

Interim Audit Findings Report for Warwick District Council

Year ended 31 March 2018

July 2018

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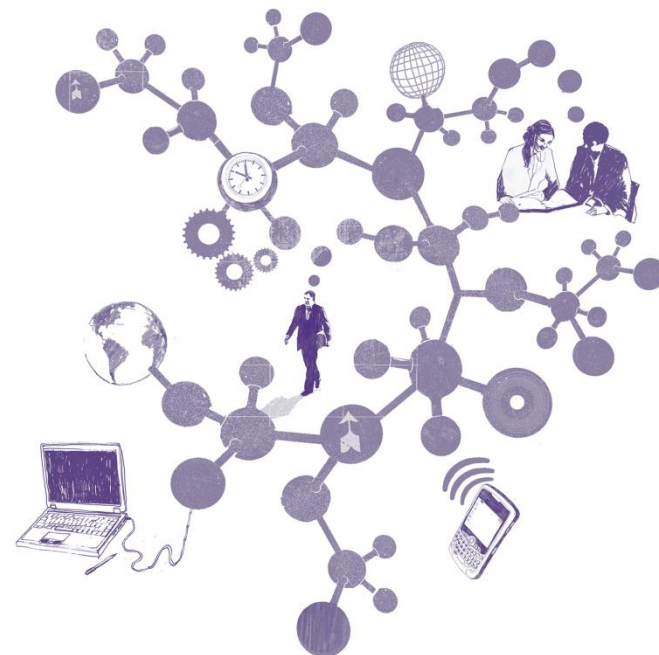
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24th July 2018

Dear Members

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Interim Audit Findings for Warwick District Council for the year ending 31 March 2018

This Interim Audit Findings Report presents the interim findings arising from our audit of the District Council's accounts for the year ended 31 March 2018. We were due to have concluded our audit in time to present our full Audit Findings Report to the 30th July meeting of the Finance and Audit Scrutiny Committee, but for the reasons set out in this report, this has not been possible. Following discussions with senior officers it is proposed that our full report will instead be presented to the 25th September meeting. This interim report is being submitted to the July meeting in order to inform you as 'Those Charged with Governance' of the progress on the audit, the key findings so far and the reasons for the delay.

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

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

Yours sincerely

Grant Patterson
Engagement Lead

Chartered Accountants

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Purpose of this report

This Interim Audit Findings Report presents the interim findings arising from our audit of Warwick District Council's (the Council) accounts for the ended 31st March 2018. We were due to have concluded our audit in time to present our full Audit Findings Report (AFR) to the 30th July special meeting of the Finance and Audit Scrutiny Committee (the Committee), but for the reasons set out in this report, this will not be possible.

Following discussions with senior officers it is proposed that our full report will instead be presented to the Committee's 25th September meeting. The Council will therefore miss the statutory deadline for audited accounts of 31st July. This interim report is being submitted to the 24th July meeting in order to inform you as 'Those Charged with Governance' of the progress on the audit, the key findings so far and the plan to complete the audit.

This interim report intentionally does not cover all of our duties and responsibilities, and nor does it therefore meet all of the areas we are required to report to you under *International Auditing Standard 260 – Communicating with Those Charged with Governance (ISA 260)*. We have focused specifically on the issues that need to be addressed to meet the revised timescales and achieve the objective of being able to issue our opinion by the 28th September.

Our full Audit Findings Report to the September meeting will address all the areas required by ISA 260 and will include specific detailed commentary and recommendations on the accounts productions process.

Background

Members will be aware that the statutory deadline for the publication of audited local authority accounts has been brought forward, with the statutory requirement coming forward to 31st July with effect from the 2017/18 audit.

As part of our AFR last year, we highlighted the significant challenge the Council would face in achieving the statutory deadline of the 31st July. In particular, we noted the achievement of bringing our sign off forward one month to the 30th August last year was achieved primarily by the established and experienced finance team doing the same things earlier.

Drawing on our sector knowledge and experience we highlighted that to be able to bring this forward a further month:

- officers would need to consider how they could make efficiencies in the Council's year end processes, including considering areas where a greater use of estimates and automated processes could be used, and
- in order to make our audit more efficient introduce appropriately evidenced quality assurance (QA) arrangements for working papers produced to support items in the accounts with the aim of reducing audit queries.

We have sought to work with the Council to help them meet the challenge through holding a 'wash up' meeting to discuss the strengths and improvement areas from last year's audit, attendance at our client financial reporting workshops and at our interim visit talking through what best practice working papers, from an audit perspective, looked like.

The 2017/18 accounts audit

Timeline

The Council published the draft set of accounts on its website on the 31st May. The draft accounts that were published did not include a balanced Movement in Reserves Statement (MiRS) or associated supporting note (Note 8).

Our audit worked commenced on the 11th June, in line with the agreed timetable. Working papers were made available but, as part of our planning meeting with the finance officers on day one of the audit, we were made immediately aware of difficulties that officers were having with the MiRS statement and associated notes. This was primarily linked to the capital financing transactions that had been included within the ledger. In order to progress the audit, we therefore agreed to focus our testing on revenue transactions and areas of the accounts that were unlikely to be impacted upon by these issues.

Our original plan had always been for the audit to move off site at the end of the first week to enable officers to collate evidence for items selected as part of our sampling, and to address any initial queries raised. At the end of the first audit week, despite significant efforts, officers were still unable to balance the MiRS. Having assessed the position we agreed that the key focus for officers should therefore be to balance the MiRS and that we would only recommence the audit once this statement was balanced.

We met with officers again on 29th June to discuss progress. We were informed that as a result of trying to balance the MiRS the finance team were continuing to uncover issues that needed to be resolved. As any potential imbalance within the MiRS could have knock on effects in a number of key elements of the accounts we have deliberately not recommenced our audit testing. This also enabled the finance team to focus on the key issues without being distracted by the queries raised through the audit process.

On the 6th July, the Strategic Finance Manager confirmed with the audit team that the volume of work needed by her officers to balance the MiRS and then correct the issues on the capital financing was too significant for them to complete by the end of July.

Officers are confident that the issues do only relate to 2017/18 transactions and primarily to those linked to the year end closedown of capital transactions. Until we have completed our audit we cannot confirm this but we would support the Council's efforts to ensure extra time is taken this year so that any potential errors are not taken into future years' accounts. At a meeting with the Council on 10th July a revised timeline and detailed delivery plan has been agreed whereby we would recommence our audit on 13th August which should enable us to issue our opinion by the 28th September.

Key Focus Areas

The key issues for officers to focus on in the coming weeks to achieve the revised deadline are as follows:

- **Bank reconciliation** – currently there is an imbalance of £250k within the year end bank reconciliation that the finance team have been unable to identify. While this is not material, it could indicate a fundamental issue with the balances of the authority, and this is a key area that will need to be resolved prior to the revised financial statements being produced.
- **Capital Transactions** – through their work seeking to balance the MiRS, officers have identified significant issues with the year-end journal transactions associated with capital financing. As a result, a whole scale review of the capital transactions is underway to ensure that these can be corrected for version two of the draft financial statements and supported through working papers.
- **Updated Draft Accounts** – We have agreed with officers that a revised set of accounts will be available on the 10th August, ready for the audit visit to commence on the 13th August. These accounts will need to be formally signed off by the s151 officer to demonstrate that all of the statements balance and that in his view they are fully compliant with the Code. We would require a working paper with appropriate supporting evidence to enable us to track and audit the changes from the version published on 31st May.
- **Depreciation of Housing Stock** - in undertaking a high level review of the accounts, the audit team identified that the Council had continued to use the Major Repair Allowance (MRA) as a proxy for calculating depreciation on its housing assets. A change in the Code for this current financial year has meant that this is no longer acceptable, with authorities required to calculate depreciation on an appropriate basis, including the consideration of componentisation. The Council is in the process of updating its accounting policies to reflect this and working through the accounting transactions required. This has identified that a material change to the draft accounts is likely to be needed to ensure compliance with the Code. The finance team have included the work necessary on this in their revised timeline which will need to be supported by appropriate working papers.
- **General audit evidence** - following our initial week on site, we have left officers with a detailed list of working papers and supporting evidence that needs to be provided ready for the audit team on the 13th August. We have discussed with the finance team what constitutes reasonable appropriate evidence in line with auditing standards and reminded officers that a screen print of the ledger alone is not sufficient and appropriate evidence to support a transaction within the accounts. We would also expect working papers to have been subject to appropriate QA before being released to audit. The Strategic Finance Manager would appear to be best placed to undertake or ensure this.

- **Finance Team Knowledge Transfer** – in our 2016/17 AFR we noted that two key finance personnel would be retiring before we began the 2017/18 final accounts. This therefore posed a key person(s) risk for the Council. In a difficult skills and recruitment market we believe the Council, overall, has done well in the quality of new recruits, although retention has proved difficult. However, whilst the Council has managed the recruitment process for people leaving those posts the transfer of their knowledge and understanding has proved difficult which has contributed to the issues the Council is currently experiencing. As the Council moves to an updated version of its financial statements we have highlighted the need for other members of the finance team to understand the working papers that have been produced by members of staff that are no longer with the Council. There remain key areas of the financial statements that have been produced by staff that have left, and arrangements need to be in place for other members of the finance team to explain the entries that have been made and answer audit queries in an efficient and effective manner.

Impact Upon the Audit

As a consequence of the issues identified, we are required under auditing standards to consider the level of risk associated with the audit. The inability to balance a primary financial statement suggests a heightened level of audit risk. In terms of the overall impact upon our audit at this time::

- the heightened level of audit risk means that we have reduced our testing threshold accordingly. This will lead to the need to test a greater number of transactions than initially planned,
- additional work will be required to track and audit the changes from the published version of the accounts to the revised version of the accounts,
- additional work will be needed on capital financing transactions and the journals associated with these,
- additional work needed on the bank reconciliation, and
- additional meetings have been held with both senior officers and finance staff to discuss the issues identified, plus the impact of re-arranging resources to meet the needs of the delayed timetable.

We have sought to mitigate any inefficiencies through being flexible with our team as part of the on-site visit but to complete our work will require greater resources than budgeted for which will result in an additional audit fee.

The Way Forward

Senior officers have recognised the importance of ensuring the underlying accounting records are sound and have taken the decision to miss the statutory deadline this year. Given the situation this is supported by the audit team.

The finance team have produced a detailed work plan to ensure that the revised financial statements and working papers will be available for the start of the audit visit. This includes, two conference calls with the audit team to update on progress and discuss any risks of non delivery.

We have discussed the immediate way forward with the Head of Finance and Deputy Chief Executive, and agreed that a full Audit Findings Report will be reported to Finance and Audit Scrutiny Committee on the 25th September 2018. This report will consider the underlying reasons for the delay and the actions that need to be taken to improve the production of the financial statements in future years. It will also consider the additional audit fee that will be required to enable the audit to be completed.



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