

# The Audit Findings for Warwick District Council

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**Year ended 31 March 2017**

August 2017

**Grant Patterson**

Director

T 0121 232 5296

E [grant.b.Patterson@uk.gt.com](mailto:grant.b.Patterson@uk.gt.com)

**Helen Lillington**

Audit Manager

T 0121 232 5312

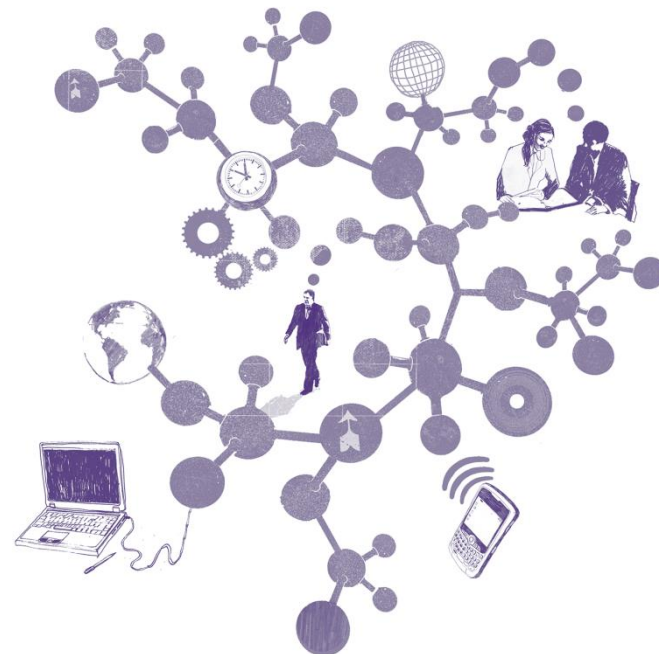
E [helen.m.Lillington@uk.gt.com](mailto:helen.m.Lillington@uk.gt.com)

**Georgia Beirne**

In Charge Auditor

T 0121 232 5197

E [Georgia.beirne@uk.gt.com](mailto:Georgia.beirne@uk.gt.com)



Warwick District Council  
Riverside House  
Milverton Hill  
Leamington Spa  
Warwickshire  
CV32 5HZ

Grant Thornton UK LLP  
Colmore Plaza  
Birmingham  
B4 6AT

T +44 (0) 121 212 4000  
[www.grant-thornton.co.uk](http://www.grant-thornton.co.uk)

30th August 2017

Dear Members

### **Audit Findings for Warwick District Council for the year ending 31 March 2017**

This Audit Findings report highlights the key findings arising from the audit that are significant to the responsibility of those charged with governance (in the case of Warwick District Council, the Finance and Audit Scrutiny Committee), to oversee the financial reporting process, as required by International Standard on Auditing (UK & Ireland) 260, the Local Audit and Accountability Act 2014 and the National Audit Office Code of Audit Practice. Its contents have been discussed with officers.

As auditor we are responsible for performing the audit, in accordance with International Standards on Auditing (UK & Ireland) ('ISA (UK&I)'), which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities for the preparation of the financial statements.

The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed primarily for the purpose of expressing our opinion on the financial statements and giving a value for money conclusion. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

We would like to take this opportunity to record our appreciation for the kind assistance provided by the finance team and other staff during our audit.

Yours sincerely

**Grant Patterson**  
Engagement lead

#### **Chartered Accountants**

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# Section 1: Executive summary

**01. Executive summary**

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## Purpose of this report

This report highlights the key issues affecting the results of Warwick District Council ('the Council') and the preparation of the Council's financial statements for the year ended 31 March 2017. It is also used to report our audit findings to management and those charged with governance in accordance with the requirements of ISA (UK&I) 260, and the Local Audit and Accountability Act 2014 ('the Act').

Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion, the Council's financial statements give a true and fair view of the financial position of the Council and its income and expenditure for the year and whether they have been properly prepared in accordance with the CIPFA Code of Practice on Local Authority Accounting. .

We are also required to consider other information published together with the audited financial statements (including the Annual Governance Statement (AGS) and Narrative Report, whether it is consistent with the financial statements, apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Council acquired in the course of performing our audit; or otherwise misleading.

We are required to carry out sufficient work to satisfy ourselves on whether the Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources ('the value for money (VFM) conclusion'). Auditor Guidance Note 7 (AGN07) clarifies our reporting requirements in the Code and the Act. We are required to provide a conclusion whether in all significant respects, the Council has put in place proper arrangements to secure value for money through economic, efficient and effective use of its resources for the year.

The Act also details the following additional powers and duties for local government auditors, which we are required to report to you if applied:

- a public interest report if we identify any matter that comes to our attention in the course of the audit that in our opinion should be considered by the Council or brought to the public's attention (section 24 of the Act);
- written recommendations which should be considered by the Council and responded to publicly (section 24 of the Act);
- application to the court for a declaration that an item of account is contrary to law (section 28 of the Act);
- issue of an advisory notice (section 29 of the Act); and
- application for judicial review (section 31 of the Act).

We are also required to give electors the opportunity to raise questions about the accounts and consider and decide upon objections received in relation to the accounts under sections 26 and 27 of the Act.

## Introduction

In the conduct of our audit we have not had to alter or change our audit approach, which we communicated to you in our Audit Plan dated 4 April 2017. This Audit Findings Report (AFR) updates and replaces our Interim AFR reported to the Audit and Finance Scrutiny Committee on 25<sup>th</sup> July 2017.

We received draft financial statements and accompanying working papers at the commencement of our work, in accordance with the agreed timetable. Our audit is substantially complete although we are finalising our procedures in the following areas:

- completion of work on investments following receipt of one outstanding investment confirmation
- review of the final version of the financial statements
- obtaining and reviewing the management letter of representation
- review of revised versions of the Annual Governance Statement and
- updating our post balance sheet events review, to the date of signing the opinion

## Key audit and financial reporting issues

### Financial statements opinion

We have identified one adjustment to the accounts of £763k where debtors and creditors have been overstated by an equal amount. This has no impact on the Council's reported financial position. In addition, we have found four further errors where officers have proposed not to adjust on the basis that the sum is not material to a reader of the accounts. Details of these errors and adjustments are recorded in section two of this report. We have also recommended a number of adjustments to improve the presentation of the financial statements.

The key messages arising from our audit of the Council's financial statements are:

- As described in our interim audit findings report to members on the 25<sup>th</sup> July, the audit has identified a number of areas where processes and working papers could be improved to ensure that the Council achieves the earlier statutory deadline of the 31<sup>st</sup> July next year.
- The Council had not revalued all of the Investment Properties that it owns, which is a requirement of the Code. Officers were able to instruct the valuer to perform a desktop valuation of the Investment Properties that had not been valued in year and demonstrate that there was no material difference between the carrying value and current value. This has been recorded as an unadjusted error.
- Testing of creditor balances identified three separate errors in the population. Officers have agreed to amend for one of these errors, with the remaining errors being unadjusted as these are not considered material. Members of the Committee will be asked to confirm their agreement not to amend the accounts for these.
- We have identified a number of disclosure issues in relation to estimates and critical judgements. There are some key areas in the accounts, such as the asset valuations and the pension liability, where the Council relies on experts to produce estimates in the accounts. As these remain the responsibility of the Council greater evidence should be provided to the challenge that the assumptions used by experts are reasonable and appropriate for the Council.

Further details are set out in section two of this report. We anticipate providing a unqualified audit opinion in respect of the financial statements (see Appendix B).

### Other financial statement responsibilities

As well as an opinion on the financial statements, we are required to give an opinion on whether other information published together with the audited financial statements is consistent with the financial statements. This includes if the Annual Governance Statement (AGS) and Narrative Report are misleading or inconsistent with the information of which we are aware from our audit.

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

## Controls

### Roles and responsibilities

The Council's management is responsible for the identification, assessment, management and monitoring of risk, and for developing, operating and monitoring the system of internal control.

Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we report these to the Council.

### Findings

Our work has not identified any control weaknesses which we wish to highlight for your attention. Further details are provided within section two of this report.

## Value for Money

Based on our review, we are satisfied that, in all significant respects, the Council had proper arrangements in place to secure economy, efficiency and effectiveness in its use of resources.

Further detail of our work on Value for Money are set out in section three of this report.

## Other statutory powers and duties

Members will recall that we received four objections to the 2013/14 accounts from local electors, asking us to either produce a report in the public interest or seek a declaration from the court that the accounts included unlawful items of income or expenditure.

All but one of these objections were determined during 2014/15. However we were unable to conclude on the objection in relation to the alleged disproportionate costs of legal action taken to recover unpaid Council Tax from an individual as the legal process, which is the subject matter of the objection, remained on-going. During 2016/17, it appeared that the legal process had run its course, and we carried out the necessary investigations in relation to the objection and issued a statement of provisional views to the objector and the Council, allowing both sides to make representations before we issued our final decision. We considered the representations made and have now prepared our final decision. However, the objector has now made an application for Judicial Review of this matter. We have therefore withheld our final decision until there is greater clarity about this new Judicial Review Process.

During 2014/15 we also received a further objection in relation to the same issue from a different local elector, and this will also need to be considered once the legal process has concluded. Again, we have undertaken the necessary work and our decision is ready to be issued pending greater clarity on the new Judicial Review Process.

As a result we have not therefore been able to certify formal completion of the 2013/14 audit, the 2014/15 audit, the 2015/16 audit and in view of the fact that the related expenditure continued into 2016/17, nor can we at this stage certify completion of the 2016/17 audit. We are satisfied, however, that the possible impact of these objections is not material to our opinion.

In addition to the outstanding objections in relation to prior years, we can also confirm to members that we have received two valid objections in relation to the 2016/17 accounts. Both of these objections include elements of previous objections that have either been concluded on or remain open as a result of ongoing legal action. Our initial evaluation of these objections confirms that the impact of these new objections are not material to the opinion, and therefore we would still anticipate issuing our opinion on the financial statements.

We have not identified any other issues that have required us to apply our statutory powers and duties under the Act.

## Grant certification

In addition to our responsibilities under the Code, we are required to certify the Council's Housing Benefit subsidy claim on behalf of the Department for Work and Pensions. At present our work on this claim is in progress and is not due to be finalised until 30 November 2017. We will report the outcome of this certification work through a separate report to Finance and Audit Scrutiny Committee which is due in February 2018.

## The way forward

Matters arising from the financial statements audit and our review of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources have been discussed with the Head of Finance.

We have also discussed the issues arising from our additional statutory powers and duties with the Head of Finance.

We have made a number of recommendations, which are set out in the action plan at Appendix A. Recommendations have been discussed and agreed with the Head of Finance and the finance team.

## Acknowledgement

We would like to take this opportunity to record our appreciation for the assistance provided by the finance team and other staff during our audit.

**Grant Thornton UK LLP**  
**August 2017**

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## Section 2: Audit findings

01. Executive summary

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# Materiality

In performing our audit, we apply the concept of materiality, following the requirements of ISA (UK&I) 320: Materiality in planning and performing an audit. The standard states that 'misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements'.

As we reported in our audit plan, we determined overall materiality to be £1,258k (being 2% of gross revenue expenditure). We have considered whether this level remained appropriate during the course of the audit and have made no changes to our overall materiality.

We also set an amount below which misstatements would be clearly trivial and would not need to be accumulated or reported to those charged with governance because we would not expect that the accumulated effect of such amounts would have a material impact on the financial statements. We have defined the amount below which misstatements would be clearly trivial to be £62,900. This remains the same as reported in our audit plan.

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

Balance/transaction/disclosure	Explanation	Materiality level
Disclosures of officers' remuneration, salary bandings and exit packages in notes to the statements	Due to public interest in these disclosures and the statutory requirement for them to be made.	£20,000
Related party transactions	Due to public interest in these disclosures and the statutory requirement for them to be made. In setting a materiality level these will be considered on a case by case basis as this will be determined not only on the basis of materiality for the Council, but also for the third party.	£20,000

Misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements; Judgments about materiality are made in light of surrounding circumstances, and are affected by the size or nature of a misstatement, or a combination of both; and Judgments about matters that are material to users of the financial statements are based on a consideration of the common financial information needs of users as a group. The possible effect of misstatements on specific individual users, whose needs may vary widely, is not considered. (ISA (UK&I) 320)

# Audit findings against significant risks

In this section we detail our response to the significant risks of material misstatement which we identified in the Audit Plan. As we noted in our plan, there are two presumed significant risks which are applicable to all audits under auditing standards.

Risks identified in our audit plan	Work completed	Assurance gained and issues arising
<p><b>The revenue cycle includes fraudulent transactions</b></p> <p>Under ISA (UK&amp;I) 240 there is a presumed risk that revenue may be misstated due to the improper recognition of revenue.</p> <p>This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.</p>	<p>Having considered the risk factors set out in ISA240 and the nature of the revenue streams at Warwick District Council, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:</p> <ul style="list-style-type: none"> <li>• there is little incentive to manipulate revenue recognition;</li> <li>• opportunities to manipulate revenue recognition are very limited; and</li> <li>• the culture and ethical frameworks of local authorities, including Warwick District Council, mean that all forms of fraud are seen as unacceptable.</li> </ul>	<p>Our audit work has not identified any issues in respect of revenue recognition.</p>
<p><b>Management over-ride of controls</b></p> <p>Under ISA (UK&amp;I) 240 it is presumed that the risk of management over-ride of controls is present in all entities.</p>	<ul style="list-style-type: none"> <li>• review of journal entry process and control environment</li> <li>• review of accounting estimates, judgements and decisions made by management</li> <li>• selection of unusual journal entries for testing back to supporting documentation</li> <li>• review of unusual significant transactions</li> </ul>	<p>Our audit work has not identified any evidence of management over-ride of controls. In particular the findings of our review of journal controls and testing of journal controls and testing of journal entries has not identified any significant issues.</p> <p>While we have not identified any significant issues from our testing, we have discussed with officers the format of the reporting available in relation to journals. While improvements have been made from the prior year the reporting from the system still does not easily provide officers with a full population of journal entries. Instead a variety of reports were needed and then explanations gained for where journals have been removed. As journals are a key way the financial accounts can be manipulated it is important that the population can be reviewed in the most efficient manner. We have discussed with officers the further improvements that need to be made to the system and a recommendation is included in the action plan at Appendix A.</p> <p>We set out later in this section of the report our work and findings on key accounting estimates and judgements.</p>

"Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, due to either size or nature, and that therefore occur infrequently. Judgmental matters may include the development of accounting estimates for which there is significant measurement uncertainty." (ISA (UK&I) 315) . In making the review of unusual significant transactions "the auditor shall treat identified significant related party transactions outside the entity's normal course of business as giving rise to significant risks." (ISA (UK&I) 550)

# Audit findings against significant risks (continued)

We have also identified the following significant risks of material misstatement from our understanding of the entity. We set out below the work we have completed to address these risks.

Risks identified in our audit plan	Work completed	Assurance gained and issues arising
<p><b>Valuation of pension fund liability</b></p> <p>The Council's pension fund asset and liability as reflected in its balance sheet represent a significant estimate in the financial statements.</p>	<ul style="list-style-type: none"> <li>Identified the controls put in place by management to ensure that the pension fund liability is not materially misstated and assessed whether these controls were implemented as expected and sufficient to mitigate the risk of material misstatement</li> <li>Reviewed the competence, expertise and objectivity of the actuary who carried out your pension fund valuation, and gained an understanding of the basis on which the valuation was carried out.</li> <li>Undertaken procedures to confirm the reasonableness of the actuarial assumptions made.</li> <li>Reviewed the consistency of the pension fund asset and liability and disclosed in notes to the financial statements with the actuarial report from your actuary.</li> </ul>	<p>Our work has not identified any significant issues in relation to the estimate made in the financial statements.</p> <p>A key part of the work we carry out in relation to this estimate is to confirm the reasonableness of the actuarial assumptions made. While we have sufficient assurance that these assumptions are reasonable, there is limited evidence of challenge of the assumptions used and the actuarial output by officers of the authority. As this is a material estimate we have suggested to officers that a more detailed working paper could be produced which compares the estimates used by the actuary to the final year end position.</p>
<p><b>Changes to the presentation of local authority financial statements</b></p> <p>CIPFA has been working on the 'Telling the Story' project, for which the aim was to streamline the financial statements and improve accessibility to the user and this has resulted in changes to the 2016/17 Code of Practice.</p> <p>The changes affect the presentation of income and expenditure in the financial statements and associated disclosure notes. A prior period adjustment (PPA) to restate the 2015/16 comparative figures is also required.</p>	<ul style="list-style-type: none"> <li>We have documented and evaluated the process for the recording of the required financial reporting changes to the 2016/17 financial statements.</li> <li>We have reviewed the re-classification of the Comprehensive Income and Expenditure Statement (CIES) comparatives to ensure that they are in line with the Authority's internal reporting structure.</li> <li>We have reviewed the appropriateness of the revised grouping of entries within the Movement In Reserves Statement (MIRS).</li> <li>Tested the classification of income and expenditure for 2016/17 recorded within the Cost of Services section of the CIES.</li> <li>Tested the completeness of income and expenditure by reviewing the reconciliation of the CIES to the general ledger.</li> <li>Tested the classification of income and expenditure reported within the new Expenditure and Funding Analysis (EFA) note to the financial statements.</li> <li>Reviewed the new segmental reporting disclosures within the 2016/17 financial statements to ensure compliance with the CIPFA Code of Practice.</li> </ul>	<p>Our work has identified the following issues in relation to the 'Telling the Story' changes to financial statements.</p> <p>The positioning of the Expenditure and Funding Analysis statement before the primary statements does not make it clear that this is actually a note to the accounts. There has been substantial debate around the positioning of this statement within the accounts nationally, however we have agreed with officers that the current position within the draft statements is appropriate providing it is clearly marked as a note to the accounts. The wording of the opinion will reflect this change.</p> <p>Note 8 to the accounts is a new note this year and analyses Expenditure and Income by Nature. This note includes support services recharges in both income and expenditure. We have agreed with officers that these lines should be removed so that the note agrees to the CIES.</p>

# Audit findings against other risks

In this section we detail our response to the other risks of material misstatement which we identified in the Audit Plan. Recommendations, together with management responses are attached at appendix A.

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
<b>Operating expenses</b>	<p>Non-pay expenditure represents a significant percentage of the Council's gross expenditure. Management uses judgement to estimate accruals of un-invoiced non-pay costs.</p> <p>We identified the completeness of non-pay expenditure in the financial statements as a risk requiring particular audit attention:</p> <ul style="list-style-type: none"> <li>Creditors understated or not recorded in the correct period (Operating expenses understated)</li> </ul>	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> <li>documented our understanding of processes and key controls over the transaction cycle</li> <li>undertaken walkthrough of the key controls to assess the whether those controls were in line with our documented understanding</li> <li>documented our understanding of the accruals process</li> <li>Tested a sample of payments made after year end to ensure that liabilities have been recorded in the correct period</li> <li>Tested a sample of goods received but not yet invoiced to identify any items which have not been accrued for correctly</li> </ul>	<p>Our testing of creditors identified three errors as follows;</p> <ol style="list-style-type: none"> <li>Creditor and debtor balances are both overstated by £763k. Parish Council precepts for 17/18 have been included within these balances incorrectly.</li> <li>The creditors balance as per the ledger for central government and WCC were not reconciled to the CIPFA model used to determine the payments made in relation to NNDR for a number of years. This has resulted in an understatement of creditors in the year of £191k</li> <li>A legacy balance relating to income in advance was identified in the creditors sample of £15k. This is not a genuine creditor, and creditors have been overstated by this amount.</li> </ol> <p>As reported on page 19 the Council has adjusted its accounts for Item 1. For Items 2 and 3 above we have evaluated the potential uncertainty they would indicate within the total creditors population as £317k. We are therefore satisfied there is a low risk of the accounts being materially misstated. Management is therefore proposing not to adjust these balances and both are reported as unadjusted misstatements on page 20.</p>

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

# Audit findings against other risks continued

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
<b>Employee remuneration</b>	<p>Payroll expenditure represents a significant percentage of the Council's gross expenditure.</p> <p>We identified the completeness of payroll expenditure in the financial statements as a risk requiring particular audit attention:</p> <p>Employee remuneration accruals understated (Remuneration expenses not correct)</p>	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> <li>documented our understanding of processes and key controls over the transaction cycle</li> <li>undertaken walkthrough of the key controls to assess the whether those controls were in line with our documented understanding</li> <li>performed a reconciliation to ensure that information from the payroll system can be agreed to the general ledger and financial statements</li> <li>completed a trend analysis of monthly payroll data</li> <li>tested a sample of employee remuneration payments to ensure they have been calculated and accounted for correctly</li> </ul>	Our audit work has not identified any issues in respect of employee remuneration

## Going concern

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



We reviewed the management's assessment of the going concern assumption and the disclosures in the financial statements and concluded that the going concern basis is appropriate for the 2016/17 financial statements.

# Significant matters discussed with management

	Significant matter	Commentary
1.	Working papers to support the accounts and early close	<p>The Council has made significant efforts to produce its accounts earlier and servicing the audit of the accounts. This has enabled us to complete all of our significant fieldwork by the 31<sup>st</sup> July this year, but as noted below we were not in the position to issue our audit opinion. Looking forward, to meet committee deadlines and the processes necessary to formally approve the accounts the timeline for next year needs to be shortened by at least a further two weeks. To do this officers need to critically review the processes they have in place for closedown of the accounts and consider how efficiencies can be made by doing things differently. Our experience this year has shown that the faster close has primarily been achieved by doing the same things earlier. During the audit we have highlighted to officers key areas where processes could be streamlined and we will continue to work with you during the year to help you meet the deadline next year.</p> <p>Last year we reported on the quality of the working papers to support the financial statements and commented that some of these were often difficult to locate, or didn't fully support the balances and disclosure in the accounts. This remains unchanged. As in previous years we have worked with officers to gain the information we need to complete the audit, including adding to officers existing working papers or creating our own to demonstrate how balances and disclosures in the accounts are supported. We highlighted in our interim report to members that this has slowed the audit down this year and is one of the key reasons we have not been able to sign off by the 'dry run' target deadline of the 31<sup>st</sup> July.</p> <p>We provide officers with a detailed list of working papers required to support the accounts production process as part of planning the audit. While this has been used, the working papers provided against the request do not always provide the assurance needed, often relying on copies of ledger prints with no explanation. Many other authorities ensure that this requirement is met via a quality assurance process of the working papers to support the financial statements, with a different officer reviewing the working papers produced and verifying that they are fit for purpose prior to the working papers being made available for audit. This does not have to be completed at the end of the process, it can be an ongoing process as working papers are being produced. A good working paper should be sufficiently detailed and complete that a fellow professional with no previous experience of the Council can understand the working papers in terms of the work completed, the conclusions reached and the reasoning behind these conclusions. This will need to be a key area of focus next year if the audit is to be completed by the earlier statutory deadline of the 31<sup>st</sup> July.</p>
2.	Decluttering of the accounts	<p>The Council continues to make progress in this area, but there is still more that it could do. As part of the audit this year we have highlighted immaterial notes that are no longer required, and these have been removed in the final set of the financial statements. While we appreciate that a more fundamental 'first principles' review of the accounts is time consuming in the first year, our experience of others has shown that this often brings greater clarity to the financial statements and this in turn leads to more streamlined processes and efficiencies in the long run.</p>

# Accounting policies, estimates and judgements

In this section we report on our consideration of accounting policies, in particular revenue recognition policies, and key estimates and judgements made and included with the Council's financial statements.

Accounting area	Summary of policy	Comments	Assessment
<b>Revenue recognition</b>	Revenue from the provision of services is recognised when the Council can measure reliably the percentage of completion of the transaction and it is probable that economic benefits of service potential associated with the transaction will flow to the Council.	<ul style="list-style-type: none"> <li>The Council's policy is appropriate and consistent with the relevant accounting framework – the Local Government Code of Accounting Practice.</li> <li>Minimal judgement is involved.</li> <li>The accounting policy is properly disclosed.</li> </ul>	 (Green) Accounting policy appropriate and disclosures sufficient
<b>Judgements and estimates</b>	<ul style="list-style-type: none"> <li>Key estimates and judgements include:               <ul style="list-style-type: none"> <li>Valuation and classification of assets,</li> <li>Useful life of assets,</li> <li>Provisions,</li> <li>Pension liability, and</li> <li>Accruals.</li> </ul> </li> </ul>	<p>We have considered:</p> <ul style="list-style-type: none"> <li>Appropriateness of policy under relevant accounting framework,</li> <li>Extent of judgement involved</li> <li>Potential financial statement impact of different assumptions</li> <li>Adequacy of disclosure of accounting policy.</li> </ul> <p>Overall there is sufficient assurance over how key estimates and judgements have been made, however we would note the following points.</p> <p>Our review of the classification of assets identified that there was limited evidence to support the classification of assets into investment properties, with the decision being made on an annual basis by the finance staff based on annual rental values. This was reported as part of the AFR last year. The decision to hold investment properties should be based on the asset management strategy for the authority, and there should be clear links between this and the assets classified as investment properties within the financial statements.</p> <p>The Council have determined that it will value its housing stock on the 1st April, and as such the value recorded in the accounts is as at the 1st April 2017 rather than the required 31st March 2017. We accept officers rationale as to why this would not produce a material difference in valuation, however have requested that this judgement is formally recorded in the financial statements.</p>	 (Amber) Accounting policy appropriate but scope for improved disclosure



## Assessment

 Marginal accounting policy which could potentially attract attention from regulators (Red)

 Accounting policy appropriate and disclosures sufficient (Green)

 Accounting policy appropriate but scope for improved disclosure (Amber)

# Accounting policies, estimates and judgements continued

Accounting area	Summary of policy	Comments	Assessment
<b>Judgements and estimates</b>	<ul style="list-style-type: none"> <li>Key estimates and judgements include:               <ul style="list-style-type: none"> <li>Valuation and classification of assets,</li> <li>Useful life of assets,</li> <li>Provisions,</li> <li>Pension liability, and</li> <li>Accruals.</li> </ul> </li> </ul>	<p>Pension Liabilities are a key estimate in the accounts. We have reviewed the estimation technique used in determining this estimate and are satisfied with the methodology used.</p> <p>The Council uses an external valuer to value its properties. As a significant estimate in the accounts the Council should consider better documenting its challenge of the assumptions used by the valuer and their appropriateness for the Council</p>	 (Amber) Accounting policy appropriate but scope for improved disclosure
<b>Going concern</b>	The Head of Finance, as s151 officer has a reasonable expectation that the services provided by the Council will continue for the foreseeable future. Members concur with this view. For this reason, the Council continue to adopt the going concern basis in preparing the financial statements.	We have reviewed the Council's assessment and are satisfied with management's assessment that the going concern basis is appropriate for the 2016/17 financial statements.	 (Green) Accounting policy appropriate and disclosures sufficient


## Assessment

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

-  Accounting policy appropriate but scope for improved disclosure



# Accounting policies, estimates and judgements continued

Accounting area	Summary of policy	Comments	Assessment
<b>Other accounting policies</b>	We have reviewed the Council's policies against the requirements of the CIPFA Code of Practice	<p>The Council's accounting policies are generally appropriate and consistent with previous years. However, during the course of the audit we have identified some areas where the accounting policies could be made clearer, particularly in respect of the frequency of the valuation of Investment Properties. In addition, there are some accounting policies that are included that do not relate to material areas of the accounts, and as such these could be removed.</p> <p>We also noted that the accounting policies do not include a de minimus level for accruals of income and expenditure, however in practical terms officers do not accrue for housing benefit expenditure around year end, as year on year the impact would be immaterial. Officers are going to include this within the accounting policies in the final set of financial statements. Going forward, greater consideration should be given to whether further areas of the accounts would benefit from this treatment, to aid a faster close.</p>	 (Amber) Accounting policy appropriate but scope for improved disclosure

## Assessment

- Marginal accounting policy which could potentially attract attention from regulators
- Accounting policy appropriate and disclosure sufficient

- Accounting policy appropriate but scope for improved disclosure

# Other communication requirements

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

	Issue	Commentary
1.	<b>Matters in relation to fraud</b>	<ul style="list-style-type: none"> <li>We have previously discussed the risk of fraud with the Finance and Audit Scrutiny Committee and have not been made aware of any incidents in the period and no other issues have been identified during the course of our audit procedures.</li> </ul>
2.	<b>Matters in relation to related parties</b>	<ul style="list-style-type: none"> <li>From the work we carried out, we have not identified any related party transactions which have not been disclosed.</li> </ul>
3.	<b>Matters in relation to laws and regulations</b>	<ul style="list-style-type: none"> <li>You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work.</li> </ul>
4.	<b>Written representations</b>	<ul style="list-style-type: none"> <li>A standard letter of representation has been requested from the Council including references in respect of the unadjusted misstatements on page 20.</li> </ul>
5.	<b>Confirmation requests from third parties</b>	<ul style="list-style-type: none"> <li>We obtained direct confirmation from PWLB for loans and requested from management permission to send confirmation requests for all bank and material investment balances. This permission was granted and the requests were sent. To date all except one of these investment confirmations have been returned with positive confirmation. We are working with officers to ensure this confirmation is received by the date of sign off. In addition, we have noted that there are two accounts held with Bank of Scotland that have not been disclosed in the accounts, the reason for this is that they hold a trivial balance of £23.08. We have reminded officers that it is important from a control perspective to ensure that these accounts are included in the schedule of bank accounts and reviewed and reconciled on a regular basis for unusual activity. Similarly there are three open bank accounts with Santander that have a nil balance and no activity has occurred in these accounts during the year. Officers have explained that these are standard call accounts and need to remain open, however controls still need to be in place to ensure no unusual activity is occurring on these accounts.</li> </ul>
6.	<b>Disclosures</b>	<ul style="list-style-type: none"> <li>Our review found no material omissions in the financial statements, however we have highlighted some areas where improvements could be made in the future. These are contained within the tables later in this section of the report.</li> </ul>
7.	<b>Matters on which we report by exception</b>	<p>We have not identified any issues we would be required to report by exception in the following areas</p> <ul style="list-style-type: none"> <li>If the Annual Governance Statement does not meet the disclosure requirements set out in the CIPFA/SOLACE guidance or is misleading or inconsistent with the information of which we are aware from our audit</li> <li>The information in the Narrative Report is materially inconsistent with the information in the audited financial statements or our knowledge of the Group/Council acquired in the course of performing our audit, or otherwise misleading.</li> </ul> <p>While there are no issues we are required to report, we have identified some areas for improvement in future years and these have been discussed with officers. In particular the narrative report could be improved with greater use of diagrams and graphs to aid presentation and a clearer focus on value for money. Similarly, revisions to the guidance on the Annual Governance Statement have also suggested that more focus should be made on how the authority achieves value for money.</p>
8.	<b>Specified procedures for Whole of Government Accounts</b>	<p>We are required to carry out specified procedures (on behalf of the NAO) on the Whole of Government Accounts (WGA) consolidation pack under WGA group audit instructions. Note that work is not required as the Council does not exceed the threshold.</p>

## Internal controls

The controls were found to be operating effectively and we have no matters to report to the Finance and Audit Scrutiny Committee.

The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

"The purpose of an audit is for the auditor to express an opinion on the financial statements. Our audit included consideration of internal control relevant to the preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control. The matters being reported are limited to those deficiencies that the auditor has identified during the audit and that the auditor has concluded are of sufficient importance to merit being reported to those charged with governance." (ISA (UK&I) 265)

# Adjusted misstatements

A number of adjustments to the draft accounts have been identified during the audit process. We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management. The table below summarises the adjustments arising from the audit which have been processed by management.

## Impact of adjusted misstatements

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

Detail		Statement/Notes effected
1	Creditor and debtor balances are both overstated by £763k. Parish Council precepts for 2017/18 have been included within these balances incorrectly. Given the value, officers have agreed to amend for this error in the final version of the financial statements.	Balance sheet and debtors and creditors notes, plus the associated impact on the cash flow statement supporting notes.
Overall impact		£Nil

## Unadjusted misstatements

The table below provides details of adjustments identified during the audit which have not been made within the final set of financial statements. The Finance and Audit Scrutiny Committee is required to approve management's proposed treatment of all items recorded within the table below.

Detail	Comprehensive Income and Expenditure Statement £'000	Balance Sheet £'000	Reason for not adjusting
1 There is a difference of £159k between what the authority have disclosed in note 5 of the HRA accounts for the total revaluation increase on the housing stock and the amount calculated as part of our review of the revaluation report. As a result the revaluation increase within the accounts is overstated by £159k, as is the value of housing assets on the balance sheet.		£159	Officers are proposing not to adjust on the basis that the sum is not material. We are satisfied that users of the accounts will not be misled by the non-adjustment.
2 The creditors balance as per the ledger for central government and WCC were not reconciled to the CIPFA model used to determine the payments made in relation to NNDR for a number of years. This has resulted in an understatement of creditors in the year of £191k		£191	Officers are proposing not to adjust on the basis that the sum is not material. We are satisfied that users of the accounts will not be misled by the non-adjustment.
3 A legacy balance relating to income in advance was identified in the creditors sample of £15k. This is not a genuine creditor, and creditors have been overstated by this amount.		£15	Officers are proposing not to adjust on the basis that the sum is not material. We are satisfied that users of the accounts will not be misled by the non-adjustment.
4 Not all investment properties were revalued in year as required by the Code. The Council have obtained a desktop valuation of the remaining properties from their valuer which has demonstrated that the value of investment properties is overstated by £481k.		£481	Officers are proposing not to adjust on the basis that the sum is not material. We are satisfied that users of the accounts will not be misled by the non-adjustment.
<b>Overall impact</b>		<b>£846</b>	

# Misclassifications and disclosure changes

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

	Adjustment type	Account balance	Impact on the financial statements
1	Disclosure	Various	<p>Our review of the accounts highlights some improvements that were required to be made to the accounts. None of these were individually significant and they have been made to improve the final presentation and aid clarity for the reader.</p> <p>Examples include a range of typographical errors and some changes to improve consistency in presentation.</p> <p>Examples of these include, removal of some immaterial notes in relation to finance leases, removal of the contingent liability note that was no longer required and to ensure descriptions are provided for all material earmarked balances. In addition we have noted some areas where additional clarity has been needed within the narrative disclosure.</p>
2	Disclosure	Debtors - £5,049k	<p>The debtors note, (note 19) has been restated as the Council has chosen to show this net of the bad debt provision. This treatment is as per the Code, however the bad debt provision last year was £2.1m and as such this is a material restatement and a prior period adjustment note is needed within the financial statements. Officers are to include this in the final version of the statements for approval.</p>
3	Disclosure	Property, Plant and Equipment additions - £14,927k	<p>Note 33 – Capital expenditure and Capital Financing. This note contains a line for Property Plant and Equipment including finance leases of £14,775k. This figure does not include finance leases as this is separately disclosed elsewhere in the note. The narrative needs to be amended accordingly. In calculating this balance, officers also removed the amount of the finance lease twice and therefore the balance needs to be amended to £14,848k. This is a disclosure issue only, and the balances are correctly recorded in the asset register and balance sheet.</p>
4	Disclosure	Post Balance Sheet Events	<p>We have discussed with officers any potential impairment to it's asset base as a result of the findings coming out of the Grenfell Tower disaster in London. We have agreed a revised Post Balance Sheet Event note to be included in the final version of the financial statements which outlines the Council's current position.</p>
5	Disclosure	NNDR rateable value	<p>The VOA rateable value of properties and uniform rate were incorrectly disclosed in note 3 of the collection fund account. Per the VOA schedule the rateable value of properties should be £164,310,437 and the multiplier should be 49.7p. Officers have agreed to amend for this in the final version of the financial statements.</p>
6	Misclassification	Note 25 – Cash Flow Statement – Operating Activities	<p>The changes in debtors line has been incorrectly stated, with a compensating error in the changes in bad debt disclosure. The misclassification is £78k. Officers have agreed to amend for this in the final version of the financial statements.</p>

# Misclassifications and disclosure changes

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

Adjustment type	Account balance	Impact on the financial statements
7 Misclassification	Note 33 Capital Expenditure and Financing	The first line under capital investment is called PPE including finance leases. This is incorrect as the amount does not agree to note 14. Finance leases are actually included on a separate line within this disclosure and therefore the narrative needs to be amended. In addition, the amount disclosed is incorrect and should be amended from £14,775k to £14,848k.

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## Section 3: Value for Money

01. Executive summary

02. Audit findings

**03. Value for Money**

04. Other statutory powers and duties

05. Fees, non-audit services and independence

06. Communication of audit matters



## Background

We are required by section 21 of the Local Audit and Accountability Act 2014 (the Act) and the NAO Code of Audit Practice (the Code) to satisfy ourselves that the Council has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the Value for Money (VFM) conclusion.

We are required to carry out sufficient work to satisfy ourselves that proper arrangements are in place at the Council. The Act and NAO guidance state that for local government bodies, auditors are required to give a conclusion on whether the Council has put proper arrangements in place.

In carrying out this work, we are required to follow the NAO's Auditor Guidance Note 3 (AGN 03) issued in November 2016. AGN 03 identifies one single criterion for auditors to evaluate:

*In all significant respects, the audited body takes properly informed decisions and deploys resources to achieve planned and sustainable outcomes for taxpayers and local people.*

AGN03 provides examples of proper arrangements against three sub-criteria but specifically states that these are not separate criteria for assessment purposes and that auditors are not required to reach a distinct judgement against each of these.

## Risk assessment

We carried out an initial risk assessment in February 2017 and identified a number of significant risks in respect of specific areas of proper arrangements using the guidance contained in AGN03. We communicated these risks to you in our Audit Plan dated 4 April 2017.

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

We carried out further work only in respect of the significant risks we identified from our initial and ongoing risk assessment. Where our consideration of the significant risks determined that arrangements were not operating effectively, we have used the examples of proper arrangements from AGN 03 to explain the gaps in proper arrangements that we have reported in our VFM conclusion.

## Significant qualitative aspects

AGN 03 requires us to disclose our views on significant qualitative aspects of the Council's arrangements for delivering economy, efficiency and effectiveness.

We have focused our work on the significant risks that we identified in the Council's arrangements. In arriving at our conclusion, our main considerations were:

- The Council's performance against its 2016/17 budget and monitoring, delivery and development of savings plans, and
- The arrangements and progress in delivering key projects and investments that underpin its Medium Term Financial Plan (MFTP).

We have set out more detail on the risks we identified, the results of the work we performed and the conclusions we drew from this work on the following pages.

## Overall conclusion

Based on the work we performed to address the significant risks, we concluded that:

- the Council had proper arrangements in all significant respects to ensure it delivered value for money in its use of resources.

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

## Recommendations for improvement

We discussed findings arising from our work with management and have agreed recommendation for improvement as follows.

- As officers work on streamlining the reporting process in response to the recent peer review, consideration should be given as to whether more integrated reporting of savings targets and plans would be appropriate.

Management's response to these can be found in the Action Plan at Appendix A.

## Key findings

We set out below our key findings against the significant risks we identified through our initial risk assessment and further risks identified through our ongoing review of documents.

Significant risk	Work to address	Findings and conclusions
<p><b>Medium Term Financial Plan</b></p> <p>The Council identified savings of £977k as part of the Fit for the Future (FFF) plan in June 2016. The most recent review of corporate budgets produced in November 2016 identified that actual savings were forecast at £1.065m for the year end. In future years the levels of savings are not as significant until the Council reaches 2020/21. This is the year a number of the major contracts are due for renewal, and it is anticipated that this, along with other pressures, will present a significant challenge in terms of balancing the budget.</p>	<p>We have reviewed the Council's arrangements for identifying and agreeing savings plans, and communicating key findings to the Council and key decision making committees.</p>	<p>Historically the Council has a strong track record of delivering against its financial objectives, and this remains the case for 2016/17 with a surplus of £0.5m reported against a budget of £12m.</p> <p>The most recent update on the MTFP was reported to members in June 2017 as part of a FFF report. This projected the budget forward another year and highlighted that further savings of £0.5m were needed for the period 2018/19 to 2022/23 to balance the budget. Work remains ongoing to close this gap, particularly in relation to the £272k savings required for 2018/19. The report sets out clearly the impact of not achieving the savings plans already identified, in particular pointing out key areas where savings are slipping, such as the Riverside House relocation project.</p> <p>As in previous years:</p> <ul style="list-style-type: none"> <li>the Council's revenue budget monitoring does not include separate reporting on savings, instead these are incorporated into the revenue budget for the year. Any non-achievement of savings are then reported as a variance on the revenue monitoring reports, and</li> <li>the achievement of current year savings and the identification of future years savings, are reported via a separate mechanism which is the Fit for the Future (FFF) programme. This is reported to members on a six monthly basis.</li> </ul> <p>Reporting the savings plans separately can make it difficult to track how slippage in savings are impacting on the current year budget and MTFP. It is also less transparent how many savings the Council has made each year. As officers work on streamlining the reporting process in response to the recent peer review, consideration should be given as to whether more integrated reporting of savings targets and plans would be appropriate.</p> <p>Each year the Council reviews the levels of reserves and balances that it holds as part of setting the budget. The s151 officer has determined that a general fund balance of £1.5m needs to be maintained and this has been reached via a risk assessment. In addition to the general fund balance, the Council also has a significant number of earmarked reserves. The estimated balance on earmarked reserves for the end of 2017 was £12.4m, falling to £10.1m at the end of 2021. The reserves include a number that have been designed to specifically smooth the savings plans, or to ensure investment in key areas that is needed before any savings can be made. This overall level of reserves could be used to support the budget in the medium term if savings are not achieved in line with the current plans.</p> <p><b>On this basis we concluded that the risk was sufficiently mitigated and the Council has proper arrangements in place for ensuring it plans finances effectively to support its strategic functions, and its arrangements for ensuring informed decision making.</b></p>

## Key findings

Significant risk	Work to address	Findings and conclusions
<p><b>Significant capital projects and service transformation projects</b></p> <p>The Council's MTFP is predicated on the investment programme delivering changes to the way in which services are delivered. The programme includes a number of key projects and investments, in particular the leisure centre development programme and the relocation of riverside house, which are significant both in scale and financial terms.</p>	<p>We have reviewed the project management and risk assurance frameworks established by the Council in respect of the more significant projects, to establish how the Council is identifying, managing and monitoring these risks.</p>	<p>Our work on the initial risk assessment highlighted that there were a number of key projects in progress at the Council that underpinned the Council's financial objectives and whose success is key to ensuring the Council is sustainable in the long term. This was further supported by the recent peer review who included in their recommendations the need for the Council to <i>'move at pace to deliver the work in progress'</i>.</p> <p>The two most significant projects are the HQ relocation project and the Leisure Centre Development Programme. The HQ relocation project was first suggested in April 2010 when the Council commissioned work on its asset base with its private sector partner PSP. PSP came up with a range of suggestions that the Council could consider to make better use of its asset base, one of which was to move the Council's headquarters. Officers have worked with PSP on various options appraisals, and these have been presented to members for consideration and approval. This has led to a number of alternative options and sites being considered, which has required extensive work. Inevitably this has meant delays in when the project could be delivered, however the Council has followed the internal arrangements necessary for such a significant development.</p> <p>The outcome from the project has always been to enable annual savings of £300k per annum to be generated, in addition to being able to relocate the functions from the Town Hall at an annual saving of £85k. These savings have been pushed back in the MTFP as the project has slipped. The project is now moving at pace and planning applications have been submitted for the Riverside House site and the office at Covent Garden. Detailed planning discussions are ongoing, with completion of the project now planned for December 2019.</p> <p>The Leisure Centre Development Programme has two elements. One a major refurbishment project, and two to run the leisure centres with a management company rather than in-house. The leisure centre operator contract was awarded in March 2017. The tender evaluation process involved a large team from across the Council and enabled officers to work with the preferred contractors to ensure potential issues around working capital could be ironed out before the final contract award. In addition, the Council have restructured their team internally to ensure there is sufficient expertise to ensure that the contract is managed appropriately and robustly. The MTFP demonstrates that the appointment of the operator will result in average ongoing savings of £1.38m for the next 10 years.</p> <p>The refurbishment of the leisure centres has been more challenging, with major delays experienced due to issues in the ground works. There is a project board in place and a steering group, both of who review the budget and risk register to ensure all key issues are managed. Officers have recognised that these delays will have an impact on the savings identified in the MTFP and work remains ongoing to ensure that these are mitigated for as far as possible.</p> <p><b>Overall, our review of these major projects has identified that appropriate project management and assurance frameworks are in place to deliver in line with the Council's expectations. On this basis we concluded that the risk was sufficiently mitigated and the Council has proper arrangements for planning finances effectively to support the sustainable delivery of strategic priorities and using appropriate cost and performance information to support informed decision making in place.</b></p>

### **Significant difficulties in undertaking our work**

We did not identify any significant difficulties in undertaking our work on your arrangements which we wish to draw to your attention.

### **Significant matters discussed with management**

There were no matters where no other evidence was available or matters of such significance to our conclusion or that we required written representation from management or those charged with governance.

### **Any other matters**

There were no other matters from our work which were significant to our consideration of your arrangements to secure value for money in your use of resources.

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## Section 4: Fees, non-audit services and independence

01. Executive summary

02. Audit findings

03. Value for Money

**04. Fees, non audit services and independence**

05. Communication of audit matters

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

## Fees

	Proposed fee £	Final fee £
Council audit	53,623	53,623
Grant certification	6,398	TBC
<b>Total audit fees (excluding VAT)</b>	<b>60,021</b>	<b>TBC</b>

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

## Grant certification

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

## Independence and ethics

- We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Auditing Practices Board's Ethical Standards and confirm that we are independent and are able to express an objective opinion on the financial statements.
- We confirm that we have implemented policies and procedures to meet the requirements of the Auditing Practices Board's Ethical Standards.
- For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council. The table below summarises all non-audit services which were identified.

## Fees for other services

Service	Fees £
<b>Audit related services:</b>	
• Pooled capital receipts grant certification ((in respect of 2015/16 claim, but billed in 2016/17)	<b>3,000</b>
<b>Non-audit services</b>	<b>Nil</b>

# Independence and non-audit services

We have considered whether non-audit services might be perceived as a threat to our independence as the Council’s auditor and have ensured that appropriate safeguards are put in place.

	Service provided to	Fees	Threat?	Safeguard
Audit related services	Pooled capital receipts grant certification (in respect of 2015/16 claim, but billed in 2016/17)	£3,000	None	We have not identified any threats in relation to the service provided.
	TOTAL	£3,000		

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

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## Section 5: Communication of audit matters

01. Executive summary

02. Audit findings

03. Value for Money

04. Other statutory powers and duties

05. Communication of audit matters



# Communication to those charged with governance

ISA (UK&I) 260, as well as other ISAs, prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table opposite.

This document, The Audit Findings, outlines those key issues and other matters arising from the audit, which we consider should be communicated in writing rather than orally, together with an explanation as to how these have been resolved.

## Respective responsibilities

The Audit Findings Report has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by Public Sector Audit Appointments Limited (<http://www.psa.co.uk/appointing-auditors/terms-of-appointment>).

We have been appointed as the Council's independent external auditors by the Audit Commission, the body responsible for appointing external auditors to local public bodies in England at the time of our appointment. As external auditors, we have a broad remit covering finance and governance matters.

Our annual work programme is set in accordance with the Code of Audit Practice ('the Code') issued by the NAO (<https://www.nao.org.uk/code-audit-practice/about-code/>). Our work considers the Council's key risks when reaching our conclusions under the Code.

It is the responsibility of the Council to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Council is fulfilling these responsibilities.

Our communication plan	Audit Plan	Audit Findings
Respective responsibilities of auditor and management/those charged with governance	✓	
Overview of the planned scope and timing of the audit. Form, timing and expected general content of communications	✓	
Views about the qualitative aspects of the entity's accounting and financial reporting practices, significant matters and issues arising during the audit and written representations that have been sought		✓
Confirmation of independence and objectivity	✓	✓
A statement that we have complied with relevant ethical requirements regarding independence, relationships and other matters which might be thought to bear on independence. Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged Details of safeguards applied to threats to independence	✓	✓
Material weaknesses in internal control identified during the audit		✓
Identification or suspicion of fraud involving management and/or others which results in material misstatement of the financial statements		✓
Non compliance with laws and regulations		✓
Expected modifications to auditor's report, or emphasis of matter		✓
Unadjusted misstatements and material disclosure omissions		✓
Significant matters arising in connection with related parties		✓
Significant matters in relation to going concern	✓	✓

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# Appendices

- A. Action Plan
- B. Audit Opinion

# A. Action plan

Rec no.	Recommendation	Priority	Management response	Implementation date and responsibility
1	The reporting mechanism available for journals should be further reviewed to make it easier to extract a complete journal listing.	Medium		
2	Officers should consider how they can provide greater evidence of challenge of the work of experts, particularly in relation to material estimates such as the asset valuation and the valuation of pension liabilities.	Low		
3	Finance staff should review how the working papers to support the financial statements are produced and filed, so that they are easy to locate and understand by finance staff who have not been involved in the accounts production process. A quality assurance arrangement should be put in place for all working papers produced which should be appropriately evidenced.	Medium		
4	Further work should be undertaken on de-cluttering, looking to eliminate non material notes and streamline the wording so that it is clear and concise.	Medium		
5	Officers should review year end processes and identify areas where they could be streamlined or undertaken at different times in the year. In particular, where could the accounts rely on greater use of estimates and does the financial reporting system provide the necessary reports to enable an efficient close down.	High		
6	The evidence base to demonstrate that assets are investments properties should be improved, with clear links to the asset management strategy of the authority.	Medium		
7	As officers work on streamlining the reporting process in response to the recent peer review, consideration should be given as to whether more integrated reporting of savings targets and plans would be appropriate.	Medium		

## Controls

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

# B: Audit opinion

We anticipate we will provide the Council with an unmodified audit report

## INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF WARWICK DISTRICT COUNCIL

We have audited the financial statements of Warwick District Council (the "Authority") for the year ended 31 March 2017 under the Local Audit and Accountability Act 2014 (the "Act"). The financial statements comprise, the Comprehensive Income and Expenditure Statement, the Movement in Reserves Statement, the Balance Sheet, the Cash Flow Statement, the Housing Revenue Account Income and Expenditure Statement, the Movement on the Housing Revenue Account Statement, the Collection Fund and the related notes (these included the Expenditure and Funding Analysis Note on page xx). The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Act and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the Authority's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

### Respective responsibilities of the Head of Finance and auditor

As explained more fully in the Statement of Responsibilities, the Head of Finance is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17, which give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law, the Code of Audit Practice published by the National Audit Office on behalf of the Comptroller and Auditor General (the "Code of Audit Practice") and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

## Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the Authority's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Head of Finance; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Narrative Report, and the Annual Governance Statement to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

## Opinion on financial statements

In our opinion:

- the financial statements present a true and fair view of the financial position of the Authority as at 31 March 2017 and of its expenditure and income for the year then ended; and
- the financial statements have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 and applicable law.

## Opinion on other matters

In our opinion, the other information published together with the audited financial statements in the Narrative Report, and the Annual Governance Statement and the Annual Report for the financial year for which the financial statements are prepared is consistent with the audited financial statements.

### Matters on which we are required to report by exception

We are required to report to you if

- in our opinion the Annual Governance Statement does not comply with the guidance included in 'Delivering Good Governance in Local Government: Framework (2016)' published by CIPFA and SOLACE; or
- we have reported a matter in the public interest under section 24 of the Act in the course of, or at the conclusion of the audit; or
- we have made a written recommendation to the Authority under section 24 of the Act in the course of, or at the conclusion of the audit; or
- we have exercised any other special powers of the auditor under the Act.

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

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

#### Respective responsibilities of the Authority and auditor

The Authority is responsible for putting in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

We are required under Section 20(1)(c) of the Act to be satisfied that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

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

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria issued by the Comptroller and Auditor General in November 2016, as to whether the Authority had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined this criteria as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2017.

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

### Conclusion

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

### Certificate

We certify that we have completed the audit of the financial statements of the Authority in accordance with the requirements of the Act and the Code of Audit Practice.

We cannot formally conclude the audit and issue an audit certificate for the Authority for the year ended 31 March 2017 in accordance with the requirements of the Act and the Code of Audit Practice until we have completed our consideration of objections brought to our attention by local authority electors under Section 27 of the Act. We are satisfied that these matters do not have a material effect on the financial statements or on our conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2017.

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

The Colmore Building  
20 Colmore Circus  
Birmingham  
B4 6AT

Xx September 2017



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