

# Audit Findings

*Year ending 31 March 2018*

---

Warwick District Council  
27 November 2018



# Contents



## Your key Grant Thornton team members are:

Grant Patterson  
Director

T: +44 121 232 5296  
E: grant.b.patterson@uk.gt.com

Helen Lillington  
Manager

T: +44 121 232 5312  
E: helen.m.Lillington@uk.gt.com

Section	Page
1. Headlines	3
2. Financial statements	4
3. Value for money	15
4. Independence and ethics	17
Appendices	
A. Action plan	
B. Follow up of prior year recommendations	
C. Audit adjustments	
D. Fees	
E. Audit Opinion	

The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed for the purpose of expressing our opinion on the financial statements. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose all defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

Grant Thornton UK LLP is a limited liability partnership registered in England and Wales: No.OC307742. Registered office: 30 Finsbury Square, London, EC2A 1AG. A list of members is available from our registered office. Grant Thornton UK LLP is authorised and regulated by the Financial Conduct Authority. Grant Thornton UK LLP is a member firm of Grant Thornton International Ltd (GTIL). GTIL and the member firms are not a worldwide partnership. Services are delivered by the member firms. GTIL and its member firms are not agents of, and do not obligate, one another and are not liable for one another's acts or omissions.

# Headlines

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

<b>Financial Statements</b>	<p>Under the International Standards of Auditing (UK) (ISAs), we are required to report whether, in our opinion:</p> <ul style="list-style-type: none"><li>the Council's financial statements give a true and fair view of the Council's financial position and the Council's expenditure and income for the year, and</li><li>have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting and prepared in accordance with the Local Audit and Accountability Act 2014.</li></ul> <p>We are also required to report whether other information published together with the audited financial statements (including the Statement of Accounts, Annual Governance Statement (AGS) and Narrative Report), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.</p>	<p>Members will be aware that our audit work has spanned a number of months, with various different audit visits to accommodate the need for officers to substantially revise the financial statements and address a number of material issues that had been identified both by officers and the audit team. This has resulted in the statutory audit deadline being missed.</p> <p>The reasons for this delay are well documented by both the audit team and also a review by the Chief Executive. Our findings are summarised on pages 4 to 14. There have been a number of adjustments to the financial statements that have resulted in a £4.271m adjustment to the Statement of Comprehensive Income and Expenditure from the version that was first published by the s151 officer. While this has been a material adjustment, it is worth noting that the overall impact to the general fund surplus as been limited, with an increase of £56k. Audit adjustments are detailed in Appendix C.</p> <p>Officers are proposing not to adjust for a net difference of £375k (see page 24) 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. The Finance and Audit Scrutiny Committee is required to approve management's proposal.</p> <p>We have also raised recommendations for management as a result of our audit work in Appendix A. Our follow up of recommendations from the prior year's audit are detailed in Appendix B.</p> <p>Subject to outstanding queries being resolved, we anticipate issuing an unqualified audit opinion following the Finance and Audit Standards Committee meeting on 27<sup>th</sup> November 2018, as detailed in Appendix E. These outstanding items include:</p> <ul style="list-style-type: none"><li>receipt of management representation letter;</li><li>PPE valuations;</li><li>Events after the reporting period review, and</li><li>review of the final set of financial statements and final internal quality assurance arrangements.</li></ul> <p>We have concluded that the other information published with the financial statements, which includes the Statement of Accounts, Annual Governance Statement and Narrative Report, are consistent with our knowledge of your organisation and with the financial statements we have audited.</p>
<b>Value for Money arrangements</b>	<p>Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion:</p> <ul style="list-style-type: none"><li>the Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources ('the value for money (VFM) conclusion')</li></ul>	<p>We have completed our risk based review of the Council's value for money arrangements. We have concluded that Warwick District Council has proper arrangements to secure economy, efficiency and effectiveness in its use of resources, except for the arrangements to produce accurate and timely financial statements.</p> <p>We therefore anticipate issuing a qualified 'except for' value for money conclusion, as detailed in Appendix E. Our findings are summarised on pages 15 and 16.</p>
<b>Statutory duties</b>	<p>The Local Audit and Accountability Act 2014 ('the Act') also requires us to:</p> <ul style="list-style-type: none"><li>report to you if we have applied any of the additional powers and duties ascribed to us under the Act; and</li><li>certify the closure of the audit</li></ul>	<p>We have not exercised any of our additional statutory powers or duties.</p>

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

# Summary

## Overview of the scope of our audit

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

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

## Audit approach

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

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

## Conclusion

We have substantially completed our audit of your financial statements and subject to outstanding queries being resolved, we anticipate issuing an unqualified audit opinion following the Finance and Audit Scrutiny Committee meeting on 27 November 2018, as detailed in Appendix E. These outstanding items include:

- receipt of management representation letter;
- PPE valuations
- PBSE review and
- review of the final set of financial statements.

## Our approach to materiality

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law.

Materiality remains the same as reported in our audit plan. However we lowered our assessment of performance materiality in response to the significant errors identified from our initial review of the draft financial statements. We detail in the table below our assessment of materiality for Warwick District Council.

	Council Amount (£)	Qualitative factors considered
Materiality for the financial statements	£1.2m	We have used a percentage of total expenditure in year as an appropriate benchmark given the Council's activities are driven by public demand for services and the level of expenditure is based on the level of activity.
Performance materiality	£0.689m	We have considered the volume of errors identified in the draft financial statements and the business environment in which the Council operates. We have also considered the number of changes within the finance department and the potential for the first year introduction of group accounts. As a result a lower level of performance materiality has been set when compared to prior years.
Trivial matters	£62k	We have continued to set this as a percentage of materiality (5%), and consider this level as appropriate in determining the errors to be report to the Finance and Audit Scrutiny Committee.
Materiality for specific transactions, balances or disclosures. For Warwick District Council the only balance is in relation to senior officer remuneration	£100k	This note is an element of the accounts which is of genuine concern to the user of the accounts, with the salaries of senior officers sometimes the subject of adverse publicity.

# Significant audit risks

Risks identified in our Audit Plan	Commentary
<div><div>1</div><div><b>Improper revenue recognition</b> Under ISA 240 (UK) there is a presumed risk that revenue may be misstated due to the improper recognition of revenue. This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.</div></div>	<div><div><b>Auditor commentary</b></div><div>Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the Council, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:<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</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></div><div>Therefore we do not consider this to be a significant risk for Warwick District Council. Whilst not a significant risk, as part of our audit work we did undertake work on material revenue items. Our work did not identify any matters that would indicate our rebuttal was incorrect.</div></div>
<div><div>2</div><div><b>Management override of controls</b> Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities.  We identified management override of controls as a risk requiring special audit consideration.</div></div>	<div><div><b>Auditor commentary</b></div><div><ul style="list-style-type: none"><li>• As part of our work in this area we have;<ul style="list-style-type: none"><li>– gained an understanding of the accounting estimates, judgements applied and decisions made by management and considered their reasonableness</li><li>– obtained a full listing of journal entries and tested unusual entries for appropriateness</li><li>– evaluated the rationale for any changes in accounting policies or significant unusual transactions.</li></ul></li></ul></div><div>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.</div><div>As a result of the amendments required to the original draft financial statements published on 31 May 2018, primarily in respect of significant capital transaction journals, it has been necessary to test an increased number of journals when compared with prior years.</div><div>Our additional testing covered the use of the test system for posting the adjustment journals, and then the subsequent posting of the journals into the live ledger system to ensure that it accurately reflected the final out-turn position. The nature of the errors identified has meant that a significant volume of adjustment journals were needed. The process has been time consuming for the finance team to both track and document appropriately and has required increased audit testing.</div><div>The quality of the working papers produced for the correction journals was an improvement on previous working papers that had been produced. While we are satisfied that journals have not been used to override management controls, it is clear that there need to be improvements made to the Council's overall journal control process to ensure that the issues that have occurred this year do not re-occur in future years. In particular, there needs to be appropriate, and evidenced, review of journals prepared by contract staff.</div></div>

# Significant audit risks

Risks identified in our Audit Plan	Commentary
<div>3</div> <b>Valuation of property, plant and equipment</b> <p>The Council revalues its land and buildings on an quinquennial basis to ensure that carrying value is not materially different from fair value (current value for operational assets). This represents a significant estimate by management in the financial statements.</p> <p>We identified the valuation of land and buildings revaluations and impairments as a risk requiring special audit consideration.</p>	<p><b>Auditor commentary</b></p> <p>As part of our work in this area we have;</p> <ul style="list-style-type: none"><li>• reviewed management's processes and assumptions for the calculation of the estimate, the instructions issues to valuations experts and the scope of their work</li><li>• considered the competence, expertise and objectivity of any management experts used.</li><li>• reviewed and challenged the information used by the valuer to ensure it was robust and consistent with our understanding.</li><li>• tested revaluations made during the year to ensure they were input correctly into the Council's asset register</li><li>• evaluated the assumptions made by management for those assets not revalued during the year and how management satisfied themselves that these were not materially different to current value.</li></ul> <p>As noted in CIPFA's Guidance Notes for Practitioners it is the CFO's responsibility to ensure that adequate valuations are provided to support the financial statements. It is for valuers to ensure that any valuations are professionally sound and accurate for that purpose. CFOs therefore have discretion over the commissioning of valuations and the form of the instructions.</p> <p>We have identified what we consider to be significant weaknesses in the Council's overall processes and arrangements. Whilst there is a formal contract in place with the Council's valuer for the provision of valuation services there are no clear, specific, annual instructions. Instead, finance staff have relied on various streams of email correspondence. As a result it has been difficult for us to track whether the valuer had undertaken the work required, and what data they have used in forming their valuations. In addition, because of the changes in the finance team, it was recognised by officers that insufficient work had been undertaken in order to provide the s151 officer with appropriate assurance that the valuation of the assets at year end are not materially misstated. This resulted in the need for multiple ad hoc valuations. These matters have required significant additional audit work from us in order to gain reasonable assurance about whether the financial statements, as a whole, are free from material misstatement.</p> <p>In future years, the methodology for requesting valuations should be reviewed and then documented. This should include full written instructions to the valuer on an annual basis, and putting a mechanism in place at the Council for ensuring that these valuations are appropriate and in line with expectations. The Council may also wish to review the timing of these valuations, because at present valuations are undertaken at varying points in the year, making the process more complicated than we see at other similar councils.</p> <p>Alongside the consideration of the programme for valuing assets, the s151 officer is also required to ensure that an annual impairment review is carried out on the asset base of the Council. We identified that this had not occurred in a systematic manner during the year as required. Our review of the draft accounts identified that the Covent Garden Car Park had not been considered for impairment, despite the narrative report documenting that the current multi storey car park was beyond economic repair. Following a review of this asset and working with the valuer, the asset has been impaired by £1.7m in the final set of financial statements. We have worked with members of the finance team to gain the necessary assurance that there are no further assets that should be subject to an impairment review. A recommendation has been included to ensure that a formal impairment review is considered as part of the financial statement process in future years.</p> <p>We are currently reviewing our work in this area and would seek to update members verbally during the meeting, however from the audit procedures carried out to date we have gained sufficient assurance to conclude that the valuation of property, plant and equipment is free from material misstatement.</p>

# Significant audit risks

Risks identified in our Audit Plan	Commentary
<p><b>4 Valuation of pension fund net 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> <p>We identified the valuation of the pension fund net liability as a risk requiring special audit consideration</p>	<p><b>Auditor commentary</b></p> <p>As part of our work in this area we have;</p> <ul style="list-style-type: none"> <li>identified the controls put in place by management to ensure that the pension fund net liability is not materially misstated and assessed whether those controls were implemented as expected and whether they were sufficient to mitigate the risk of material misstatement.</li> <li>reviewed the competence, expertise and objectivity of the actuary who carried out the Council's pension fund valuation. We have also 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 net liability disclosures in notes to the financial statements with the actuarial report from your actuary.</li> </ul> <p>From the audit procedures carried out we have gained sufficient assurance to conclude that the valuation of the pension fund net liability is free from material misstatement.</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. This is an outstanding recommendation from prior years.</p>
<p><b>5 Disclosure of entries in relation to Group Accounting</b></p> <p>The Council have advised us that Group Accounts are likely to be necessary for the first time in 2017/18, however they are yet to produce a group account assessment and form a judgement on whether these additional disclosures are required.</p> <p>Given the judgements, estimates and likely disclosures required in this first year of implementation we have identified this as a risk requiring special audit consideration.</p>	<p><b>Auditor commentary</b></p> <p>As part of our work in this area:</p> <ul style="list-style-type: none"> <li>we have reviewed the assessment made by officers and the supporting evidence provided</li> <li>where estimates have been used, we have reviewed management's processes and assumptions for the formulation of those estimates</li> <li>where third party information has been used, we have considered the arrangements the Council has in place to assure itself that the information provided is robust</li> <li>we have reviewed the material disclosures made in the financial statements.</li> </ul> <p>As previously reported as part of our interim reports on the accounts progress, the production of group accounts has been an area of significant debate. Following a review of the CIPFA guidance in respect of collaborations and consultation with the Council's legal advisors, the s151 officer has taken the decision that group accounts do not need to be prepared this year. The group accounts within the financial statement published on 31<sup>st</sup> May 2018 have been removed and replaced with an enhanced related party disclosure in the final set of financial statements to demonstrate the relationship that the Council has with PSP Ltd.</p> <p>We have reviewed this decision and consider it to be compliant with the Code and therefore no longer consider this to be a significant risk for Warwick District Council against which we need to report.</p>

# Reasonably possible audit risks

Risks identified in our Audit Plan	Commentary
<div><div>1</div><div><b>Employee remuneration</b> Payroll expenditure represents a significant percentage (43%) of the Council's operating expenses.  As the payroll expenditure comes from a number of individual transactions there is a risk that payroll expenditure in the accounts could be understated. We therefore identified completeness of payroll expenses as a risk requiring particular audit attention</div></div>	<div><b>Auditor commentary</b> We have undertaken the following work in relation to this risk:<ul style="list-style-type: none"><li>evaluated the Council's accounting policy for recognition of payroll expenditure for appropriateness;</li><li>gained an understanding of the Council's system for accounting for payroll expenditure and evaluated the design of the associated controls;</li><li>obtained year-end payroll reconciliations and ensured the amount can be reconciled to the ledger through payroll reports</li><li>agreed payroll related accruals to supporting documents and reviewed any estimates for reasonableness' and</li><li>performed substantive analytical review procedures.</li></ul><p>From the audit procedures completed we are satisfied that employee remuneration balances disclosed in the financial statements are free from material misstatement.</p><p>Testing of Note 7 (Expenditure and Income Analysed by Nature) identified that the payroll expenditure had incorrectly been included within the other service expenses line. Officers agreed to amend this note to ensure that the payroll costs of £16.3m are correctly classified as employee benefit expenses in the final set of financial statements.</p></div>
<div><div>2</div><div><b>Operating expenses</b> Non-pay expenses on other goods and services also represents a significant percentage of the Council's operating expenses. Management uses judgement to estimate accruals of un-invoiced costs.  We identified completeness of non- pay expenses as a risk requiring particular audit attention.</div></div>	<div><b>Auditor commentary</b> We have undertaken the following work in relation to this risk:<ul style="list-style-type: none"><li>evaluated the Council's accounting policy for recognition of non-pay expenditure for appropriateness;</li><li>gained an understanding of the Council's system for accounting for non-pay expenditure and evaluated the design of the associated controls;</li><li>reviewed the accruals process and the controls management have put in place; and</li><li>Obtained a listing from the cash book of non-pay payments made in April and tested on a s ample basis to ensure that they have been charged to the appropriate year.</li></ul><p>From the audit procedures completed we are satisfied that operating expenses disclosed in the financial statements are free from material misstatement.</p></div>



# Reasonably possible audit risks



Risks identified in our Audit Plan	Commentary
<div data-bbox="68 287 99 325">3</div> <div data-bbox="136 287 395 311"><b>Level two investments</b></div> <div data-bbox="136 325 582 606"><p>The Council have invested a total of £6m with two investment managers during 2017/18. The Council was proposing to classify these investments as level two investments, which means that the fund manager uses valuation techniques to determine the fair value of the investment and that these techniques use inputs that are based significantly on observable market data.</p></div>	<div data-bbox="644 287 878 311"><b>Auditor commentary</b></div> <div data-bbox="644 325 1292 349"><p>We have undertaken the following work in relation to this risk:</p></div> <div data-bbox="644 364 2013 592"><ul style="list-style-type: none"><li>• evaluated the Council's accounting policy for recognition of level two investments for appropriateness;</li><li>• gained an understanding of the Council's system for accounting for level two investments and evaluated the design of the associated controls;</li><li>• reviewed the qualifications of the fund managers as experts to value these investments at year end and gain an understanding of how the valuation of these investments has been reached; and</li><li>• Reviewed the nature and basis of estimated values and consider what assurance management has over the year end valuations provided for these types of investments,</li></ul></div> <div data-bbox="644 606 2013 772"><p>As we had reported to members previously, the classification of these investments within the draft financial statements published on 31<sup>st</sup> May 2018 was not consistent with our understanding of the nature of the investments i.e. published as Level One (observable inputs) when our understanding was there were some elements that were not observable. Following discussions with officers further work was undertaken in this area and the final set of financial statements includes the correct classification of these investments as Level Two. We also raised a number of points in relation to the required financial instrument disclosures for these investments.</p></div> <div data-bbox="644 786 2013 843"><p>From the audit procedures completed we are satisfied that the valuation and disclosures of these investments within the financial statements are free from material misstatement.</p></div>

# Significant matters discussed with management



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

	Significant matter	Commentary	
1	Timeliness of financial reporting	<p>While the Council published draft financial statements in line with the required statutory timetable, these did not include a fully reconciled Movement in Reserve Statement. The inability of the Council to balance this statement was indicative of a number of fundamental errors within the published draft financial statements, particularly in relation to the capital and capital financing transactions.</p> <p>The significant issues and reasons for the delay in producing balanced financial statements are well documented, and have been the subject of our reports to members of this committee in both July 2018 and September 2018. The Chief Executive has also undertaken a detailed lessons learned report, which was reported to this committee in October.</p> <p>We have not sought to repeat these issues within this final AFR, instead focusing on specific recommendations that relate to the areas of testing we have undertaken on specific balances. We have also highlighted the material changes that have been made to the published draft financial statements when compared to the final set of financial statements. The latter being a specific requirement of the auditing standards.</p>	<p><b>Auditor view</b></p> <ul style="list-style-type: none"><li>• The report of the Chief Executive includes a detailed action plan to ensure that the issues that have occurred this year are not repeated. It is key that this action plan is implemented and considered in light of the recommendations we have made as part of this AFR to ensure that all issues are addressed as part of the production of the financial statements in future years.</li></ul> <p><b>Management response</b></p> <ul style="list-style-type: none"><li>• Progress on the Action Plan is considered by the Corporate Management Team each week, and also being reported to Executive and Finance and Audit Scrutiny Committee monthly.</li></ul>

# Accounting policies



Accounting area	Summary of policy	Comments	Assessment
<b>Revenue recognition</b>	<ul style="list-style-type: none"> <li>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.</li> </ul>	<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>	 <p><b>(Green)</b></p> <p>Accounting policy appropriate and disclosures sufficient</p>
<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>Impairments</li> <li>Accruals</li> <li>Valuation of pension fund net liability</li> <li>Provision for NNDR appeals</li> </ul> </li> </ul>	<p>We have considered the:</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 disclosures of accounting policy.</li> </ul> <p>The area of estimates and judgements is a key area for improvement in future years. While the audit has been able to gain sufficient assurance that estimates and judgements made are appropriate, this work has been difficult and time consuming to perform as processes and consideration at the Council have been ad hoc and not appropriately documented.</p> <p>A lack of formal documentation around what the Council is expecting from the valuer on an annual basis, has lead to confusion over what valuations have been provided and on what basis. There has been a lack of challenge of the information provided by the valuer or consideration of whether the information is appropriate.</p> <p>No formal impairment review was carried out by the Council, which is a requirement of the Code. A review of the draft accounts carried out by the audit team identified a key asset where impairment should have been considered. Officers reviewed this asset, and an impairment has now been included within the final set of financial statements.</p> <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. We have noted that officers have not evidenced any formal challenge of the assumptions used by the actuary.</p>	 <p><b>(Red)</b></p> <p>Marginal accounting policy which could potentially attract attention from regulators</p>

## Assessment

-  Marginal accounting policy which could potentially be open to challenge by regulators
-  Accounting policy appropriate but scope for improved disclosure

-  Accounting policy appropriate and disclosures sufficient

# Accounting policies

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>Impairments</li> <li>Accruals</li> <li>Valuation of pension fund net liability</li> <li>Provision for NNDR appeals</li> </ul> </li> </ul>	<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. We have obtained sufficient audit assurance in respect of classification in line with accounting standards for this financial year but this remains an area of improvement and has been reported as part of the AFR in the last two years.</p> <p>Whilst not directly linked to the accounting classification the decision to hold investment properties should be based on the asset management strategy for the Council, and there should then be a clear link between this and the assets classified as investment properties within the financial statements.</p>	 <p><b>(Red)</b></p> <p>Marginal accounting policy which could potentially attract attention from regulators</p>
<b>Other critical 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 relation to PPE and investments.</p> <p>We also noted that the accounting policies does not include a de minimis level for accruals of income and expenditure. In practical terms officers do not accrue for housing benefit expenditure around year end, as the year on year the impact would be immaterial. Officers have amended the accounting policy within the final set of financial statements to reflect this.</p> <p>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>	 <p><b>(Amber)</b></p> <p>Accounting policy appropriate but scope for improved disclosure</p>

# 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 other 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>We are not aware of any related parties or related party transactions which have not been disclosed,</li> </ul>
③ <b>Matters in relation to laws and regulations</b>	<ul style="list-style-type: none"> <li>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.</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 investments balances. This permission was granted and the requests were sent. All but one of these investment confirmations were received. In the case of investments with the Bank of Australia, no confirmations were received and we have performed alternative procedures to confirm this balance at year end.</li> </ul>
⑥ <b>Disclosures</b>	<ul style="list-style-type: none"> <li>Our review found a number of material omissions in the financial statements. These have been summarised as part of appendix C.</li> </ul>
⑦ <b>Significant difficulties</b>	<ul style="list-style-type: none"> <li>The significant difficulties with completing the audit have been the subject of reports to the Finance and Audit Scrutiny Committee during July 2018, September 2018 and October 2018. The key issues have been in relation to the difficulties the Council have had in producing a balanced set of financial statements that have included all of the appropriate capital financing transactions, the overall quality of working papers and the judgements relating to the need to produce consolidated group accounts.</li> </ul>

# Other responsibilities under the Code

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

Issue	Commentary
<b>1 Other information</b>	<p>We are required to give an opinion on whether the other information published together with the audited financial statements (including the Statement of Accounts, Annual Governance Statement (AGS) and Narrative Report), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.</p> <ul style="list-style-type: none"> <li>• Inconsistencies have been identified but have been adequately rectified by management. We plan to issue an unqualified opinion in this respect – refer to appendix E</li> <li>• In addition, we have discussed with officers that the narrative report lacks a description of how the current external environment impacted on the work of the Council in the year, which is a requirement as per the Code. Similarly the narrative report also lacks comments over the cashflows during the year and the factors that might affect them. We do not consider these significant omissions and have recommended that officers consider how best to incorporate this in future years.</li> </ul>
<b>2 Matters on which we report by exception</b>	<p>We are required to report on a number of matters by exception in a numbers of areas:</p> <ul style="list-style-type: none"> <li>• If the Annual Governance Statement does not meet the disclosure requirements set out in the CIPFA/SOLACE guidance or is misleading or inconsistent with the other information of which we are aware from our audit</li> <li>• If we have applied any of our statutory powers or duties</li> </ul> <p>As a result of the difficulties experienced in the account production process we asked officers to reflect on whether this control deficiency should be included within the AGS. Additional wording has been added in the final version which addresses the key issue.</p>
<b>3 Specified procedures for Whole of Government Accounts</b>	<p>We are required to carry out specified procedures (on behalf of the NAO) on the Whole of Government Accounts (WGA) consolidation pack under WGA group audit instructions.</p> <ul style="list-style-type: none"> <li>• No detailed work is required as the Council does not exceed the threshold.</li> </ul>
<b>4 Certification of the closure of the audit</b>	<p>We intend to certify the closure of the 2017/18 audit of Warwick District Council in the audit opinion, as detailed in Appendix E.</p>

# Value for Money

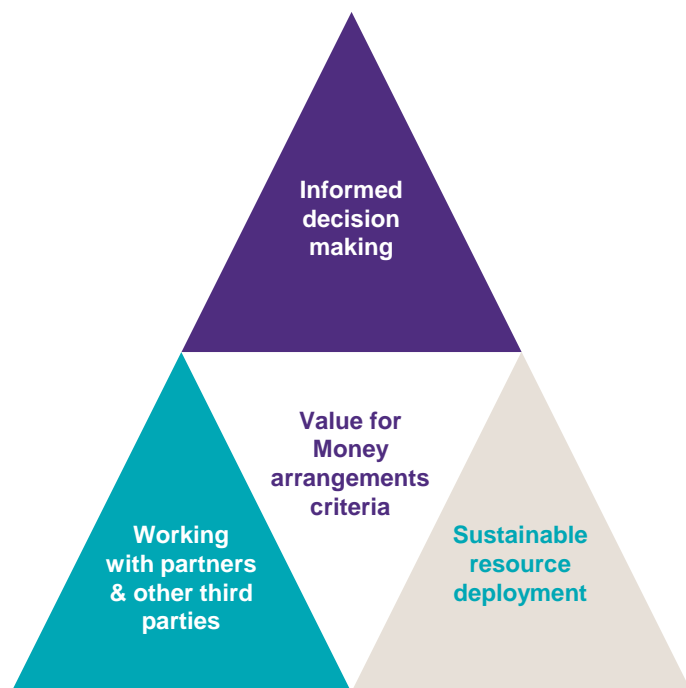
## Background to our VFM approach

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

The guidance identifies one single criterion for auditors to evaluate:

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

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



## Risk assessment

We carried out an initial risk assessment in February 2018 and did not identify any significant risks in respect of specific areas of proper arrangements using the guidance contained in AGN03. We communicated this to you in our Audit Plan dated 6 March 2018.

## Our work

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

We have continued our review of relevant documents up to the date of giving our report, and have identified a significant risk in relation to the accuracy and timeliness of financial reporting following the significant difficulties experienced by the Council in closing down its statutory financial statements.

As documented throughout this report the Council have experienced difficulties in producing a balanced and complete set of financial statements in a timely manner. An unbalanced and incomplete set of accounts was published on 31 May 2018 and the first version of a balanced and complete set of accounts was only made available for audit in October 2018. As a result the statutory audit deadline of the end of July will be missed by approximately four months.

The main reason for the significant delay was the issues experienced with the capital accounting and capital financing transactions. The issue first came to light, when the finance team were unable to produce a set of financial statements that included a balanced Movement in Reserves Statement for the publication deadline of the end of May 2018. The issue was identified by the finance team and subsequently investigated by a contract member of staff, who the finance team had brought in in February 2018 to help support them through the accounts process and provide some additional resilience following the retirement of two key members of staff in year. The investigation identified that there were a significant number of transactions that had been made that were incorrect, dating back over a number of months. These transactions, had not been subject to any supervision or review.

In addition to the errors identified with the capital transactions, an initial review by the audit team of the draft accounts, identified:

- that accounting changes to the Code had not been picked up and actioned, (most notably the need to discontinue using the Major Repairs Allowance as a proxy for depreciation, which had been permitted in previous years, and to depreciate HRA assets in line with proper accounting practice including undertaking full componentisation where it could materially impact HRA depreciation),
- insufficient work had been undertaken on valuations, and
- key points raised as part of the interim audit had been left unresolved.

Initially, the finance team sought to address the issues identified, utilising the contract member of staff employed to support the accounts process and the recently appointed revenue accountant. It was clear however, that due to the lack of knowledge and experience of the financial closedown process retained across the finance team, the task was going to be extremely difficult. The Council were able to secure the services of the two formally retired officers who have come in to support the process and contributed significantly to the ability of the Council to produce a final set of accounts<sup>15</sup> upon which an opinion can be given.

At the request of members, the Chief Executive has undertaken a detailed 'lessons learned' review. His review has highlighted a number of areas where the arrangements in the finance team have not operated as they should have done. In particular;

- There has been a lack of management of the finance team. With key examples being the lack of preparation and handover when experienced members of staff left, no work plan or targets set for agency members of staff and no supervision or review of work undertaken by the team.
- While there was an overall project plan in place for the closure of the accounts, this was not sufficient, focusing on service areas rather than the work of the finance team and their responsibilities. There was no ownership or leadership shown in respect of the closure of the accounts.
- The knowledge and experience of the closure of the accounts had been retained by one or two key people, but this has not been widely understood by the whole finance team or documented in a way that easily enables resilience should key members of staff leave.

The issues above are evidence of weaknesses in proper arrangements for the production of the statutory financial statements, and demonstrates a lack of arrangements over the VFM sub criteria of 'reliability and timely financial reporting that supports the delivery of strategic priorities'. As a result we intend to issue an 'except for' VFM conclusion.

As part of our overall audit responsibilities we have continued to monitor the financial performance of the Council during 2017/18. Historically, the Council has a strong track record of delivering against its financial objectives, and this remains the case for 2017/18 with an initial surplus of £0.9m reported against an original budget of £14.9m. While this surplus has changed as a result of errors identified within the financial statements, and the overall closedown process, this has not altered significantly, and therefore we consider that the information provided to members in this respect is appropriate for decision making.

The most recent update on the Medium Term Financial Plan (MTFP) was reported to members in June 2018 as part of a Fit for the Future (FFF) report. This projected the budget forward another year to 2023/24 and identified savings needed of £471k over the medium term. As in previous years, the Council has plans in place that it is considering for closing the gap. The report clearly sets out the impact of not achieving already agreed upon savings. In addition, it also highlights key areas where savings are slipping, such as the Riverside House relocation project.

Each year the Council reviews the levels of reserves and balances that it holds as part of setting the budget, as in previous years the s151 officer concluded that there were sufficient levels of reserves. A review of balances at the end of the period confirms that usable reserves have increased by £12m to £68m as at the end of March 2018.

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 and demonstrates that the Council is well placed in the medium term to continue to deliver services for the population of the district.

As a result of this work we have confirmed that the financial sustainability of the Council is not considered a significant risk for the VFM conclusion.

## Recommendations for improvement

We discussed findings arising from our work with management and have the following observations on action plans and improvements.

We note that the Council has a detailed action plan to respond to the issues identified in closing the financial statements, which is being monitored on a regular basis by senior officers and members. As part of our VFM work in future years we will continue to review how these action plans are being implemented and how they demonstrate improvements.

## 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.

## Overall conclusion

**Based on the work we performed, we concluded that except for the matters we identified in respect of timely financial reporting, the Council had proper arrangements in all significant respects. We therefore propose to give a qualified 'except for' conclusion on your arrangements for securing economy, efficiency and effectiveness in your use of resources.**

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



# Independence and ethics

## Independence and ethics

- We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Financial Reporting Council's Ethical Standard and confirm that we, as a firm, and each covered person, are independent and are able to express an objective opinion on the financial statements

We confirm that we have implemented policies and procedures to meet the requirements of the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.

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

Details of fees charged are detailed in Appendix D

## Audit and Non-audit services

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

Service	£	Threats	Safeguards
Audit related			
Certification of Housing capital receipts grant	3,000  This was in respect of work undertaken in 2016/17, but billed in 2017/18. To date we have not been engaged to undertake this work for the 2017/18 submission.	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £3,000 in comparison to the total fee for the audit of £53,623 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.

The amounts detailed are fees agreed to-date for audit related and non-audit services to be undertaken by Grant Thornton UK LLP in the current financial year. These services are consistent with the Council's policy on the allotment of non-audit work to your auditors. Any changes and full details of all fees charged for audit related and non-audit related services by Grant Thornton UK LLP and by Grant Thornton International Limited network member Firms will be included in our Audit Findings report at the conclusion of the audit. None of the service provided are subject to contingent fees.

# Action plan

We have identified 9 recommendations for the Council as a result of issues identified during the course of our audit. We have agreed our recommendations with management and we will report on progress on these recommendations during the course of the 2018/19 audit. The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

Assessment	Issue and risk	Recommendations
●	Valuation arrangements. We identified a number of weaknesses in the arrangement over the valuation of assets. This has led to a number of material changes in the financial statements.	<p>The Council needs to ensure that it formally documents the process for valuations, and that the valuer is provided with detailed instructions for the annual valuation exercise. There should be clear working papers demonstrating that the Council has provided the valuer with all of the appropriate information and that it has considered whether the information provided back from the valuer is complete and reasonable. The Council may also wish to review the timing of these valuations, because at present valuations are undertaken at varying points in the year, making the process more complicated than we see at other similar Councils</p> <p><b>Management response</b></p> <ul style="list-style-type: none"> <li>• [...]</li> </ul>
●	Impairment review. There were no formal arrangements in place at the Council to demonstrate that all assets had been considered for impairment as required by the Code.	<p>The arrangements for an impairment review should be considered and documented. These arrangements should be implemented as part of the 2018/19 closedown process.</p> <p><b>Management response</b></p> <ul style="list-style-type: none"> <li>• [...]</li> </ul>
●	Timeliness of financial reporting	<p>The report of the Chief Executive includes a detailed action plan to ensure that the issues that have occurred this year are not repeated. It is key that this action plan is implemented and considered in light of the recommendations we have made as part of this AFR to ensure that all issues are addressed as part of the production of the financial statements in future years.</p> <p><b>Management response</b></p> <ul style="list-style-type: none"> <li>• [...]</li> </ul>
●	Quality and completeness of evidence provided for audit. We have previously reported to members that the quality and completeness of working papers provided to the audit team during the financial statements has not been of the standard we would expect. We have discussed this with finance officers during the audit who now have a much greater understanding of what is required to produce an appropriate working paper.	<p>The Head of Finance should ensure that an appropriate training programme is in place for all officers that produce working papers to support the financial statements. The training should include the features of a good working paper and a reminder that a good working paper should enable another suitably qualified professional with no prior knowledge of the authority the means upon which to re-perform the work.</p> <p><b>Management response</b></p> <ul style="list-style-type: none"> <li>• [...]</li> </ul>

## Controls

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

# Action plan

Assessment	Issue and risk	Recommendations
●	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. We have noted that officers have not evidenced any formal challenge of the assumptions used by the actuary.	<p>A working paper should be provided at year end which demonstrates how the Council has considered the work of the actuary and its reasonableness.</p> <p><b>Management response</b></p> <ul style="list-style-type: none"> <li>• [...]</li> </ul>
●	The accounting policies do not include a specific de minimis level for accruals of income and expenditure.	<p>Greater consideration should be given to whether more areas of the accounts would benefit from an increased reliance on estimation techniques to aid faster close.</p> <p><b>Management response</b></p> <ul style="list-style-type: none"> <li>• [...]</li> </ul>
●	There are a number of areas highlighted throughout the AFR where we have agreed with officers that disclosure omissions will be corrected in future years.	<p>The Head of Finance should ensure that the identified areas are actioned in future years.</p> <p><b>Management response</b></p> <ul style="list-style-type: none"> <li>• [...]</li> </ul>
●	<p>Journals</p> <p>While we are satisfied that journals have not been used to override management controls, it is clear that improvements can still be made to the Council's overall journal control process to ensure that the issues that have occurred this year do not re-occur in future years. In particular, there needs to be appropriate, and evidenced review of journals prepared by contract staff.</p>	<p>Controls around journals should be improved, particularly in relation to those prepared by contract staff.</p> <p><b>Management response</b></p> <ul style="list-style-type: none"> <li>• [...]</li> </ul>
●	In reviewing the final set of financial statements the audit team identified a number of amendments had been made that were not in line with expectations. Officers were able to fully support these amendments however these were not material. In future, the Head of Finance might want to consider whether these type of changes are needed to the final set of financial statements, as a mechanism for further streamlining the process.	<p>In future years officers should keep a full list of any proposed changes to the draft financial statements presented for audit. This list should be reviewed by the Head of Finance, in discussion with the auditors prior to any changes being made to the ledger and final set of financial statements.</p> <p><b>Management response</b></p> <ul style="list-style-type: none"> <li>• [...]</li> </ul>

## Controls

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

# Follow up of prior year recommendations

We identified the following issues in the audit of Warwick District Council's 2016/17 financial statements, which resulted in seven recommendations being reported in our 2016/17 Audit Findings report. We have followed up on the implementation of our recommendations and note four are still to be completed.

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
1 ✓	<ul style="list-style-type: none"> <li>The reporting mechanism available for journals should be further reviewed to make it easier to extract a complete journal listing.</li> </ul>	<ul style="list-style-type: none"> <li>Testing of journals this year has demonstrated that the finance team have implemented new reporting to ensure that a complete journal population can be extracted with minimal intervention required.</li> </ul>
2 X	<ul style="list-style-type: none"> <li>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.</li> </ul>	<ul style="list-style-type: none"> <li>The need to consider how experts are used to provide information for the financial statements remains a key area for improvement. Particular consideration should be given to the work of the valuer, the actuary and the fund managers to ensure that they are asked for the correct information and their work is reviewed and challenged where appropriate.</li> </ul>
3 X	<ul style="list-style-type: none"> <li>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 understood 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.</li> </ul>	<ul style="list-style-type: none"> <li>While the working papers have been filed in a more logical structure this year, the level of information contained in them has not been sufficient to enable another member of the finance team or the audit team to understand the work done, or how the assurance has been gained over the particular balance. This is a key area of the action plan produced for closure of the financial statements in future years.</li> </ul>
4 ✓	<ul style="list-style-type: none"> <li>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.</li> </ul>	<ul style="list-style-type: none"> <li>The accounts have been reviewed in year, and where appropriate immaterial notes have been removed.</li> </ul>
5 X	<ul style="list-style-type: none"> <li>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 provides the necessary reports to enable an efficient close down.</li> </ul>	<ul style="list-style-type: none"> <li>There is no evidence that this has been considered for the 2017/18 financial statements. The Council has an action plan in place to address the issues arising from this year's closedown.</li> </ul>
6 X	<ul style="list-style-type: none"> <li>The evidence base to demonstrate that assets are investments properties should be improved, with clear links to the asset management strategy of the authority.</li> </ul>	<ul style="list-style-type: none"> <li>There is no evidence that this has been considered for the 2017/18 financial statements.</li> </ul>
7 ✓	<ul style="list-style-type: none"> <li>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.</li> </ul>	<ul style="list-style-type: none"> <li>There is some evidence that this has been considered in the current year. More could be done to demonstrate the links between savings plans and service delivery targets.</li> </ul>

## Assessment

✓ Action completed

X Not yet addressed

# Audit Adjustments

Auditing Standards require us to report to those charged with governance all material movements identified as a result of the audit. Due to the nature of the audit there have been multiple changes to the accounts, and a number of versions of the financial statements have been presented to the audit team. Due to the significance of the errors identified within the first published version of the accounts, which were placed on the website on the 31<sup>st</sup> May 2018 (Version 1), we agreed with officers that we would effectively discount them from our considerations in terms of auditing the detail of the transactions, and instead treat the version of the accounts presented to audit on the 5<sup>th</sup> September (Version 2) as the basis of our reporting to those charged with governance. This does not negate our duties to report under the auditing standards on the differences between the published version and the second version presented to audit. The covering report produced by the s151 officer and on the agenda for the has sought to analyse these differences. The table below picks up the material variances between Version 1 and Version 2 of the accounts with the key reasons for the difference.

Heading on the financial statements	Version 1 £000's	Version 2 £000's	Difference £000's	Reason for the difference
Income and Expenditure Statement – Housing Revenue Account Net Expenditure	(12,410)	(9,943)	2,467	Correction of the treatment of depreciation for HRA properties. This was reported as part of the progress report presented to members on the 5 <sup>th</sup> September.
Balance Sheet – Other Land and Buildings	71,170	68,084	(3,086)	Officers reconsidered the valuation of Newbold Comyn golf course following the Council's contractor withdrawing from its contract to run the course as an operational asset.
Balance Sheet – Long Term Investments	(105)	5,895	6,000	Officers considered the nature of the equity Investments and determined that it was appropriate to reclassify them from short term investments to long term investments. The classification of these investments was raised as part of the progress report presented to members on the 5 <sup>th</sup> September.
Balance Sheet – Short Term Investments	34,697	28,697	(6,000)	Officers considered the nature of the equity Investments and determined that it was appropriate to reclassify them from short term investments to long term investments. The classification of these investments was raised as part of the progress report presented to members on the 5 <sup>th</sup> September.
Balance Sheet - Short Term Creditors	(22,963)	(19,825)	3,138	In reviewing the capital accounting and financing transactions officers identified that S106 grants had incorrectly been identified as short term creditors, instead these should have been included as a contribution in advance.
Balance Sheet – Capital External Grants/Contributions in Advance	(1,598)	(4,254)	(2,656)	In reviewing the capital accounting and financing transactions officers identified that S106 grants had incorrectly been identified as short term creditors, instead these should have been included as a contribution in advance.

# Audit Adjustments

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 following tables picked up the changes to the accounts identified between Version 2 of the accounts and the final set of financial statements.

## 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 affected
<p>1 Newbold Commyn Leisure Centre Valuation. Work was substantially completed on the Newbold Commyn Leisure Centre at the 31<sup>st</sup> March 2018 and in reviewing the valuation of their asset base at year end officers decided to commission the valuer to undertake a formal valuation of this asset at year end to ensure that it was not materially misstated at year end. Due to the late timing of this request, the valuation was not available for the draft financial statements on the 5<sup>th</sup> September. The valuation increased the value of the asset by £5.3m. In commissioning this valuation, members of the finance team also reviewed the allocation of the asset between an 'asset under construction' and an 'operational asset'. This was previously reported as part of our September progress report.</p>	Balance sheet and associated notes
<p>2 HRA Interest payable and similar charges. The balance presented on version 2 of the accounts was £9,427k. Investigation with the finance team identified that in producing the second version of the accounts, they had put through an incorrect adjustment to this balance of £4,713k.. Given finance officers were working within the test environment this adjustment hadn't been put through the ledger. It was agreed that version 1 of the accounts presented the correct balance, and this has been adjusted for within the final set of financial statements.</p>	HRA
<p>3 Officers amended the valuation and classification of the Newbold Comyn Golf Course between version 1 and version 2 of the financial statements. In reviewing the accounting entries to support this change it was identified that the impairment charge had been incorrectly accounted for, with the incorrect balance charged to the revaluation reserve. The impact was an additional £45k charged to the revaluation reserve.</p>	Balance sheet and associated notes.
<p>4 In addition to the late valuation on the Leisure Centre, there was also a change in the valuations relation to the creative arches, resulting in a valuation increase of £181k. While not material, officers amended for this transaction for completeness.</p>	Balance sheet and associated notes.
<p>5 In reviewing the transactions on the HRA officers identified an amendment needed to HRA revaluations. While not material, the value of £153k has been adjusted for.</p>	HRA and associated notes.

# Audit Adjustments

## Misclassification and disclosure changes

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

Disclosure omission	Detail	Adjusted?
<b>Presentation and disclosure</b>	<p>Our review of the initial published version of the accounts and subsequent versions have identified a significant number of amendments to the final version of the accounts. Many of these have been to ensure consistency within the financial statements, to improve the level of clarity or to ensure compliance with the Code. We have discussed these issues with finance staff and considered them on a case by case basis for amendment. There remain some areas where we have agreed that the omission is not significant in terms of our opinion and the financial statements presenting a 'true and fair' position and that the Council will make the necessary improvements in future years.</p> <p>Examples of presentation and disclosure omission where the accounts have been amended;</p> <ul style="list-style-type: none"> <li>The Comprehensive Income and Expenditure Statement omitted the heading 'Impairment Losses on Non current assets – assets charged to the revaluation reserve. The balance of this heading is £1.8m and therefore it was considered material and has been corrected in the final version of the financial statements.</li> <li>In Version 2 of the draft accounts the short term creditors note to the accounts stated the balance was £19,832k, this compared to the figure presented on the face of the balance sheet which was shown at £19,825k. In this instance the balance sheet had not been correctly updated. This has now been amended for consistency.</li> </ul> <p>Examples of presentation and disclosure omissions where there accounts have not been amended:</p> <ul style="list-style-type: none"> <li>Note 4 on estimation uncertainty is missing a narrative comment which includes the values at the end of the reporting period. We have agreed with officers that this will be actioned in future years.</li> <li>The disclosure notes for heritage assets are missing the disclosure of the policy on the acquisition, preservation, management and disposal of heritage assets, including a description of the records maintained and the extent to which access is permitted. We have agreed with officers that this will be actioned in future years.</li> </ul>	<p>✓</p> <p>✗</p>
<b>Collection Fund – Note 2</b>	The Council's disclosure on the 'multiplier' did not make any reference to the small business uniform rate. The 47.9p disclosed applies to properties with a rateable value in excess of £51k, for properties with a lower rateable value the rate is 46.6p. In addition, no prior year comparators were disclosed. Officers have agreed to amend for this error.	✓
<b>Capital Commitments – Note 13</b>	The capital commitments note was understated, particularly in respect of Council House Improvements. The note has been revised to include all significant capital schemes and these have been agreed to the capital programme.	✓
<b>External Audit Costs – Note 28</b>	The draft disclosure did not agree to the planned audit fee. Officers have amended the note to reflect the scale fee of £54k.	✓
<b>Equity Investments</b>	Equity investments were incorrectly reclassified from short term investments to long term investments in Version 2 of the accounts. The correct reclassification was from cash and cash equivalents to long term investments. This classification of £6m has been correctly adjusted for in the final set of financial statements.	✓

# Audit Adjustments

Disclosure omission continued	Detail	Adjusted?
<b>Financial Instruments – Note 16</b>	The fair value of the PWLB loan was incorrectly recorded. This has now been amended to £220,753,449.	✓
<b>Financial Instruments – Note 36</b>	We have discussed with officers that the term 'bad debt provision' is no longer applicable under IAS 39. We have also identified that the Council did not include a sensitivity analysis for the price risk, which is required by the Code. In both instances officers have agreed to make the necessary amendments in next year's financial statements.	✓

## Impact of unadjusted misstatements

The table below provides details of adjustments identified during the 2017/18 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	Reason for not adjusting
1 Note 30 includes £28,228k for DWP grants for Housing Benefits, however the claim form and the ledger confirm the amount received was £28,303k, a difference of £75k. In addition, Note 30 also includes £1,863k in relation to the Lottery Grant against a notification of £2m. Officers identified £50k that had been omitted from the financial statements leaving the remaining variance of £87k. The total variance of £162k has not been amended for. <b>Income understated by £162k.</b>	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 We identified an error of £537k in relation to a capital accrual, where the final balance was overstated in the current financial year. This was previously reported to members as part of the September progress report. <b>Expenditure understated by £537k.</b>	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 net impact</b>	<b>£375k</b>



# Audit Adjustments

## Impact of prior year unadjusted misstatements

The table below provides details of adjustments identified during the prior year audit which had not been made within the final set of 2016/17 financial statements.

Detail	Comprehensive Income and Expenditure Statement £'000	Balance Sheet £' 000	Reason for not adjusting
1 There was a difference of £159k between the sums the Authority 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 was overstated by £159k, as was the value of housing assets on the balance sheet.		£159	This was not amended in the prior period as it was not considered material. As HRA properties are revalued annually, on a beacon principle basis, the impact of the prior year error does not carry forward into the current year financial statements.
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	This was not amended in the prior period as it was not considered material. Given the nature of the error, the impact has not continued into the current year financial statements.
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	This was not amended in the prior period as it was not considered material.
4 Not all investment properties were revalued in year as required by the Code. The Council obtained a desktop valuation of the remaining properties from their valuer which demonstrated that the value of investment properties was overstated by £481k.		£481	This was not amended in the prior period as it was not considered material. Given the nature of the error, the impact has not continued into the current year financial statements.
<b>Overall impact for 2017/18 financial statements</b>	<b>£nil</b>	<b>£15</b>	<b>This is below the amount we consider trivial.</b>

# Fees

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

Audit Fees	Scale fee	Final fee
Council Audit	£53,623	TBC*
Grant Certification	£9,040	TBC*
Total audit fees (excluding VAT)	£62,663	£TBC*

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

\* The assumptions within the audit plan assumes that draft financial statements and working papers are provided at the agreed date in accordance with the agreed upon information required list. As previously highlighted we have experienced significant difficulties during the audit, and needed to undertake additional work as a result. Work is still on-going in key areas, and therefore an accurate assessment of the overrun cannot be made at this date. We will agree the proposed fee variation with the Head of Finance and Chief Executive and submit for approval via PSAA before reporting the final fee in our Annual Audit Letter. Our fees for grant certification cover only housing benefit subsidy certification, which falls under the remit of Public Sector Audit Appointments Limited. Fees in respect of other grant work, such as reasonable assurance reports, are shown under 'Fees for other services'.

## Non Audit Fees

Fees for other services	Fees £'000
Audit related services:	£3,000
Certification of Housing capital receipts grant (To date we have not been engaged to undertake this work for the 2017/18 submission, however officers have indicated that they would be requesting we complete this certification)	
Non-audit services	Nil

# Audit opinion

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

## Independent auditor's report to the members of Warwick District Council

### Report on the Audit of the Financial Statements

#### Opinion

We have audited the financial statements of Warwick District Council (the 'Authority') for the year ended 31 March 2018 which comprise the Comprehensive Income and Expenditure Statement, the Movement in Reserves Statement, the Balance Sheet, the Cash Flow Statement, the Housing Revenue Account Income and Expenditure Statement, the Housing Revenue Account Balance Statement, the Collection Fund Statement and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2017/18.

In our opinion the financial statements:

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

#### Basis for opinion

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

## Who we are reporting to

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the Authority's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

## Conclusions relating to going concern

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

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

## Other information

The Head of Finance is responsible for the other information. The other information comprises the information included in the Statement of Accounts set out on pages 4 to 98 and 104 to 112 other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

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

We have nothing to report in this regard.

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

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

We have nothing to report in this regard.

#### **Opinion on other matter required by the Code of Audit Practice**

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

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

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

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

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

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

As explained more fully in the Statement of Responsibilities set out on page 12 the Authority is required to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the Head of Finance. The Head of Finance is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2017/18, which give a true and fair view, and for such internal control as the Head of Finance determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

The Finance and Audit Scrutiny committee is Those Charged with Governance.

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

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

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

### **Report on other legal and regulatory requirements - Conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources**

#### **Qualified conclusion**

On the basis of our work, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in November 2017, except for the effects of the matters described in the basis for qualified conclusion section of our report 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 2018.

#### **Basis for qualified conclusion**

In considering the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources we identified the following matter:

#### **The Accounts Production Process**

The Council published a set of accounts on 31 May 2018 that did not include a fully balanced Movement in Reserves Statement. An investigation of the reasons for the imbalance highlighted significant failings in the processes in place for closing the accounts, particularly in relation to capital financing transactions.

The Council have found it difficult to recover the position, due to both a lack of experience remaining within the team and a lack of strategic oversight and leadership of the process. This resulted in a balanced set of financial statements being made available for audit during late October. The Council have already conducted their own investigation of the issues and have agreed a significant improvement plan for future years, addressing areas of both experience and oversight.

The issues above are evidence of weaknesses in proper arrangements for the production of the statutory financial statements, and demonstrates a lack of arrangements over the VFM sub criteria of 'reliability and timely financial reporting that supports the delivery of strategic priorities'.

### **Responsibilities of the Authority**

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

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

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to be satisfied that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in November 2017, as to whether in all significant respects the Authority had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined this criterion as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2018.

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

**Report on other legal and regulatory requirements - Certificate**

We certify that we have completed the audit of the financial statements of the Authority in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice.

[Signature]

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

Colmore Plaza  
20 Colmore Circus  
Birmingham  
B4 6AT

xx November 2018

