resources 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 2018/19, for being satisfied that they give a true and fair view, and for such internal control as the Strategic Director of Resources 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 Strategic Director of Resources 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 there is an intention by government that the services provided by the Authority will no longer be provided.

The Audit & Standards Committee is Those Charged with Governance. Those charged with governance are responsible for overseeing the Authority's financial reporting process.

## 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](http://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 2019.

## 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 2019.

# Audit opinion – Warwickshire County Council (continued)

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 are required to give an opinion on the consistency of the pension fund financial statements of the Authority included in the Pension Fund Annual Report with the pension fund financial statements included in the Statement of Accounts. The Local Government Pension Scheme Regulations 2013 require authorities to publish the Pension Fund Annual Report by 1 December 2019. As the Authority has not prepared the Pension Fund Annual Report at the time of this report we have yet to issue our report on the consistency of the pension fund financial statements. Until we have done so, we are unable to certify that we have completed the audit of the financial statements in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice.

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 completed the work necessary to issue our Whole of Government Accounts (WGA) Component Assurance statement for the Authority for the year ended 31 March 2019. 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 2019.

We cannot formally conclude the audit and issue an audit certificate for the Authority for the year ended 31 March 2019 in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice until we have completed our consideration of an objection brought to our attention by a local authority elector under Section 27 of the Local Audit and Accountability Act 2014. We are satisfied that this matter 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 2019.

## **Use of our report**

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.

Grant Patterson, Key Audit Partner  
for and on behalf of Grant Thornton UK LLP, Local Auditor

Birmingham

26 July 2019

# Audit opinion – Warwickshire Pension Fund

We anticipate we will provide the Pension Fund with an unmodified audit report

## Independent auditor's report to the members of Warwickshire County Council on the pension fund financial statements of Warwickshire Pension Fund

### Opinion

We have audited the financial statements of Warwickshire Pension Fund (the 'pension fund') administered by Warwickshire County Council (the 'Authority') for the year ended 31 March 2019 which comprise the Warwickshire Pension Fund Account, the Net Assets Statement and notes to the pension fund financial statements, including a summary of significant accounting policies. 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 2018/19.

In our opinion, the financial statements:

- give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2019 and of the amount and disposition at that date of the fund's assets and liabilities;
- have been prepared properly in accordance with the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2018/19; 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 pension fund's 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.

### 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 Strategic Director of Resources use of the going concern basis of accounting in the preparation of the pension fund's financial statements is not appropriate; or
- the Strategic Director of Resources has not disclosed in the pension fund's 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 the pension fund for a period of at least twelve months from the date when the pension fund's financial statements are authorised for issue.

### Other information

The Strategic Director of Resources is responsible for the other information. The other information comprises the information included in the Statement of Accounts, the Narrative Report and the Annual Governance Statement, other than the pension fund's financial statements, our auditor's report thereon and our auditor's report on the Authority's financial statements. Our opinion on the pension fund's 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 pension fund's financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the pension fund's financial statements or our knowledge of the pension fund obtained in the audit 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 pension fund's 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.

### Opinion on other matter required by the Code of Audit Practice published by the National Audit Office on behalf of the Comptroller and Auditor General (the Code of Audit Practice)

In our opinion, based on the work undertaken in the course of the audit of the pension fund's financial statements and our knowledge of the pension fund the other information published together with the pension fund's financial statements in the Statement of Accounts, the Narrative Report and the Annual Governance Statement for the financial year for which the financial statements are prepared is consistent with the pension fund's 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 issue a report 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 make 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 make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or;
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or



# Audit opinion Warwickshire Pension Fund continued

- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014, in the course of, or at the conclusion of the audit.

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

## **Responsibilities of the Authority, the Strategic Director of Resources and Those Charged with Governance for the financial statements**

As explained more fully in the Statement of Responsibilities for the Statement of Accounts set out on page 6, 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 Strategic Director of Resources. The Strategic Director of Resources is responsible for the preparation of the Statement of Accounts, which includes the pension fund's 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 2018/19, for being satisfied that they give a true and fair view, and for such internal control as the Strategic Director of Resources 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 pension fund's financial statements, the Strategic Director of Resources is responsible for assessing the pension fund'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 there is an intention by government that the services provided by the pension fund will no longer be provided.

The Audit & Standards Committee is Those Charged with Governance. Those charged with governance are responsible for overseeing the Authority's financial reporting process.

## **Auditor's responsibilities for the audit of the financial statements**

Our objectives are to obtain reasonable assurance about whether the pension fund's 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](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditor's report.

## **Use of our report**

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.

Grant Patterson, Key Audit Partner  
for and on behalf of Grant Thornton UK LLP, Local Auditor  
Birmingham  
26 July 2019





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