

The Annual Audit Letter for Warwick District Council

Year ended 31 March 2016

October 2016

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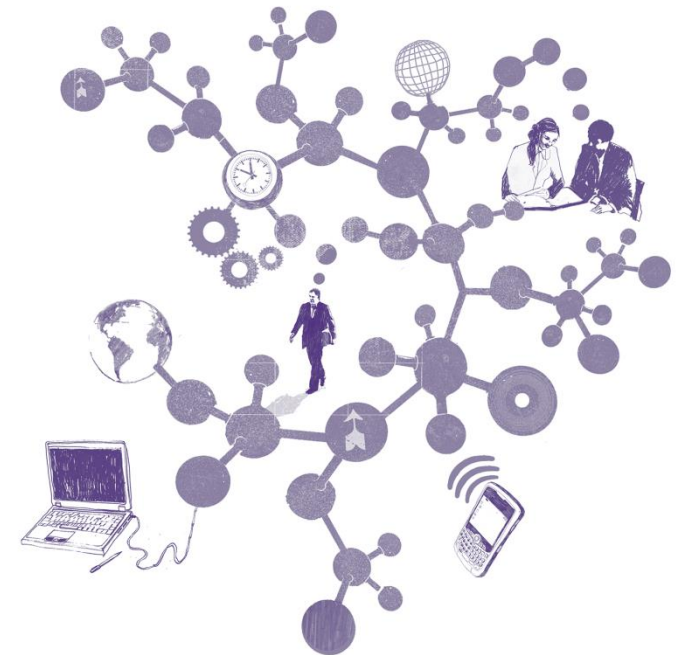
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Executive summary

Purpose of this letter

Our Annual Audit Letter (Letter) summarises the key findings arising from the work that we have carried out at Warwick District Council (the Council) for the year ended 31 March 2016.

This Letter is intended to provide a commentary on the results of our work to the Council and its external stakeholders, and to highlight issues that we wish to draw to the attention of the public. In preparing this letter, we have followed the National Audit Office (NAO)'s Code of Audit Practice (the Code) and Auditor Guidance Note (AGN) 07 – 'Auditor Reporting'.

We reported the detailed findings from our audit work to the Council's Finance Audit and Scrutiny Committee as those charged with governance in our Audit Findings Report on 20 September 2016.

Our responsibilities

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

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

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

Our work

Financial statements opinion

We gave an unqualified opinion on the Council's financial statements on 26 September 2016.

Value for money conclusion

We were satisfied that the Council put in place proper arrangements to ensure economy, efficiency and effectiveness in its use of resources during the year ended 31 March 2016. We reflected this in our audit opinion on 26 September 2016.

Use of additional powers and duties

We are required under the Act to give electors the opportunity to raise questions about the Council's accounts and we consider and decide upon objections received in relation to the accounts. We currently have two objections on the 2013/14 accounts upon which we have been unable to conclude due to an on-going legal process. We will conclude on these objections as soon as the legal process has been completed.

Certificate

We are currently unable to certify that we have completed the audit of the accounts of Warwick District Council as we have not yet completed work in respect of the objections received in relation to the 2013/14 financial statements.

Certification of grants

We also carry out work to certify the Council's Housing Benefit subsidy claim on behalf of the Department for Work and Pensions. Our work on this claim is not yet complete and will be finalised by 30 November 2016. We will report the results of this work to the Finance and Audit Scrutiny Committee in our Annual Certification Letter.

Working with the Council

We have continued to work collaboratively with you during the year ensuring a smooth and efficient audit delivered to the agreed timescale. Where appropriate we have shared our knowledge, through either thought leadership or by providing training and briefing materials on key accounting issues.

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

Grant Thornton UK LLP
October 2016

Audit of the accounts

Our audit approach

Materiality

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

We determined materiality for our audit of the Council's accounts to be £1,638,000, which is 2% of the Council's gross revenue expenditure. We used this benchmark, as in our view, users of the Council's accounts are most interested in how it has spent the income it has raised from taxation and grants during the year.

We also set a lower level of specific materiality for certain areas. The audit plan highlighted disclosure of senior officer remuneration and the disclosure of the auditors' remuneration. In both instances a materiality of £10,000 was set.

We set a lower threshold of £63,000, above which we reported errors to the Finance Audit and Scrutiny Committee in our Audit Findings Report.

The scope of our audit

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

This includes assessing whether:

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

We also read the narrative report and annual governance statement to check they are consistent with our understanding of the Council and with the accounts on which we give our opinion.

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

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

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

Audit of the accounts - Council

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

Risks identified in our audit plan	How we responded to the risk
<p>The revenue cycle includes fraudulent transactions</p> <p>Under ISA (UK&I) 240 there is a presumed risk that revenue may be misstated due to the improper recognition of revenue.</p> <p>This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition</p>	<p>Having considered the risk factors set out in ISA240 and the nature of the revenue streams at Warwick District Council, we determined that the risk of fraud arising from revenue recognition could be rebutted, because:</p> <ul style="list-style-type: none"> • there is little incentive to manipulate revenue recognition, • opportunities to manipulate revenue recognition are very limited; and • the culture and ethical frameworks of local authorities, including Warwick District Council, mean that all forms of fraud are seen as unacceptable.
<p>Management over-ride of controls</p> <p>Under ISA (UK&I) 240 it is presumed that the risk of management over-ride of controls is present in all entities.</p>	<p>As part of our audit work we have</p> <ul style="list-style-type: none"> • tested journal entries. • reviewed of accounting estimates, judgements and decisions made by management. • reviewed unusual significant transactions. <p>Our audit work did not identify any evidence of management over-ride of controls. In particular the findings of our review of journal controls and testing of journal entries did not identified any significant issues.</p> <p>While we have not identified any significant issues from our testing, we have discussed with officers the format of the reporting available in relation to journals. At present the reporting from the system does not easily provide officers with a full population of journal entries. Instead a variety of reports were needed and then explanations gained for where journals have been removed. As journals are a key way the financial accounts can be manipulated it is important that the population can be reviewed in the most efficient manner. We have discussed with officers the need to improve this reporting in future years.</p>
<p>Valuation of pension fund net liability</p> <p>The Council's pension fund asset and liability, as reflected in its balance sheet represents significant estimates in the financial statements.</p>	<p>As part of our audit work we have:</p> <ul style="list-style-type: none"> • Documented the key controls put in place by management to ensure that the pension fund liability was not materially misstated. • Walked through the key controls to assess whether there were implemented as expected and mitigate the risk of material misstatement in the financial statements. • Reviewed the competence, expertise and objectivity of the actuary who carried out the Council's pension fund valuation. • Gained an understanding of the basis on which the IAS 19 valuation was carried out, and undertook procedures to confirm the reasonableness of the actuarial assumptions made. • Reviewed the consistency of the pension fund asset and liability and disclosures in notes to the financial statements with the actuarial report from your actuary. <p>Our audit work has not identified any issues in respect of the pension fund net liability.</p>

Audit of the accounts

Audit opinion

We gave an unqualified opinion on the Council's accounts on 26 September 2016, in advance of the 30 September 2016 national deadline.

The Council made the accounts available for audit in line with the agreed timetable, and provided working papers to support them which had improved from previous years. We have reported to both officers and members that the structure of the working papers made some of them difficult to locate, and there were many instances where officers' assistance was needed to ensure that we could locate and understand the working papers produced. We will continue to work with members of the finance team to ensure that working papers are filed appropriately and documented clearly.

Issues arising from the audit of the accounts

We reported the key issues from our audit of the accounts of the Council to the Council's Finance Audit and Scrutiny Committee on 20 September 2016. We did not identify any adjustments affecting the Council's reported financial position, but recommended a number of adjustments to improve the presentation of the financial statements and ensure greater alignment with the Code.

Some progress has been made in de-cluttering the accounts but further improvements could be made, in particular immaterial disclosure notes could be removed, and more use made of tables rather than detailed narrative.

We also reported that the notice of audit initially prepared by the Council was not in accordance with the new Accounts and Audit Regulation 2015. This was identified and resolved quickly to ensure full compliance.

Annual Governance Statement and Narrative Report

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

Both documents were prepared in line with the relevant guidance and were consistent with the supporting evidence provided by the Council and with our knowledge of the Council.

The narrative report was a new requirement for 2015/16. The purpose of the narrative report is to offer interested parties an effective guide to the most significant matters reported in the accounts, it should be fair, balanced and understandable for the users of the financial statements. The narrative report as produced by officers complies with this purpose, however it omitted a number of key items that should be included, such as an explanation of pension liabilities, significant provisions made and current borrowing facilities. We are satisfied that the key information is available to a reader of the accounts when taking the entirety of the financial statements into account and therefore have discussed with officers the changes needed to the narrative report for future years.

Other statutory duties

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

There are two objections in relation to the 2013/14 financial statements which are outstanding while legal proceedings are concluded.

Value for Money conclusion

Background

We carried out our review in accordance with the NAO Code of Audit Practice (the Code), following the guidance issued by the NAO in November 2015 which specified the criterion for auditors to evaluate:

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

Key findings

Our first step in carrying out our work was to perform a risk assessment and identify the key risks where we concentrated our work.

The key risks we identified and the work we performed are set out in table 2 overleaf.

As part of our Audit Findings report agreed with the Council in September 2016, we agreed the following recommendations to address our findings;

- This is the second year in a row where the Council has made a surplus when compared to budget as a result of unplanned income. This year the surplus was £1.7m when compared to an additional surplus of £600k in the prior year. Officers should consider whether further work needs to be done around the budgeting and forecasting of this income to ensure that this is predicted with greater accuracy for year end.

- The Council works with a number of partners across a range of services areas, some in a formal partnership or contractual arrangement, others in a more informal way. It is not clear that officers and members have an entire picture of this activity and how it is helping to deliver services effectively. Consideration should be given to formulating a clear strategy for working with others, particularly as just over 20% of Council services are currently provided by organisations external to the Council.

Overall VfM conclusion

We are satisfied that in all significant respects the Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2016.

Value for Money

Table 2: Value for money risks

Risk identified	Work carried out	Findings and conclusions
<p>Leisure Centre Development Programme</p> <p>The Council is currently looking for an external partner to manage the Councils leisure centres. A full procurement process will now take place to find the most suitable operating partner and will be subject to a detailed service specification that will outline what is required of the operator.</p>	<p>We reviewed the Council's progress against its vision and discussed with officers how savings had been determined.</p>	<p>On that basis we concluded that the risk was sufficiently mitigated and the Council has proper arrangements in place for the project.</p>
<p>Working with others</p> <p>The Fit for the Future plan sets out that the Council has a commitment to work with partners to build sustainable, safer, stronger and healthier communities.</p>	<p>We discussed with officers the current projects in place where they are working with others to achieve the objectives of the Council.</p>	<p>On that basis we concluded that the risk was sufficiently mitigated and the Council has proper arrangements overall.</p> <p>Our work highlighted that there were a wide range of arrangements in place across the authority, ranging from formal partnerships such as the South Warwickshire Crime and Disorder Reduction Partnership, to more informal arrangements with local community groups such as those looking to improve St Mary's Lands and Pump Room Gardens. Officers and members have a clear understanding of the benefits of working with others and this is evidenced throughout the corporate plan. However it is not clear that there is a full picture of activity across this authority and that this is considered in a consistent manner.</p>

Value for Money continued

Table 2: Value for money risks continued

Risk identified	Work carried out	Findings and conclusions
<p>Identification and reporting of savings plans</p> <p>The Council identified savings of £1.735m as part of the September 2015 Fit for the Future report, for the period up until 2019/20. This included £648k which would enable contributions to be made to reserves. As a result of the budget settlement, further recurrent savings of £591k also need to be identified to maintain a balanced budget over the period.</p>	<p>We have reviewed the Council's arrangements for identifying and agreeing savings plans, and communicating key findings to the Council and key decision making committees.</p>	<p>On that basis we concluded that the risk was sufficiently mitigated and the Council has proper arrangements.</p> <p>Historically the Council has a strong track record of delivering against its financial objectives, and this remains the case for 2015/16 with the outturn report showing a surplus of £1.7m against a budgeted surplus of £151k, with the key reason being as a result of additional income in areas such as planning and cemeteries. This is the second year running where the Council has delivered a surplus over budget as a result of unplanned income. We have recommended that officers review the budget forecasting and monitoring in these areas to see if more accurate year end forecasting could be produced.</p> <p>Detailed plans are in place to meet savings targets over the short term, and the Council has had success in achieving some of its savings targets earlier than planned. That said, there remains some challenging targets to be achieved, particularly the delivery of some large scale projects such as the relocation of Riverside House and the Leisure Centre Development programme.</p>

Working with the Council

Our work with you in 2015/16

We are really pleased to have worked with you over the past year. We have established a positive and constructive relationship. Together we have delivered effectively.

An efficient audit – we delivered the accounts audit in line with the timescale we agreed with you, with all fieldwork completed before the end of August, a month earlier than in previous years. Our audit team are knowledgeable and experienced in your financial accounts and systems. Our relationship with your team provides you with a financial statements audit that continues to finish ahead of schedule releasing your finance team for other important work.

Improved financial processes – during the year we reviewed your financial systems and processes including employee remuneration, non- pay expenditure and property plant and equipment. We worked with you to suggest improvements in reporting, particularly in relation to journals.

Understanding your operational health – through the value for money conclusion we provided you with assurance on your operational effectiveness. We highlighted the need for a review of the arrangements around budgetary control, particularly in relation to income streams.

Sharing our insight – we provided regular updates covering best practice. Areas we covered included Making devolution work and Reforging local government. We have also shared with you our insights on advanced closure of local authority accounts, in our publication "Transforming the financial reporting of local authority accounts" and will continue to provide you with our insights as you bring forward your production of your year-end accounts.

Thought leadership – We have shared with you our publication on Building a successful joint venture and invited officers to join us at both round table events and seminars held at our local offices.

Providing training – we provided your teams with training on financial accounts and annual reporting.

Providing information – We provided you with access to CFO insights, our online analysis tool providing you with access to insight on the financial performance, socio-economy context and service outcomes of councils across the country.

Working with the Council

We will continue to liaise closely with the senior finance team during 2016/17 on this important accounting development, with timely feedback on any emerging issues.

The audit risks associated with this new development and the work we plan to carry out to address them will be reflected in our 2016/17 audit plan.

We will also continue to work with you and support you over the next financial year in other areas, in particular the need to streamline the financial reporting process and achieve a faster closedown.

Appendix A: Reports issued and fees

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

Fees

	Planned £	Actual fees £	2014/15 fees £
Statutory audit of Council	53,623	53,623	71,497
Housing Benefit Grant Certification	9,540	TBC	8,530
Total fees (excluding VAT)	63,163	TBC	80,027

Reports issued

Report	Date issued
Audit Plan	April 2016
Audit Findings Report	September 2016
Annual Audit Letter	October 2016

Fees for other services

Service	Fees £
Audit related services: <ul style="list-style-type: none"> Pooled capital receipts grant certification (2014/15) Pooled capital receipts grant certification (agreed for 2015/16, work to be completed in November 2016) 	<p>3,000</p> <p>3,000</p>
Non-audit services <ul style="list-style-type: none"> Cost assurance services 	<p>Fees based on 35% of savings made, capped at £29,995</p>



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