

Audit & Standards Committee

Date: Thursday, 7 November 2019
Time: 10.00 am
Venue: Committee Room 2, Shire Hall

Membership

Councillor Parminder Singh Birdi
John Bridgeman (Chair)
Councillor Mark Cargill
Councillor Neil Dirveiks
Councillor Bill Gifford
Councillor John Horner
Councillor David Reilly

Items on the agenda: -

1. General

(1) Apologies

(2) Members' Disclosures of Pecuniary and Non-Pecuniary Interests

(3) Minutes of the last meeting and matters arising 3 - 8

2. External Auditors' Annual Audit Letter 2018/19 9 - 24

3. External Auditors' Progress Report 25 - 40

4. Review of Financial Regulations and Contract Standing Orders 41 - 44

Committee to consider proposed remit and time frame for review of financial regulations and contract standing orders.

EXEMPT ITEMS FOR DISCUSSION IN PRIVATE (PURPLE PAPERS)

5. Reports Containing Confidential or Exempt Information

To consider passing the following resolution:

'That members of the public be excluded from the meeting for the items mentioned below on the grounds that their presence would involve the disclosure of exempt information as defined in paragraph 3 of Schedule 12A of Part 1 of the Local Government Act 1972'.

6. Exempt Minutes of the Previous Meeting 45 - 46

7. Internal Audit Progress Report 47 - 64

ITEMS FOR DISCUSSION IN PUBLIC

8. Work Programme and Future Meeting Dates 65 - 66

To consider items for the committee's work programme and future meeting dates to be held in Shire Hall at 10:00 a.m. as follows

26 March 2020

9. Any Other Business

Minutes of the meeting of the Audit and Standards Committee held on 24 July 2019

Present

Members:

Councillors Mark Cargill, Bill Gifford, John Holland (for Neil Dirveiks), John Horner and Dave Reilly

Independent Members:

John Bridgeman CBE (Chair)

Officers:

Paul Clarke, Deputy Internal Audit Manager
John Cole, Trainee Democratic Services Officer
Isabelle Moorhouse, Trainee Democratic Services Officer
Rob Powell, Strategic Director for Resources
Virginia Rennie, Strategy and Commissioning Manager (Strategic Finance)
Nichola Vine, Legal Services Manager
Paul Williams, Democratic Services Team Leader

External Representatives:

Grant Patterson, Grant Thornton – Auditors
Jim McClarnon, Grant Thornton – Auditors
Lena Grant-Pearce, Grant Thornton - Auditors

1. General

(1) Apologies

Councillor Neil Dirveiks (Replaced by Councillor John Holland)
Councillor Parminder Singh Birdi
Bob Meacham OBE

(2) Members' Disclosures of Pecuniary and Non-Pecuniary Interests

Regarding the exempt minutes of the meeting of the Audit and Standards Committee meeting of 23 May 2019 Councillor John Holland declared a non-pecuniary interest as he is involved in supporting Round Oak School, Warwick.

(3) Minutes of the meeting of the Audit and Standards Committee held on 23 May 2019 and Matters Arising

It was agreed that the minutes be signed by the Chair as a true record.

2. External Auditor's Governance Report 2018-19

Grant Patterson (Grant Thornton) introduced the published report drawing out and highlighting a number of key elements of the appendix. Apologies were given for the lateness of the papers. This had been largely due to a resourcing issue and a desire to ensure those before members were the most up to date.

Regarding the McCloud judgement (page 11 of the appendix) it was noted that adjustments have been made to financial statements in regard to the Firefighters' Pension Scheme. The impact of the judgement is not considered to be sufficient enough to be deemed material to the overall value of the Warwickshire Local Pension Fund. Nevertheless, whilst the figure of £17.537m is proportionately small it is still a considerable sum of money in terms of increased liability. The committee was assured that the increased liabilities will not need to be met in one instance but will be spread over 30 years.

Regarding the closure of accounts, Virginia Rennie (Strategy and Commissioning Manager (Strategic Finance)) confirmed that this will be accompanied by a statutory announcement.

On the key findings against significant risks the committee was informed that the 2019/20 budget assumptions appear reasonable and a balanced budget has been set. Demand for services is increasing and it is anticipated that by 2025 there will be a cumulative gap in the budget of £30m.

Regarding underspends the committee was informed that these are in part attributable to a number of vacancies and general reductions in spending. The Chair suggested that there is a need to balance the need to provide services and save resources. Concerns will increase if there becomes a sense that services are not being delivered when the funds exist to provide them.

It was recognised that savings cannot readily be benchmarked against those of other local authorities.

In terms of performance reporting against performance measures, Rob Powell (Strategic Director for Resources) reminded the committee that this is regularly undertaken with Cabinet and Overview and Scrutiny Committees. Audit reports present the headlines only.

Councillor Dave Reilly asked whether there is evidence that safeguarding measures and services provide good value for money. In reply it was suggested by Councillor John Horner that this could be referred to the relevant overview and scrutiny committee to establish.

The Chair questioned the use of the term "findings" stating that they appear generally to be statements of fact only as opposed to being revelations from an investigation. The committee was informed that the key findings are headlines drawn from a review of reports and other documents. They reflect the outcome of the processes that the council has in place.

It was noted that on page 26 of the appendix that the disclosure of key Management Personnel employee benefits should be calculated on an IAS19 basis and not CETV. However, this is considered by the auditors as a minor point.

Councillor John Holland suggested that a major business risk has arisen from the adoption of local plans and the resulting development is now applying pressure in terms of infrastructure costs that must be met by the County Council. School transport was cited with development at Lighthorne Heath requiring the transporting of more pupils by bus. Members agreed that this might be something that the relevant Overview and Scrutiny should consider. Councillor Dave Reilly observed that with development comes revenue from Council Tax and government grants. Members were assured by Rob Powell that the Capital Strategy and Capital Gateway Group are reviewing the overall impact of the Local Plans on the County Council, its service requirements and the Medium Term Financial Strategy.

Resolved

That the Committee:

- 1) Endorses the Audit Findings Report of the External Auditors for Warwickshire County Council, as attached at Appendix A of the report, and consider whether there are any matters it wishes to bring to the attention of Council; and
- 2) Approve, subject to any changes which may be necessary to the final draft, the wording of the Letter of Representation, attached at Appendix B of the report.

3. Statement of Accounts 2018-19

Following introductory comments, Rob Powell explained that despite increasing demand for services and financial pressures that County Council has found itself in a better position than other authorities. Councillor Bill Gifford welcomed the style of the document.

Members discussed the reduction of fixed assets to £1,191m. Although £1.2m of assets have been disposed of it was noted that there has been of £63.4m in investment in assets. On this basis the overall decrease in value was a surprise to some. The committee was informed that fixed that a fixed asset is anything that the County Council invests in that has a life of more than 12 months. This can include items such as software. It is not limited to structures such as roads and bridges etc.

The Chair asked that a definition of fixed assets be added to the glossary.

That Warwickshire County Council is one of the highest scoring local authorities in terms of road maintenance was noted. Members suggested that a press release be published to that effect.

The Chair, commending the document, suggested that efforts be made to ensure that it is made widely available. In response it was noted that it can readily be circulated electronically and that the information in the document has been designed in such a way as to be easily used on a social media platform.

Councillor John Horner, recognising that income in 18/19 exceeded expenditure by 19m asked what happens to the difference. In response the committee was informed that this was added to general reserves. Regarding school reserves

Councillor Bill Gifford observed that in some instances schools have built up significant reserves and in other cases they are struggling to cope.

Resolved

That the Committee endorses the 2018-19 Statement of Accounts for approval by Council.

4. Pension Fund Statement of Accounts 2018-19

Rob Powell explained that the overall position of the Pension Fund is sound.

Resolved

That the Committee endorses the 2018-19 Pension Fund Statement of Accounts for approval by Council.

5. Annual Governance Statement 2018-19

Rob Powell explained that the Annual Governance Statement will be considered by Council on 25 July.

Resolved

That the Committee endorses the Annual Governance Statement for 2018-19 for submission to Council for approval.

6. Annual Report of the Audit & Standards Committee

Following introductory comments from John Bridgeman, Councillor Mark Cargill commended the report stating that it is a worthwhile exercise. In response to a suggestion that the report should contain more detail of those issues it has reviewed, members were reminded that many of these are sensitive and should not be made public.

Overall the production of the report was considered to be good practice as it provides evidence of what has been achieved by the committee.

Resolved

That the Committee endorses the report.

7. Work Programme and Future Meeting Dates

The committee considered its work programme.

The Chair reminded the committee that it had previously considered the position regarding social services case note management. Members agreed that if this is considered to still be an issue of concern the Adult Social Care and Health Overview and Scrutiny Committee should be asked to consider reviewing it.

Following advice from Rob Powell it was recognised that internal audit reports are directed to officers for their attention. It would not be appropriate for them to be considered by Overview and Scrutiny Committees.

The committee noted future meeting dates to be held in Shire Hall at 10:00 a.m. as follows:

- 7 November 2019
- 26 March 2020

8. Any Other Business

None

Reports Containing Confidential or Exempt Information

Resolved: That members of the public be excluded from the meeting for the item mentioned below on the grounds that their presence would involve the disclosure of exempt information as defined in paragraph 3 of Schedule 12A of Part 1 of the Local Government Act 1972.

9. Exempt Minutes of the meeting of the Audit and Standards Committee held on 23 May 2019 and Matters Arising

The committee considered the exempt minutes and explored a number of areas within them. It was agreed that the exempt minutes be signed by the Chair as a true record.

The Committee rose at 11.40am

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Chair

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Audit and Standards Committee

7 November 2019

External Auditors' Annual Audit Letter 2018/19

Recommendation

The Committee is asked to:

- Consider the Annual Audit Letter of the External Auditors, attached at Appendix A, including whether any executive action is required.
- Note the report from the External Auditors on the objection to the 2015/16 accounts and the management response to the recommendations.

1. Purpose of the Report

- 1.1. The Audit Commission's Code of Audit Practice requires auditors to prepare an annual audit letter and issue it to each audited body.
- 1.2. The purpose of preparing and issuing annual audit letters is to communicate to the audited body and key external stakeholders, including members of the public, the key issues arising from auditors' work, which auditors consider should be brought to the attention of the audited body. The annual audit letter covers the work carried out by auditors since the previous letter was issued.
- 1.3. This letter, for 2018/19, is attached at **Appendix A**. It summarises all of the work completed as part of the 2018/19 annual audit and reported to this Committee in previous reports and provides a brief update on any issues since the last report to the Committee in July.
- 1.4. The Committee will recall that the External Auditors received an objection to the County Council's 2015/16 accounts in relation to highways, more specifically the value for money of the manhole covers used. The objection has taken time to resolve and the auditors are now in a position to issue their final report. A copy of this report and the management response to the recommendations is attached at **Appendix B**.

- 1.5. The auditors will attend the meeting to present the reports.

2. Financial Implications

- 2.1. There are no material financial implications for the authority as a result of the issues raised in this report. Page 11 of the Auditors report includes some commentary about the additional fees for the 2018/19 audit. These are subject to on-going discussions and a verbal update will be provided at the meeting.

3. Background Papers

- 3.1. None.

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Report Author	Virginia Rennie	vrennie@warwickshire.gov.uk Tel: 01926 41 (2239)
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Local Members consulted

Not applicable

Other Members consulted

None

The Annual Audit Letter for Warwickshire County Council and Warwickshire Pension Fund

Year ended 31 March 2019
29 August 2019



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Executive Summary

Purpose

Our Annual Audit Letter (Letter) summarises the key findings arising from the work that we have carried out at Warwickshire County Council (the Council) and Warwickshire Pension Fund (the Pension Fund) for the year ended 31 March 2019.

This Letter is intended to provide a commentary on the results of our work to the Council and external stakeholders, and to highlight issues that we wish to draw to the attention of the public. In preparing this Letter, we have followed the National Audit Office (NAO)'s Code of Audit Practice and Auditor Guidance Note (AGN) 07 – 'Auditor Reporting'. We reported the detailed findings from our audit work to the Council's Audit and Standards Committee, as those charged with governance, in our Audit Findings Report on 24 July 2019.

Our work

Materiality	We determined materiality for the audit of the Council's financial statements to be £15,000,000, which is approximately 1.8% of the Council's prior year gross expenditure. For the Pension Fund we determined materiality for the audit of the financial statements to be £20,000,000, which is 1% of the Pension Fund's net assets.
Financial Statements opinion	We gave an unqualified opinion on the Council and Pension Fund's financial statements on 31 July 2019.
Whole of Government Accounts (WGA)	We completed work on the Council's consolidation return following guidance issued by the NAO.
Use of statutory powers	We did not identify any matters which required us to exercise our additional statutory powers.
Value for Money arrangements	We were satisfied that the Council put in place proper arrangements to ensure economy, efficiency and effectiveness in its use of resources. We reflected this in our audit report to the Council on 31 July 2019.
Certification of Grants	We also carry out work to certify the Council's Teachers' Pension return as an audit related non-audit service. Our work on the 2018-19 return is not yet complete and will be finalised by 30 November 2019. We noted some minor exceptions in respect of the Council's 2017-18 return (page 10).
Certificate	We have completed the majority of work under the Code but are unable to issue our completion certificate until the following outstanding matters have been addressed: <ul style="list-style-type: none"> • Concluding our consideration of an open objection; and • Review of the Pension Fund Annual Report for consistency with the Council's financial statements. As the Pension Fund 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

Respective responsibilities

We have carried out our audit in accordance with the NAO's Code of Audit Practice, which reflects the requirements of the Local Audit and Accountability Act 2014 (the Act). Our key responsibilities are to:

- give an opinion on the Council and Pension Fund's financial statements (section two)
- assess the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources (the value for money conclusion) (section three).

In our audit of the Council and Pension Fund's financial statements, we comply with International Standards on Auditing (UK) (ISAs) and other guidance issued by the NAO.

Executive Summary (continued)

Working with the Council

During the year we have delivered a number of successful outcomes with you:

- An efficient audit – we delivered an efficient audit with you in July, delivering the financial statements before the deadline.
- Understanding your operational health – through the value for money conclusion we provided you with assurance on your operational effectiveness.
- Sharing our insight – we provided regular audit committee updates covering best practice. We also shared our thought leadership reports
- Providing training – we provided your teams with training on financial statements and annual reporting

We would like to record our appreciation for the assistance and co-operation provided to us during our audit by the Council's staff.

Grant Thornton UK LLP
August 2019

Audit of the Financial Statements

Our audit approach

Materiality

In our audit of the Council and Pension Fund's financial statements, we use the concept of materiality to determine the nature, timing and extent of our work, and in evaluating the results of our work. We define materiality as the size of the misstatement in the financial statements that would lead a reasonably knowledgeable person to change or influence their economic decisions.

Council materiality

We determined materiality for the audit of the Council's financial statements to be £15,000,000, which is approximately 1.8% of the Council's prior year gross expenditure. We used this benchmark as, in our view, users of Council's financial statements are most interested in where the Council has spent its revenue in the year.

We set a lower threshold of £750,000 above which we reported errors to the Audit & Standards Committee in our Audit Findings Report.

We also set a lower level of specific materiality for senior officer remuneration of £25,000 - as this is a sensitive item over which stakeholders will expect the Council to take particular care.

Pension fund materiality

We determined materiality for the audit of the Pension Fund financial statements to be £20,000,000, which is 1% of the Pension Fund's net assets for the Year ended 31 March 2018. We used this benchmark, as in our view, users of the Pension Fund accounts are most interested in the value of assets available to fund pension benefits. We considered the need to set lower levels of materiality for sensitive balances, transactions or disclosure in the accounts, and determined not to set any lower levels.

We set a lower threshold of £1,000,000 above which we reported errors to the Audit & Standards Committee in our Audit Findings Report.

The scope of our audit

Our audit involves obtaining sufficient evidence about the amounts and disclosures in the financial statements to give reasonable assurance that they are free from material misstatement, whether caused by fraud or error. This includes assessing whether:

- the accounting policies are appropriate, have been consistently applied and adequately disclosed;
- the significant accounting estimates made by management are reasonable; and
- the overall presentation of the financial statements gives a true and fair view.

We also read the remainder of the financial statements and the Narrative Report and Annual Governance Statement published alongside the financial statements to check they are consistent with our understanding of the Council and with the financial statements on which we gave our opinion.

We carry out our audit in accordance with ISAs (UK) and the NAO Code of Audit Practice. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our audit approach was based on a thorough understanding of the Council and Pension Fund's business and is risk based.

We identified key risks and set out overleaf the work we performed in response to these risks and the results of this work.

Audit of the Financial Statements (continued)

Council and Pension Fund Significant Audit Risks

These are the significant risks which had the greatest impact on our overall strategy and where we focused more of our work.

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>The revenue cycle includes fraudulent transactions</p> <p>Under ISA (UK) 240 – <i>the Auditor's Responsibility to Consider Fraud in an Audit of Financial Statements</i> - 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 Council and the Pension Fund, we determined that the risk of fraud arising from revenue recognition could be rebutted, because:</p> <ul style="list-style-type: none"> • there is little incentive to manipulate revenue recognition • opportunities to manipulate revenue recognition are very limited • the culture and ethical frameworks of local authorities, including Warwickshire County Council and Pension Fund, mean that all forms of fraud are seen as unacceptable. 	<p>We have not altered our assessment as reported in the audit plan and 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. We therefore have no issues to report in this regard</p>
<p>Management override of controls</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</p> <p>The Council and Pension Fund face external scrutiny of their 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 Council and the Pension Fund.</p>	<p>We have:</p> <ul style="list-style-type: none"> • evaluated the design effectiveness of management controls over journals • analysed the journals listing and determined the criteria for selecting high risk unusual journals • tested unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration • gained an understanding of the accounting estimates and critical judgements applied made by management and considered their reasonableness with regard to corroborative evidence • evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions. 	<p>Our audit work has not identified any issues in respect of management override of controls.</p>

Audit of the Financial Statements (continued)

Council Significant Audit Risks

These are the significant risks which had the greatest impact on our overall strategy and where we focused more of our work.

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Valuation of Land and Buildings</p> <p>The Council revalues its land and buildings on a rolling five-yearly basis. However, in 2018/19 the entire asset base was revalued.</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>	<p>We have:</p> <ul style="list-style-type: none"> • 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 • evaluated the competence, capabilities and objectivity of the valuation expert • written to the valuer, with follow up discussions as necessary, to confirm the basis on which the valuations were carried out • challenged the information and assumptions used by the valuer to assess completeness and consistency with our understanding • 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 	<p>Our audit work has not identified any issues in respect of the valuation of land and buildings.</p>
<p>Valuation of the pension fund net liability</p> <p>The Council'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 (£924.8m in the Council's balance sheet) and the sensitivity of the estimate to changes in key assumptions.</p> <p>We therefore identified valuation of the Council's pension fund net liability as a significant risk.</p>	<p>We have:</p> <ul style="list-style-type: none"> • updated our understanding of the processes and controls put in place by management to ensure that the Council's pension fund net liability is not materially misstated and evaluated the design of the associated controls; • evaluated the instructions issued by management to their management expert (Hymans Robertson) for this estimate and the scope of the actuary's work; • assessed the competence, capabilities and objectivity of the actuary who carried out the Council's pension fund valuation; • assessed the accuracy and completeness of the information provided by the Council to the actuary to estimate the liability; • 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; • 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 • 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. 	<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. The Council 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"> • Local Government Pension Scheme - £8.797m; and • Firefighters' Pension Scheme - £12.500m <p>Management have amended the financial statements to reflect the actuarial review of the impact of the McCloud judgement and GMP equalisation for the Firefighters Pension Scheme.</p> <p>Having considered the potential impact of the McCloud judgement and GMP equalisation on the Local Government Pension Scheme, management did not consider the potential impact to be material. The financial statements have therefore not been amended and a 'contingent liability' disclosure has been included. We are satisfied this has no impact upon our audit opinion but as we consider this to be an unadjusted audit difference we obtained the Audit & Standards Committee agreement to management's decision and specific reference in the Letter of Representation.</p>

Audit of the Financial Statements (continued)

Pension Fund Significant Audit Risks

These are the significant risks which had the greatest impact on our overall strategy and where we focused more of our work.

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Valuation of Level 3 (hard to value) Investment Assets</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 (UK) 315 - <i>Identifying and Assessing the risks of Material Misstatement through Understanding the Entity and its Environment</i>, 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>We have:</p> <ul style="list-style-type: none"> evaluated management's processes for valuing Level 3 investments 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 CIPFA Code on Local Authority Accounting are met 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. 	<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 Level 3 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. Ultimately we are satisfied that the Council's estimation approach is not unreasonable and therefore appropriate.</p>

Audit of the Financial Statements (continued)

Audit opinion

We gave an unqualified opinion on the Council's financial statements on 31 July 2019.

Preparation of the financial statements

The Council presented us with draft financial statements in accordance with the national deadline, and provided a good set of working papers to support them. The finance team responded promptly and efficiently to our queries during the course of the audit.

Issues arising from the audit of the financial statements

We reported the key issues from our audit to the Council's Audit and Standards Committee on 24 July 2019.

Annual Governance Statement and Narrative Report

We are required to review the Council's Annual Governance Statement and Narrative Report. It published them on its website in the Statement of Accounts in line with the national deadlines.

Both documents were prepared in line with the CIPFA Code and relevant supporting guidance. We confirmed that both documents were consistent with the financial statements prepared by the Council and with our knowledge of the Council.

Pension fund accounts

We gave an unqualified opinion on the pension fund accounts of Warwickshire Pension Fund on 31 July 2019. We also reported the key issues from our audit of the pension fund accounts to the Council's Audit and Standards Committee on 24 July 2019.

Whole of Government Accounts (WGA)

We carried out work on the Council's Data Collection Tool in line with instructions provided by the NAO. We issued an assurance statement which did not identify any issues for the group auditor to consider on 19 August 2019.

Other statutory powers

We also have additional powers and duties under the Act, including powers to issue a public interest report, make written recommendations, apply to the Court for a declaration that an item of account is contrary to law, and to give electors the opportunity to raise questions about the Council's accounts and to raise objections received in relation to the accounts.

We received one question in relation to the Council's 2017-18 accounts in respect of the use of dedicated schools grant. We concluded that we were not required to exercise our other statutory powers in respect of the matter raised with us.

Certification of 2017-18 Certification of Teachers Pension return

As noted in Appendix A, since our last Annual Audit Letter we have provided non-audit services in respect of certifying the Council's 2017-18 Teachers Pension return. A revised End of Year of Certificate was provided for review. We noted exceptions in respect of information held within the Council's records and that held on Teachers' Pensions employer portal. This was as a result of issues with the Monthly Data Collections through 2017/18 and therefore the employer portal not being up-to-date. This issue was rectified during 2018-19 and the matter was included in our report to Teachers' Pensions dated 29 November 2018.

Certificate of closure of the audit

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 and review of the pension fund annual report for consistency with the financial statements.

We concluded our work in respect of two objections raised with us in 2015-16 in respect of highways related matters. Whilst there are some improvement areas we have identified for the Council we concluded that we were not required to exercise any of our other statutory powers in respect of the matters raised. These will be reported in detail to the November 2019 Audit and Standards Committee. As we have concluded our work we certified the 2015-16 and 2016-17 audits closed on 23 August 2019.

Value for Money conclusion

Background

We carried out our review in accordance with the NAO Code of Audit Practice, following the guidance issued by the NAO in November 2017 which specified the 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.*

Key findings

Our first step in carrying out our work was to perform a risk assessment and identify the risks where we concentrated our work. The risks we identified and the work we performed are set out below.

As part of our Audit Findings report agreed with the Council in July 2019, we agreed recommendations to address our findings.

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
Financial Sustainability In 2018/19 the Council was in the final year of its 'One Organisational Plan' and while it has a strong track record in this area the delivering of in-year budgets and savings targets remains a significant risk against the backdrop of a challenging Local Government landscape. This risk relates to the sub-criteria of Sustainable Resource Deployment as defined in NAO guidance.	We 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: <ul style="list-style-type: none"> • Outturn in the period to planned budget • Review of the Council's Medium Term Financial Plan and financial monitoring reports, including arrangements to set a balanced budget for the 2019-20 financial period and assessing the assumptions used; and, • Plans for future following the end of the current One Organisational Plan 	In 2018/19: <ul style="list-style-type: none"> • 56% or 35 key business measures achieved target while 37% or 23 of these are behind target. • 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. • In regard to savings, the Council delivered £1.3m in 2018/19 ahead of schedule • On an individual directorate level, overspends were identified, Cabinet has agreed that these will be funded from general reserves • Financial performance is reported to the Cabinet for monitoring and scrutiny on a quarterly basis The 2019/ 20 budget process: <ul style="list-style-type: none"> • The Council has set a balance budget of £298.377m for 2019/20. This includes savings to be generated of £14.221m. • The assumptions in the 2019/20 budget appear reasonable and in line with our expectation MTFP: <ul style="list-style-type: none"> • The Council has 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. • 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. 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. • The Council predict healthy cash balances during the period as loan repayments are made and borrowing decreases. We are satisfied that overall the Council have adequate arrangements in place to ensure the ongoing financial sustainability of the organisation. 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. In addition to this, the financial position per the balance sheet of the Council at 31 March 2019 is strong and compares favourably to peers in the sector and therefore gives further comfort over financial sustainability. We note the fact that the Medium Term Financial Plan is underpinned by a number of assumptions and also includes the achievement of challenging savings targets. Although the Council has 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

Overall Value for Money conclusion

We are satisfied that in all significant respects the Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2019.

A. Reports issued and fees

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

Reports issued

Report	Date issued
Audit Plan	7 March 2019
Audit Findings Report	24 July 2019
Annual Audit Letter	29 August 2019

Audit fee variation

As outlined in our audit plan, the 2018-19 scale fees published by PSAA of £72,795 for the Council and £18,396 for the Pension Fund assume that the scope of the audit does not significantly change.

There are a number of areas where the scope of the audit has changed at the Council which has led to additional work and we have received requests from other auditors in respect of actuarial disclosures accounted for under IAS 19 in the financial statements of their clients. These matters and our proposed fee variations are set out in the following tables. The £81,795 fee proposed for the council's audit represent a 13.5% statutory audit fee reduction on the prior year.

The proposed variations have been discussed with the Strategic Director for Resources who recognises the impact upon our audit work of the McCloud ruling (Item 1) and assurance requests (Item 4). In respect of Items 2 and 3 the Council's view is that these would appear to be regulatory risks that auditors should bear through the existing contract. We have therefore been asked for, and are in the process of providing, further information in respect of the additional work undertaken to support the fee variation. All fee variations are subject to approval and, if necessary, an arbitration and dispute process, with Public Sector Appointments Ltd (PSAA).

Fees

	Planned £	Proposed fees £	2017/18 fees £
Council Audit	72,795	81,795	94,539
Pension Fund Audit	18,396	24,396	25,220
Total fees	91,191	106,191	119,759

Area	Reason	Fee proposed
Council		
1. Assessing the impact of the McCloud ruling	The Government's transitional arrangements for pensions were ruled discriminatory by the Court of Appeal last December. The Supreme Court refused the Government's application for permission to appeal this ruling. As part of our audit we have reviewed the revised actuarial assessment of the impact on the financial statements along with any audit reporting requirements.	£3,000
2. Pensions – IAS 19	The Financial Reporting Council has highlighted that the quality of work by audit firms in respect of IAS 19 needs to improve across local government audits. Accordingly, we have increased the level of scope and coverage in respect of IAS 19 this year to reflect this.	£3,000
3. PPE Valuation – work of experts	As above, the Financial Reporting Council has highlighted that auditors need to improve the quality of work on PPE valuations across the sector. We have increased the volume and scope of our audit work to reflect this.	£3,000
Pension Fund		
4. Pensions – assurance to other auditors	We have provided responses to the request for assurance from other auditors in respect of the actuarial disclosures accounted for under IAS 19 in the financial statements of their clients. Both PSAA, in the Terms of Appointment, and the National Audit Office, in its Auditor Guidance Notes, expects that auditors will cooperate with other local government auditors and therefore we are required to respond to such requests.	£6,000
Total		£15,000

A. Reports issued and fees (continued)

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

Fees for non-audit services

Service	Fees £
Audit related services	5,200
- Certification of Teachers Pension Return	
Non-Audit related services	10,000
CFO Insights	

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 and Pension Fund. The table above summarises all non-audit services which were identified.
- We have considered whether non-audit services might be perceived as a threat to our independence as the Council and Pension Fund's auditor and have ensured that appropriate safeguards are put in place.

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

Our commitment to our local government clients

- Senior level investment
- Local presence enhancing our responsiveness, agility and flexibility.
- High quality audit delivery
- Collaborative working across the public sector
- Wider connections across the public sector economy, including with health and other local government bodies
- Investment in Health and Wellbeing, Social Value and the Vibrant Economy
- Sharing of best practice and our thought leadership.
- Invitations to training events locally and regionally – bespoke training for emerging issues
- Further investment in data analytics and informatics to keep our knowledge of the areas up to date and to assist in designing a fully tailored audit approach

Our relationship with our clients– why are we best placed?

- We work closely with our clients to ensure that we understand their financial challenges, performance and future strategy.
- We deliver robust, pragmatic and timely financial statements and Value for Money audits
- We have an open, two way dialogue with clients that support improvements in arrangements and the audit process
- Feedback meetings tell us that our clients are pleased with the service we deliver. We are not complacent and will continue to improve further
- Our locally based, experienced teams have a commitment to both our clients and the wider public sector
- We are a Firm that specialises in Local Government, Health and Social Care, and Cross Sector working, with over 25 Key Audit Partners, the most public sector specialist Engagement Leads of any firm
- We have strong relationships with CIPFA, SOLCAE, the Society of Treasurers, the Association of Directors of Adult Social Care and others.

New opportunities and challenges for your community

The Local Government economy

Local authorities face unprecedented challenges including:

- Financial Sustainability – addressing funding gaps and balancing needs against resources
- Service Sustainability – Adult Social Care funding gaps and pressure on Education, Housing, Transport
- Transformation – new models of delivery, greater emphasis on partnerships, more focus on economic development
- Technology – cyber security and risk management

At a wider level, the political environment remains complex:

- The government continues its negotiation with the EU over Brexit, and future arrangements remain uncertain.
- We will consider your arrangements for managing and reporting your financial resources as part of our work in reaching our Value for Money conclusion.
- We will keep you informed of changes to the financial reporting requirements for 2018/19 through on-going discussions and invitations to our technical update workshops.

Delivering real value through:

- Early advice on technical accounting issues, providing certainty of accounting treatments, future financial planning implications and resulting in draft statements that are 'right first time'
- Knowledge and expertise in all matters local government, including local objections and challenge, where we have an unrivalled depth of expertise.
- Early engagement on issues, especially on ADMs, housing delivery changes, Children services and Adult Social Care restructuring, partnership working with the NHS, inter authority agreements, governance and financial reporting
- Implementation of our recommendations have resulted in demonstrable improvements in your underlying arrangements, for example accounting for unique assets, financial management, reporting and governance, and tax implications for the Cornwall Council companies
- Robust but pragmatic challenge – seeking early liaison on issues, and having the difficult conversations early to ensure a 'no surprises' approach – always doing the right thing
- Providing regional training and networking opportunities for your teams on technical accounting issues and developments and changes to Annual Reporting requirements
- An efficient audit approach, providing tangible benefits, such as releasing finance staff earlier and prompt resolution of issues.

Grant Thornton in Local Government

Our client base and delivery



- We are the largest supplier of external audit services to local government
- We audit over 150 local government clients
- We signed 95% of our local government opinions in 2017/18 by 31 July
- In our latest independent client service review, we consistently score 9/10 or above. Clients value our strong interaction, our local knowledge and wealth of expertise.

Our connections



- We are well connected to MHCLG, the NAO and key local government networks
- We work with CIPFA, Think Tanks and legal firms to develop workshops and good practice
- We have a strong presence across all parts of local government including blue light services
- We provide thought leadership, seminars and training to support our clients and to provide solutions

Our people



- We have over 25 engagement leads accredited by ICAEW, and over 250 public sector specialists
- We provide technical and personal development training
- We employ over 80 Public Sector trainee accountants

Our quality



- Our audit approach complies with the NAO's Code of Audit Practice, and International Standards on Auditing
- We are fully compliant with ethical standards
- Your audit team has passed all quality inspections including QAD and AQRT

Our technical support



- We have specialist leads for Public Sector Audit quality and technical
- We provide national technical guidance on emerging auditing, financial reporting and ethical areas
- Specialist audit software is used to deliver maximum efficiencies



Audit and Standards Committee

7 November 2019

External Auditors' Progress Report

Recommendation

The Audit and Standards Committee is asked to consider and make any comments on the attached External Auditors' Progress Report.

1. Purpose of the Report

- 1.1. The purpose of this report is for our external auditors to provide a report to inform the Committee of their progress in delivering their responsibilities as our external auditors and to provide an update of key developments in the sector.
- 1.2. The report prepared by the auditors is attached at **Appendix A**.

2. Financial Implications

- 2.1. There are no material financial implications for the authority as a result of the issues raised in this report. Page 5 of the Auditors report includes some commentary about the additional fees for the 2018/19 audit. These are subject to on-going discussions and a verbal update will be provided at the meeting.

3. Background Papers

- 3.1. None

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Local Members consulted

Not applicable

Other Members consulted

None

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Audit Progress Report and Sector Update

Warwickshire County Council and Warwickshire Pension Fund
Year ending 31 March 2020

27 November 2019



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Introduction



Grant Patterson

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

The paper also includes:

- a summary of emerging national issues and developments that may be relevant to you as a local authority; and
- includes a number of challenge questions in respect of these emerging issues which the Committee may wish to consider (these are a tool to use, if helpful, rather than formal questions requiring responses for audit purposes)



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Members of the Audit & Standards Committee can find further useful material on our website, where we have a section dedicated to our work in the public sector. Here you can download copies of our publications www.grantthornton.co.uk ..

If you would like further information on any items in this briefing, or would like to register with Grant Thornton to receive regular email updates on issues that are of interest to you, please contact either your Engagement Lead or Engagement Manager.

Progress at November 2019

Financial Statements Audit

We issued our opinion on your 2018/19 Statement of Accounts on 31 July 2019. We will begin our planning for the 2019/20 audit in due course followed by our interim audit and will issue a detailed audit plan, setting out our proposed approach to the audit of the Council's 2019/20 financial statements in March 2020.

Our interim fieldwork includes:

- Updated review of the Council's control environment
- Updated understanding of financial systems
- Review of Internal Audit reports on core financial systems
- Early work on emerging accounting issues
- Early substantive testing

We will report our work in the Audit Findings Report and aim to give our opinion on the Statement of Accounts by the statutory accounts publication date of 31 July 2020.

Value for Money

The scope of our work is set out in the guidance issued by the National Audit Office. The Code requires auditors to satisfy themselves that; "the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources".

The guidance confirmed the overall criterion as: "in all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people".

The three sub criteria for assessment to be able to give a conclusion overall are:

- Informed decision making
- Sustainable resource deployment
- Working with partners and other third parties

Details of our initial risk assessment to determine our approach will be included in our Audit Plan.

We will report our work in the Audit Findings Report and aim to give our Value For Money Conclusion by the statutory accounts publication date of 31 July 2020.

Progress at November 2019 (Cont.)

Other areas

Certification of claims and returns

We certify the Council's annual Teachers' Pension Return FY 18/19 End of Year Certificate (EOYC) in accordance with the TP05 guidance.

The certification work for the 2018/19 is in progress and will be completed by the 30 November deadline.

Meetings

We met with Finance Officers in October as part of our quarterly liaison meetings and continue to be in discussions with finance staff regarding emerging developments and to ensure the audit process is smooth and effective.

Events

We provide a range of workshops, along with network events for members and publications to support the Council. Your officers will shortly be invited to attend the 2019/20 Financial Reporting Workshop which will be held early in the new year, this will ensure that members of your finance team are up to date with the latest financial reporting requirements for local authority accounts.

Further details of the publications that may be of interest to the Council are set out in our Sector Update section of this report.

Objections

We have completed our work on the consideration of objections for 2015/16. A report with associated recommendations is part of today's Agenda. Having completed this work we were able to issue our certificates of completion of the 2015/16 and 2016/17 audits on 23 August 2019.

In respect of the objection to the Council's 2017/18 accounts we have issued provisional views and received further representations from the objector. As the result of these we are currently undertaking further work with the aim of being able to issue our final views by the end of November 2019.

Audit Fees

During 2017, PSAA awarded contracts for audit for a five year period beginning on 1 April 2018. 2019/20 is the second year of that contract. Since that time, there have been a number of developments within the accounting and audit profession.

Across all sectors and firms, the Financial Reporting Council (FRC) has set out its expectation of improved financial reporting from organisations and the need for auditors to demonstrate increased scepticism and challenge and to undertake additional and more robust testing.

Our work in the Local Government sector in 2018/19 has highlighted areas where financial reporting, in particular, property, plant and equipment and pensions, needs to improve. There is also an increase in the complexity of Local Government financial transactions and financial reporting.

This combined with the FRC requirement that all Local Government audits are at or above the "few improvements needed" (2A) rating means that additional audit work is required.

We are currently reviewing the impact of these changes on both the cost and timing of audits. We will discuss this with your s151 Officer including any proposed variations to the Scale Fee set by PSAA Limited, before communicating fully with the Audit & Standards Committee.

As a firm, we are absolutely committed to meeting the expectations of the FRC with regard to audit quality and local government financial reporting.

Audit Deliverables

2018/19 Deliverables	Planned Date	Status
Audit Findings Report The Audit Findings Report was reported to the July Audit & Standards Committee.	July 2019	Complete
Auditors Report This is the opinion on your financial statement, annual governance statement and value for money conclusion.	July 2019	Complete
Annual Audit Letter This letter communicates the key issues arising from our work.	August 2019	Complete
2019/20 Deliverables	Planned Date	Status
Fee Letter Confirming audit fee for 2019/20.	April 2019	Complete
Accounts Audit Plan We are required to issue a detailed accounts audit plan to the Audit & Standards Committee setting out our proposed approach in order to give an opinion on the Council's 2019-20 financial statements.	March 2020	Not yet due
Interim Audit Findings We will report to you the findings from our interim audit and our initial value for money risk assessment within our Progress Report.	March 2020	Not yet due
Audit Findings Report The Audit Findings Report will be reported to the July Audit & Standards Committee.	July 2020	Not yet due
Auditors Report This is the opinion on your financial statement, annual governance statement and value for money conclusion.	July 2020	Not yet due
Annual Audit Letter This letter communicates the key issues arising from our work.	August 2020	Not yet due

Sector Update

Councils are tackling a continuing drive to achieve greater efficiency in the delivery of public services, whilst facing the challenges to address rising demand, ongoing budget pressures and social inequality.

Our sector update provides you with an up to date summary of emerging national issues and developments to support you. We cover areas which may have an impact on your organisation, the wider NHS and the public sector as a whole. Links are provided to the detailed report/briefing to allow you to delve further and find out more.

Our public sector team at Grant Thornton also undertake research on service and technical issues. We will bring you the latest research publications in this update. We also include areas of potential interest to start conversations within the organisation and with audit committee members, as well as any accounting and regulatory updates.

- [Grant Thornton Publications](#)
- [Insights from local government sector specialists](#)
- [Reports of interest](#)
- [Accounting and regulatory updates](#)

More information can be found on our dedicated public sector and local government sections on the Grant Thornton website by clicking on the logos below:

Public Sector

Local
government

CIPFA – CFO confidence survey

In July, the Chartered Institute of Public Finance and Accountancy (CIPFA) reported the results of their annual confidence survey.

The survey found that the majority of local government finance officers have lost confidence in their future financial positions over the last year.

Seventy per cent of respondents said they were either slightly less or much less confident in their financial position this year compared to 2018-19.

The survey also found that 68% said they were either slightly less or much less confident in their ability to deliver services in 2020-21. Sixty-two per cent expressed equal confidence in their financial position for 2019-20 as they had last year.

CIPFA found that the area of greatest pressure for top tier authorities was children's social care, with the number of authorities rating it as the biggest pressure rising by six percentage points.

For districts the greatest pressures were housing, cultural services and environmental services.

Rob Whiteman, CIPFA chief executive, said: "Local government is facing greater demand pressures than ever before, with particularly pressures in adults' and children's social care and housing. Local authorities also lack certainty about their future financial positions, so it's unsurprising to see confidence on the decline.

"We have repeatedly pointed out that local government is in need of a sustainable funding solution, but meeting this demand requires more than pennies and pounds. The sector as a whole must come together to address the challenges of effective service delivery."

CIPFA's survey received a total of 119 responses from authorities in the UK - 56 top tier authorities, 47 English districts, 12 Scottish authorities, and 4 Welsh authorities.



On the same theme, a Local Government Association (LGA) survey, also reported in July, found that almost two-thirds of councils believe cash for services like adult social care, child protection and preventing homelessness will dry up by 2024-25.

The survey got responses from 141 of the 339 LGA member councils in England and Wales.

It also found that 17% of councils were not confident of realising all of the savings they had identified this year (2019-20).

The LGA said that councils needed a guarantee they will have enough money to meet growing demand pressures in particular in adult social care, children's services, special educational needs, homelessness support and public health.



Financial confidence



Challenge question:

How confident over its' financial position is your Authority? Has this changed from previous years?

MHCLG – Independent probe into local government audit

In July, the then Communities secretary, James Brokenshire, announced the government is to examine local authority financial reporting and auditing.

At the CIPFA conference he told delegates the independent review will be headed up by Sir Tony Redmond, a former CIPFA president.

The government was “working towards improving its approach to local government oversight and support”, Brokenshire promised.

“A robust local audit system is absolutely pivotal to work on oversight, not just because it reinforces confidence in financial reporting but because it reinforces service delivery and, ultimately, our faith in local democracy,” he said.

“There are potentially far-reaching consequences when audits aren’t carried out properly and fail to detect significant problems.”

The review will look at the quality of local authority audits and whether they are highlighting when an organisation is in financial trouble early enough.

It will also look at whether the public has lost faith in auditors and whether the current audit arrangements for councils are still “fit for purpose”.

On the appointment of Redmond, CIPFA chief executive Rob Whiteman said: “Tony Redmond is uniquely placed to lead this vital review, which will be critical for determining future regulatory requirements.

“Local audit is crucial in providing assurance and accountability to the public, while helping to prevent financial and governance failure.”

He added: “This work will allow us to identify what is needed to make local audit as robust as possible, and how the audit function can meet the assurance needs, both now and in the future, of the sector as a whole.”

In the question and answer session following his speech, Brokenshire said he was not looking to bring back the Audit Commission, which appointed auditors to local bodies and was abolished in 2015. MHCLG note that auditing of local authorities was then taken over by the private, voluntary and not-for-profit sectors.

He explained he was “open minded”, but believed the Audit Commission was “of its time”.

Local authorities in England are responsible for 22% of total UK public sector expenditure so their accounts “must be of the highest level of transparency and quality”, the Ministry of Housing, Local Government and Communities said. The review will also look at how local authorities publish their annual accounts and if the financial reporting system is robust enough.

Redmond, who has also been a local authority treasurer and chief executive, is expected to report to the communities secretary with his initial recommendations in December 2019, with a final report published in March 2020. Redmond has also worked as a local government boundary commissioner and held the post of local government ombudsman.



National Audit Office – Code of Audit Practice

The Code of Audit Practice sets out what local auditors of relevant local public bodies are required to do to fulfill their statutory responsibilities under the Local Audit and Accountability Act 2014. 'Relevant authorities' are set out in Schedule 2 of the Act and include local councils, fire authorities, police and NHS bodies.

Local auditors must comply with the Code of Audit Practice.

Consultation – New Code of Audit Practice from 2020

Schedule 6 of the Act requires that the Code be reviewed, and revisions considered at least every five years. The current Code came into force on 1 April 2015, and the maximum five-year lifespan of the Code means it now needs to be reviewed and a new Code laid in Parliament in time for it to come in to force no later than 1 April 2020.

In order to determine what changes might be appropriate, the NAO is consulting on potential changes to the Code in two stages:

Stage 1 involves engagement with key stakeholders and public consultation on the issues that are considered to be relevant to the development of the Code.

This stage of the consultation is now closed. The NAO received a total of 41 responses to the consultation which included positive feedback on the two-stage approach to developing the Code that has been adopted. The NAO state that they have considered carefully the views of respondents in respect of the points drawn out from the [Issues paper](#) and this will inform the development of the draft Code. A summary of the responses received to the questions set out in the [Issues paper](#) can be found below.

[Local audit in England Code of Audit Practice – Consultation Response \(pdf – 256KB\)](#)


Stage 2 of the consultation involves consulting on the draft text of the new Code. To support stage 2, the NAO has published a consultation document, which highlights the key changes to each chapter of the draft Code. The most significant changes are in relation to the Value for Money arrangements. Rather than require auditors to focus on delivering an overall, binary, conclusion about whether or not proper arrangements were in place during the previous financial year, the draft Code requires auditors to issue a commentary on each of the criteria. This will allow auditors to tailor their commentaries to local circumstances. The Code proposes three specific criteria:

- Financial sustainability: how the body plans and manages its resources to ensure it can continue to deliver its services;
- Governance: how the body ensures that it makes informed decisions and properly manages its risks; and
- Improving economy, efficiency and effectiveness: how the body uses information about its costs and performance to improve the way it manages and delivers its services.

The consultation document and a copy of the draft Code can be found on the NAO website. The consultation is open until 22 November 2019. The new Code will apply from audits of local bodies' 2020-21 financial statements onwards.

Link to NAO webpage for the Code consultation:

<https://www.nao.org.uk/code-audit-practice/code-of-audit-practice-consultation/>

 National Audit Office
Consultation response by the National Audit Office
Local audit in England Code of Audit Practice
Issues paper: Consultation response

Local Government Association – Profit with a purpose – delivering social value through commercial activity

The Local Government Association (LGA) report 'Profit with a purpose' focuses on some of the practicalities of how councils can deliver social value through their commercial activity.

Through 'key questions' to ask, the guidance supports councils to face the challenge of how to undertake commercial activity and achieve greater value for the public purse in ways that better meet society's needs and outcomes for people and communities.

In addition, the publication features a number of short case studies highlighting some of the innovative commercial practice already achieving results for communities.

The LGA comments that the best approaches ensure the generation of social value is the primary factor driving commercial activity; from the initial decision to develop a commercial vision to how the approach is developed, and implemented, councils which are pulling ahead ensure social value is placed centre stage.

The guidance starts with an overview of what the LGA understands by 'profit with a purpose', the guidance explores different types of social value and the role of councils in driving social value alongside their commercial ambition.

The guidance then looks at how consideration and delivery of social value should be practically considered when deciding on whether to embark on commercial activity, the need for social value to be prioritised alongside financial return and the key questions councils should consider when embarking on a commercial initiative.

Following on from this, there are specific chapters on; embedding social value in governance of alternative service delivery vehicles, the role of procurement in contracting services that deliver social value and finally how to contract and performance manage social value through your service providers.

Each chapter outlines the factors that need to be considered and the 'key questions' councils should be asking themselves.

In addition, a number of short case studies are provided to highlight some of the innovative commercial practice already achieving results for communities.

The report can be downloaded from the LGA website:

<https://www.local.gov.uk/profit-purpose-delivering-social-value-through-commercial-activity>



Profit with a purpose

Delivering social value through commercial activity

Profit with a purpose



Challenge question:

If your Authority is looking at commercial activity, have you considered the LGA report?

MHCLG – Brexit preparations

Councils should be fully prepared to leave the European Union by the end of October, the Communities and Local Government Secretary announced on 3 August as he ramped up preparations.

Mr Jenrick thanked councils for all the work they have already done, but said they must step up vital preparations and committed £20 million for councils across England to prepare for delivering Brexit on 31 October, whatever the circumstances.

He has asked each council to designate a Brexit lead to work with central government and oversee teams in every community who will work with stakeholders in their area to plan intensively for Brexit.

The new funding comes in recognition of the central role councils will play to make sure their residents are ready for Brexit, and is expected to support a range of activity including communications, training and the recruitment of staff.

The Secretary of State said:

“From Whitehall to town halls – everyone needs to be ready to fulfil our democratic mandate to leave the European Union by the end of October.

Local government has a vital role in helping to make Brexit a success and it is absolutely right that together we intensify preparations in every community.

And to do this successfully I have asked every council to appoint a Brexit lead to work with government. We’ll be providing £20 million for councils to support the major step up in preparations.

I want all of us – central and local government – to be fully prepared for leaving the EU on 31 October whatever the circumstances. I know that we can achieve this, by continuing to work side by side with renewed national focus and intensity.”

Brexit preparations

Challenge question:

Who is your Brexit lead and how is your authority supporting Brexit preparations?



Public Accounts Committee – Local Government Governance and Accountability

The Public Accounts Committee has found that the Government has not done enough to ensure that, at a time when local authority budgets are under extreme pressure, governance systems are improved.

The Ministry of Housing, Communities & Local Government (the Department) is responsible for: ensuring that this framework contains the right checks and balances, and changing the system if necessary. The Secretary of State also has powers to intervene in cases of perceived governance failure. The framework includes: officers with statutory powers and responsibilities; internal checks and balances such as audit committees and internal audit; and external checks and balances such as external audit and sector-led improvement overseen by the Local Government Association. These arrangements represent a significant reduction in the level of central oversight in recent years following the government's decision to abolish the Audit Commission and the Standards Board for England as part of a broader reform of local audit, inspection and reporting.

The Public Accounts Committee report summary notes "Local authorities have a good overall track record with governance arrangements generally robust across the sector, and there is evidence that local authority governance compares favourably to that of the health sector. However, this is not universal and in some authorities governance is under strain, as funding reduces and responsibilities and exposure to commercial pressures change. We are worried to hear about audit committees that do not provide sufficient assurance, ineffective internal audit, weak arrangements for the management of risk in local authorities' commercial investments, and inadequate oversight and scrutiny. This is not acceptable in the more risky, complex and fast-moving environment in which local authorities now operate.

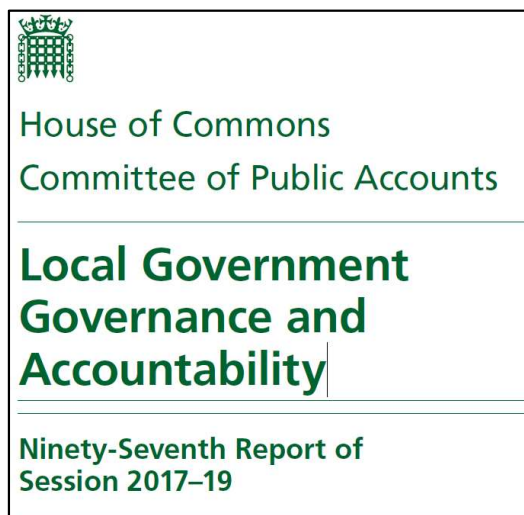
The Department has been reactive and ill-informed in its approach to oversight of the local governance system. However, the Department has now recognised that the network of bodies with responsibility for the local governance framework is fragmented and lacking the leadership needed to drive change. Encouragingly, the Department has now committed to enhancing its oversight role and producing a proactive work programme to deliver this change. We urge the Department to ensure that this activity leads to concrete actions and outcomes on a timely basis. When a local authority fails this has a significant impact on local people and the Department has a responsibility to work with local government to ensure that problems are caught early and that it can pinpoint at-risk councils. Since the abolition of the Audit Commission and other changes culminating in the Local Audit and Accountability Act 2014 there is no central assessment of value for the money, which means the Department's work is fundamental."

The report makes five conclusions, with associated recommendations:

- 1) The Department is not yet providing effective leadership of the local governance system.
- 2) The Department does not know why some local authorities are raising concerns that external audit is not meeting their needs.
- 3) The Department lacks reliable information on key governance risks, or relies on weak sources of information, meaning it has no way of pinpointing the at-risk councils.
- 4) The Department's monitoring is not focused on long-term risks to council finances and therefore to services.
- 5) There is a complete lack of transparency over both the Department's informal interventions in local authorities with financial or governance problems and the results of its formal interventions.

The Government response is available on the website below:

<https://www.parliament.uk/documents/commons-committees/public-accounts/Gov-response-to-Public-Accounts-on-the-93-98-reports.pdf>



Audit and Standards Committee

6 November 2019

Constitution Review

Recommendation(s)

That the Committee endorses the scope of the review and the proposed key milestones as set out in the Appendix

1.0 Key Issues

1.1 Following a period of significant transformation and further embedding of the Council's new operating model, a review is being undertaken to ensure that the Council's constitutional documents, in particular financial regulations and contract standing orders, are up to date and that they accurately reflect the new operating arrangements.

1.2 The Committee is aware from discussion at its previous meeting of the existence of the review process and requested that information be brought back to the Committee setting out the scope and time frame for the review process.

2.0 Options and Proposal

2.1 The scope and key milestones for the review are set out in the Appendix attached to this report. The review will consider what amendments need to be made (if any) to ensure that the key constitutional documents are up to date and aligned. The review will also focus on simplifying the constitutional documents whilst respecting relevant legal requirements.

2.2 The Committee is invited to consider and endorse the proposed scope and key milestones.

3.0 Financial Implications

None

4.0 Environmental Implications

None

5.0 Timescales associated with the decision and next steps

As set out in the Appendix. A further report will be brought back to the Committee in March 2020 setting out the outcome of the review process

Background papers

Appendix – Scope and Milestones

	Name	Contact Information
Report Author	Nichola Vine	nicholavine@warwickshire.gov.uk Tel: 01926 416379
Assistant Director	Sarah Duxbury	
Strategic Director	Rob Powell	
Portfolio Holder	Kam Kaur	

The report was circulated to the following members prior to publication:

Local Member(s):

Other members:

Appendix for Audit and Standards Report

Scope and Timeline

Purpose of Review	
To review and update WCC's financial and constitutional framework in the context of the council's new operating model	
To ensure appropriate inter-dependency with wider work on governance through the change programme.	
To ensure transparency, accessibility and ease of use of all financial and constitutional documents	
To make recommendations for consideration by Audit and Standards and Cabinet before being put to Council for approval	
Documents in Scope	
In Scope Financial Regulations (require Council approval) Financial Procedure Rules (approval delegated to s151 officer) Officer Scheme of Delegation (requires Council approval) Contract Standing Orders (require Council approval) HR – Establishment control process in so far as this impacts on Financial Regulations, Financial Procedure Rules and Scheme of Delegation	
Out of scope Standing Orders (rules for conduct of Council business at member meetings) Members' Code of Conduct	
Milestones	
Initial review work commenced – to identify in/out scope items, interdependency with other initiatives and linked documents/procedures	1 September 2019
Scope/timeline to Audit & Standards	7 th November 2019 Audit and Standards Committee
Engagement with Chief Executive, Strategic Directors and Assistant Directors	November to December 2019
Corporate Board (1 st review)	January 2020
Corporate Board (2 nd review)	February 2020
Audit & Standards	26 March 2020
Report to Cabinet	14 May 2020
Report to Council	19 May 2020

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**Audit and Standards Committee
Work Programme 2019**

Item	Lead Officer	Date of meeting
Internal Audit Progress Report	Paul Clarke	7 November 2019
External Auditors' Annual Audit Letter 2018/19	Virginia Rennie	7 November 2019
External Auditors' Progress Report	Virginia Rennie	7 November 2019
External Auditors Audit Plan and Audit Fee letter 2018/19 - Warwickshire County Council	Virginia Rennie	26 March 2020
External Auditors Audit Plan 2018/19 - Warwickshire Pension Fund	Virginia Rennie	26 March 2020
External Auditors' Progress Report	Virginia Rennie	26 March 2020
Internal Audit Progress Report	Paul Clarke	26 March 2020
Internal Audit Plan 2019/20	Paul Clarke	26 March 2020
Risk Management Framework Review	Chris Norton	26 March 2020
Draft Annual Governance Statement 2019-2020	Chris Norton	17 September 2020 21 May 2020
Audit and Standards Annual Report	Tom McColgan	17 September 2020 21 May 2020
Internal Audit Annual Report 2019-2020	Paul Clarke	17 September 2020 21 May 2020
External Auditors Progress Report	Virginia Rennie	17 September 2020 21 May 2020
2018/19 Statement of Accounts - Warwickshire County Council		16 July 2020 29 July 2020
2018/19 Statement of Accounts - Warwickshire Pension Fund		16 July 2020 29 July 2020
External Auditors' Annual Governance Report – Warwickshire County Council	Virginia Rennie	16 July 2020 29 July 2020
External Auditors' Annual Governance Report – Warwickshire Pension Fund		16 July 2020 29 July 2020
Annual Governance Statement 2019 - 2020		16 July 2020 29 July 2020

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