

Warwickshire County Council and Warwickshire Pension Fund Audit Progress Report and Sector Update

Year ending 31 March 2022

24 October 2022



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Introduction

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This paper provides the Audit and 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)

Members of the Audit and 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 <https://www.grantthornton.co.uk/en/services/public-sector-services/>

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 October 2022 – Warwickshire County Council

Financial Statements Audit

We undertook our initial planning for the 2021/22 audit in March 2022, and began our work on your draft financial statements in late July. The results of our work to date are included in this report.

The Accounts and Audit Regulations 2015 were amended by SI 2021 No. 263. The Department for Levelling Up, Housing and Communities (DLUHC) previously stated their intention to introduce secondary legislation to extend the deadline for publishing audited local authority accounts to 30 November 2022 for the 2021/22 accounts. This is enacted by The Accounts and Audit (Amendment) Regulations 2022 (SI 2022 No. 708) that came into force on 22 July 2022. The deadline for publishing audited local authority accounts for 2021/22 is extended to 30 November 2022 and thereafter changed to 30 September for years up to 2027/28.

Per our audit plan communicated in July, we intended to report our work in the Audit Findings Report and aim to give our opinion on the Statement of Accounts by 30 November 2022 in line with the above deadline.

Members may be aware that followings findings that come to light late on in the 2020/21 reporting cycle, CIPFA established a Task and Finish Group to address an issue regarding the derecognition of parts of infrastructure assets following 'replacement' expenditure. For highways Authorities in particular, this presents a risk of material misstatement and has led to the delay in sign-off of residual 2020/21 opinions and has been a key consideration in audit work performed by firms in 2021/22.

The Department for Levelling Up, Housing and Communities are continuing to work on a Statutory Instrument (SI), with a plan to this being laid in Parliament on 30 November 2022 and coming into force on 25 December 2022. They continue to liaise with audit firms, and It therefore is hoped that this SI, together with updates to the CIPFA Code, will resolve the majority of the ongoing audit challenges related to Infrastructure Assets balances, thus avoiding any potential qualification of accounts.

Inevitably, based on the timing of the statutory instrument by Central Government, we are now in a position whereby we will be unable to give our opinion on the Statement of Accounts by 30 November 2022. This is consistent for all Authorities, regardless of location or audit firm, unless they hold immaterial infrastructure assets (some Districts, Fire, Police etc).

Notwithstanding this issue, we still anticipate that the audit of the financial statements will be substantially complete by the end of November as planned, pending final resolution of the matter.

We have discussed this issue in detail with senior management, including the Strategic Director for Resources, and are currently trying to establish a revised reporting date. Preliminary discussions have earmarked a potential February sign-off at full Council with a special Audit and Standards Committee meeting to be held prior to this. However, we await more information on the issuance of the Statutory Instrument and this is expected by the end of November.

Members should be assured that this is outside the control of both ourselves as Statutory Auditors and Officers of the Authority, and that the Council will still be able to meet its statutory duty to publish its accounts by 30 November by publishing draft accounts and including a note stating that the audit has been delayed.

Progress at October 2022 – Warwickshire County Council (cont.)

Value for Money

The new Code of Audit Practice (the “Code”) came into force on 1 April 2020 for audit years 2020/21 and onwards. The most significant change under the new Code was the introduction of an Auditor’s Annual Report, containing a commentary on arrangements to secure value for money and any associated recommendations, if required.

The new approach is more complex, more involved and is planned to make more impact.

Under the 2020 Code of Audit Practice, for relevant authorities other than local NHS bodies auditors are required to issue our Auditor’s Annual Report no later than 30 September or, where this is not possible, issue an audit letter setting out the reasons for delay.

As a result of the ongoing pandemic, and the impact it has had on both preparers and auditors of accounts to complete their work as quickly as would normally be expected, the National Audit Office has updated its guidance to auditors to allow us to postpone completion of our work on arrangements to secure value for money and focus our resources firstly on the delivery of our opinions on the financial statements. This is intended to help ensure as many as possible could be issued in line with national timetables and legislation. The extended deadline for the issue of the Auditor’s Annual Report is now no more than three months after the date of the opinion on the financial statements.

Our review of the value for money arrangements in place at the Authority are well progressed and we are on track to issue our draft Auditor’s Annual Report in November 2022. Due to the aforementioned delay in the financial statements audit opinion, we anticipate that this will be reported formally alongside the audit findings report and opinion on the financial statements in February 2023.

Progress at October 2022 – Warwickshire Pension Fund

Financial Statements Audit

We undertook our initial planning for the 2021/22 audit in March 2022, and began our work on your draft financial statements in early July. The results of our work to date are included in this report.

We are pleased to report that our work on the pension fund is substantially completed and we have not identified any significant issues to bring to members attention.

We are currently in the process of drafting our IAS 19 letters of assurance to admitted bodies and intend on issuing these by the end of October, this includes the County Council and Districts.

While the Pension Fund is not impacted by the Infrastructure Assets issue, the scheme accounts form part of the wider County Council accounts as administering authority and therefore our audit opinion must be issued at the same time.

Progress at October 2022 (cont.)

Other areas

Certification of claims and returns

We certify the Authority's annual Teachers' Pensions return in accordance with procedures agreed with Teachers' Pensions. The certification work for the 2021/22 is due to be completed by the November deadline.

Meetings

We met with Finance Officers in August and October as part of our periodic 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 Authority. Your officers attended our Accounts workshop in January and February 2022, where we highlighted financial reporting requirements for local authority accounts and gave insight into elements of the audit approach.

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

Audit Fees

During 2017, PSAA awarded contracts for audit for a five year period beginning on 1 April 2018. 2021/22 is the fourth 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 the period 2018/19 to 2021/22 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 have reviewed the impact of these changes on both the cost and timing of audits. We have discussed this with your s151 Officer including any proposed variations to the Scale Fee set by PSAA Limited, and have communicated fully with the Audit and 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.

Results of Audit Work to date

The findings of our audit work to date, and the impact on our reporting, are summarised in the table below:

	Work performed	Summary of key findings
Management override of controls Council and Pension Fund	<p>We have continued to apply our new approach to our testing of journal entries in 2021/22, utilising the inflo software. This provides the engagement team with effective assurance around the completeness of the population subject to testing and introduces more sophisticated risk assessment of journals for indications of management override of controls.</p> <p>We have identified relevant journal entries for testing for both the Council and the Pension Fund and have completed our work for the latter. The sample of transactions for the former is currently with management and we anticipate receipt of information in due course.</p>	<p>We have not identified any significant issues from our audit work performed to date on management override of controls.</p>
Valuation of land, buildings Council	<p>We have received the valuation report prepared by management's expert and working papers to support the 2021/22 revaluation exercise.</p> <p>Consistent with the prior period, we have engaged Montagu Evans LLP as our auditor's valuation expert to support the engagement team in review of the pertinent assumptions and to provide robust challenge of management. Our expert have completed their review of the work undertaken by management's expert and we have followed this up with the necessary inquiries.</p> <p>We are currently considering responses to these inquiries with our expert, and are awaiting supporting information from the Council's valuer to corroborate the assumptions and information used for a sample of assets revalued in the period.</p> <p>Investment properties are below our materiality level consistent with the previous year and therefore these are now out of scope.</p>	<p>We are currently discussing a change in valuation approach for schools with management. This has resulted in a significant increase in the value of said assets in 2021/22. Management's view in conjunction with their expert is that this constitutes a change in estimate and that the approach taken by previous valuers remains appropriate.</p> <p>We have considered management's response and information available and are consulting with our audit quality team and auditor's expert.</p> <p>We will report the outcome of our audit procedures in the audit findings report.</p>

	Work performed	Summary of key findings
Valuation of the net defined benefit pension liability Council	<p>We have substantially completed our review of the significant estimate of the net defined benefit pension liability, with the support of our auditor's expert PwC. In line with recommendations made in PwC's report, there are a number of areas that require further inquiry and we have addressed these. As part of our approach, we have requested assurance from the pension fund auditor in relation to processes and controls in place at the fund level.</p>	<p>We have not identified any significant issues from our audit work performed to date on the valuation of the net defined benefit pension liability.</p>
Valuation of Level 3 investments Pension Fund	<p>As a result of detailed substantive testing performed we have identified differences in the value of level 3 investments held with fund managers and the value recorded in the financial statements. The aggregated difference is £13.28m which is below our materiality threshold.</p>	<p>The difference identified is below performance materiality and therefore no amendment is required in the financial statements. As differences noted with three fund managers are above our trivial threshold, these will be reported in the audit findings report for members attention.</p>
Other areas Council and Pension Fund	<p>Our work on non-significant risk areas of the audit, including material balances and transactions and other scoped areas is substantially complete for the pension fund and well progressed for the Council.</p>	<p>We have not identified any significant issues from our audit work performed to date in other areas.</p>
Value for money Council	<p>We are well progressed in our assessment of the arrangements in place at the Authority to secure value for money against the three criteria of financial sustainability, governance and improving the 3 E's (economy, efficiency and effectiveness). This includes response to potential significant weaknesses identified in our audit plan in relation to regulatory reports on SEND arrangements and the Fire Service.</p> <p>As part of our approach we are concurrently drafting the relevant excerpts for the Auditors Annual Report.</p>	<p>Our value for money work is currently undergoing quality control through various tiers of review. We anticipate issuing our draft Auditor's Annual Report week commencing 21 November for management comment and will report our detailed findings following this.</p>
IT audit Council and Pension Fund	<p>Our dedicated IT audit team have performed a follow up of the detailed IT general controls review undertaken in 2020/21. This included key systems at the Council and Pension Fund including the Agresso general ledger, YourHR (iTrent), Active Directory and Altair.</p>	<p>The findings of the IT audit team notes that the majority of recommendations have been addressed by management with only one residual significant deficiency in relation to privileged access to the ledger by certain individuals. However, this is deemed necessary to fulfil their responsibilities.</p>

Audit Deliverables

2021/22 Deliverables	Planned Date	Status
<p>Audit Plan</p> <p>We are required to issue a detailed audit plan to the Audit and Standards Committee setting out our proposed approach in order to give an opinion on the Authority's 2021/22 financial statements and to report on the Authority's value for money arrangements in the Auditor's Annual Report</p>	July 2022	Completed
<p>Audit Findings Report</p> <p>This report communicates the findings from our work undertaken in order to give an opinion on the Authority's 2021/22 financial statements.</p>	TBC – anticipated February 2023	Not yet due
<p>Auditors Report</p> <p>This includes the opinion on your financial statements.</p>	TBC – anticipated February 2023	Not yet due
<p>Auditor's Annual Report</p> <p>This report communicates the key outputs of the audit, including our commentary on the Authority's value for money arrangements.</p>	TBC – anticipated February 2023	Not yet due
<p>2021/22 Audit-related Deliverables</p>	<p>Planned Date</p>	<p>Status</p>
<p>Teachers Pensions Scheme – certification</p> <p>This is the report we submit to Teachers Pensions based upon the mandated agreed upon procedures we are required to perform.</p>	30 November 2022	Not yet due

Sector Update

Authorities continue to try 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 local government sector 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:

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Public Sector

A dark purple rectangular button with the text "Local government" in white, sans-serif font, centered within the button.

Local
government

Response to local audit consultation – Department for Levelling Up, Housing and Communities (“DLUHC”)

The Department for Levelling Up, Housing and Communities (“DLUHC”) has published its response to the local audit consultation. This follows the “Redmond Review”, which reported in September 2020.

The response confirms plans to establish a new regulator, the Audit Reporting and Governance Authority (ARGA), as the system leader for local audit within a new, simplified local audit framework.

Ahead of ARGA’s establishment, a shadow system leader arrangement will start at the Financial Reporting Council (FRC) from September 2022.

The consultation response also announces:

- Plans to make audit committees compulsory for all councils, with each audit committee required to include at least one independent member. This will create greater transparency and consistency across local bodies.
- ARGA will take over statutory responsibility for preparing and issuing the Code of Audit Practice (from the National Audit Office).
- A post-implementation review of the new Value for Money arrangements. The Code is a key part of the local audit system, and it is important to ensure that it helps to facilitate effective local audit. To allow time for the new arrangements to bed in the response proposes this is completed within three years.

The full response can be found here:

[Government response to local audit framework: technical consultation - GOV.UK \(www.gov.uk\)](https://www.gov.uk/government/consultations/government-response-to-local-audit-framework-technical-consultation)



The Value of Internal Audit – CIPFA

One of the key elements of good governance is an independent and objective internal audit service. Some organisations engage fully and reap significant benefits from the assurance, insight and expertise they bring whilst others pay lip-service to them and see their work as an administrative burden.

CIPFA's recent report, [Internal Audit: Untapped Potential](#), lifts the lid on internal audit in public services. For some chief financial officers and chief executives, this report confirms the value and contribution of internal audit teams with 87% of respondents recognising the contribution internal audit makes to their organisation. However, some leadership teams saw internal audit as providing a basic service at minimal cost.

Getting the most out of the function requires honest conversations and long-term planning. Maintaining appropriate skills and knowledge within the function is necessary to ensure high quality internal audit in public services are retained.

Culture and governance

The Audit Committee should monitor the delivery of internal audit and their output will be a key part of the annual work-plan. However, internal audit is not a substitute for risk management and should enhance the overall assurances received by management. Executives and Officers should engage with internal audit recommendations to ensure the organisation gains maximum value from reviews.

Capacity

Reducing internal audit days can lead to a lack of 'corporate grip' and not identifying issues at an early stage. This report raises concerns over the capacity of internal audit across the public sector. The profession needs to be valued and invested in to make it more attractive to new blood and for bodies to be able to attract the best candidates to their service.

Expectations

To maximise the impact of internal audit, a clear and aligned strategic audit plan and annual audit plan should be in place. This should be agreed with all stakeholders.

Future plans

Internal audit needs to adapt to the changing landscape, including risks such as climate change, digital and technological developments, cyber-security and ongoing financial and service pressures within their planning processes. For financial resilience and medium- and long-term financial strategies internal audit can provide vital independent assurance to decision makers to allow them to take on more risk and be more ambitious. Leadership teams need to be clear on what assurances they will require going forward.

For more information, [Rob Whiteman](#) share his views on this report.



Audit and Risk Assurance Committee effectiveness tool – NAO

The National Audit Office (NAO) has published this tool which supports Audit Committees in assessing their effectiveness.

The NAO comment “Audit and Risk Assurance Committees (ARACs) play a crucial role in supporting the effective governance of central government departments, their agencies and arm’s-length bodies.

ARACs are operating in a highly challenging context. Government organisations are managing many short- and long-term risks and are required to be resilient to a number of pressures. This has created an environment where ARACs need to be dynamic and responsive to the changing risk profiles and demands of their organisations. ARACs can see this as an opportunity to work out how they can most proactively work with the Board and accounting officer.

Against this background, the NAO’s effectiveness tool provides a way for ARACs to assess their effectiveness against more than just the basic requirements. It provides aspects of good practice to give ARACs greater confidence and the opportunity to meet the requirements of their role.

The NAO’s effectiveness tool is a comprehensive way for ARACs to assess their effectiveness on a regular basis.”

The tool covers:

- Membership, independence, objectivity and understanding
- Skills and experience
- Roles and responsibilities
- Scope
- Communication and reporting

Although the tool is designed for central government Audit Committees it is also relevant to local government.



The guide can be found here:

[Audit and Risk Assurance Committee effectiveness tool - National Audit Office \(NAO\) Report](#)

Guide for audit and risk committees on financial reporting and management during COVID-19 – NAO

The National Audit Office (NAO) has published this guide which aims to help audit and risk committee members discharge their responsibilities in several different areas, and to examine the impacts on their organisations of the COVID-19 outbreak

The NAO comment “Audit and risk committees are integral to the scrutiny and challenge process. They advise boards and accounting officers on matters of financial accountability, assurance and governance, and can support organisations, providing expert challenge, helping organisations focus on what is important, and how best to manage risk.

Each organisation will have existing risk management processes in place, but risk appetite may have changed as a result of COVID-19, for the organisation to operate effectively and respond in a timely manner. This may result in a weakening of controls in some areas, increasing the likelihood of other risks occurring. Organisations will need to consider how long this change in risk appetite is sustainable for.”

The guide includes sections on:

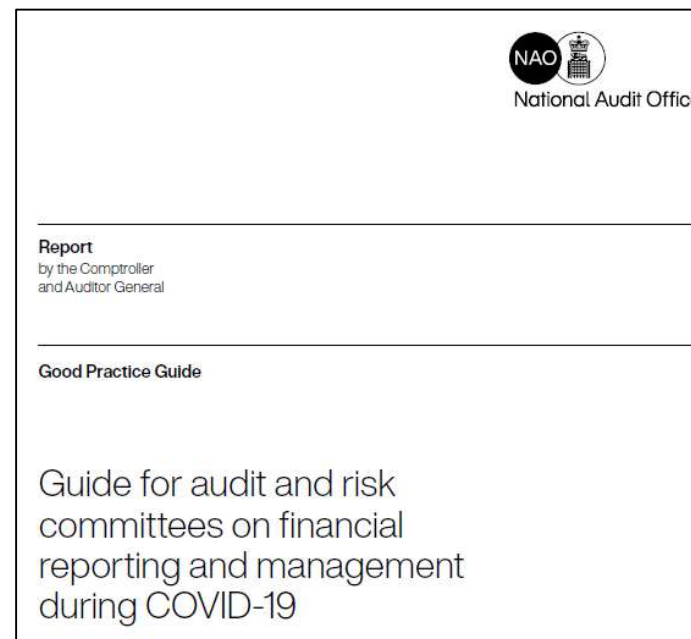
- Annual reports
- Financial reporting
- The control environment
- Regularity of expenditure

The guide can be found here:

<https://www.nao.org.uk/report/guidance-for-audit-and-risk-committees-on-financial-reporting-and-management-during-covid-19/>

The guide includes a number of key questions covering areas such as:

- Property valuations
- Pension scheme valuations
- Completeness of liabilities
- Events after the reporting period
- Control environment
- Fraud and error





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