

# The Annual Audit Letter For Warwick District Council

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Year ended 31 March 2019

August 2019



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# Executive Summary

## Purpose

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 2019.

This Letter is intended to provide a commentary on the results of our work to the Council and 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 and Auditor Guidance Note (AGN) 07 – 'Auditor Reporting'. We reported the detailed findings from our audit work to the Council's Finance and Audit Scrutiny Committee as those charged with governance in our Audit Findings Report on 30 July 2019.

## Our work

<b>Materiality</b>	We determined materiality for the audit of the Council's financial statements to be £1,200,000, which is 1.5% of the Council's gross operating expenditure.
<b>Financial Statements opinion</b>	We gave an unqualified opinion on the Council's financial statements on 31 July 2019.
<b>Whole of Government Accounts (WGA)</b>	We completed work on the Council's consolidation return following guidance issued by the NAO.
<b>Use of statutory powers</b>	We did not identify any matters which required us to exercise our additional statutory powers.
<b>Value for Money arrangements</b>	We were satisfied that the Council put in place proper arrangements to ensure economy, efficiency and effectiveness in its use of resources. We reflected this in our audit report to the Council on 30 July 2019.
<b>Certification of Grants</b>	We carry out work to certify the Council's 2018-19 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 2019. We will report the results of this work to the Finance and Audit Scrutiny Committee in our Annual Certification Letter.
<b>Certificate</b>	We certified that we have completed the audit of the financial statements of Warwick District Council in accordance with the requirements of the Code of Audit Practice on 30 July 2019.

## Respective 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) (ISAs) and other guidance issued by the NAO.

## Working with the Council

- An efficient audit – we delivered an efficient audit with you in July, delivering the financial statements before the deadline, releasing your finance team for other work.
- Understanding your operational health – through the value for money conclusion we provided you with assurance on your operational effectiveness.
- Sharing our insight – we provided regular Committee updates covering best practice. We also shared our research and advisory papers.

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

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# Audit of the Financial Statements

## Our audit approach

### Materiality

In our audit of the Council's financial statements, 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 the audit of the Council's financial statements to be £1,200,000, which is 1.5% of the Council's gross operating expenditure. This benchmark is considered the most appropriate because we consider users of the financial statements to be most interested in how it has expended its revenue and other funding.

We also set a lower level of specific materiality for senior officer remuneration disclosures of £25,000 as we believe these disclosures are of specific interest to the reader of the accounts.

We set a lower threshold of £60,000, above which we reported errors to the Finance and Audit Scrutiny Committee in our Audit Findings Report.

### The scope of our audit

Our audit involves obtaining sufficient 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 accounting policies are appropriate, have been consistently applied and adequately disclosed;
- the 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 remainder of the financial statements and the narrative report, annual governance statement and published alongside the financial statements to check it is consistent with our understanding of the Council and with the financial statements included in the Annual Report on which we gave our opinion.

We carry out our audit in accordance with ISAs (UK) and the NAO Code of Audit Practice. We believe that 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 Financial Statements

## Significant Audit Risks

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	Findings and conclusions
<p><b>Improper revenue recognition</b></p> <p>Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue.</p> <p>This presumption can be rebutted as we have concluded 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 the Authority, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:</p> <ul style="list-style-type: none"> <li>• there is little incentive to manipulate revenue recognition</li> <li>• opportunities to manipulate revenue recognition are very limited</li> <li>• the culture and ethical frameworks of local authorities, including Warwick District Council, mean that all forms of fraud are seen as unacceptable</li> </ul>	<p>As noted, we did not consider this to be a significant risk for Warwick District Council.</p> <p>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.</p>
<p><b>Management override of controls</b></p> <p>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.</p> <p>The Authority faces external scrutiny of its spending and this could potentially place management under undue pressure in terms of how they report performance.</p> <p>We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>	<p>As part of our audit work we:</p> <ul style="list-style-type: none"> <li>• evaluated the design effectiveness of management controls over journals</li> <li>• analysed the journals listing and determine the criteria for selecting high risk unusual journals</li> <li>• tested unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration</li> <li>• gained an understanding of the accounting estimates and critical judgements applied made by management and consider their reasonableness with regard to corroborative evidence</li> <li>• evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions.</li> </ul>	<p>Our audit work at the Council has not identified any issues in respect of management override of controls.</p>

# Audit of the Financial Statements

## Significant Audit Risks- continued

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p><b>Valuation of Property, Plant and Equipment</b></p> <p>The Authority revalues its land and buildings on a rolling five-yearly basis. This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved and the sensitivity of this estimate to changes in key assumptions. Additionally, management will need to ensure the carrying value in the Authority financial statements is not materially different from the current value or the fair value (for surplus assets) at the financial statements date, where a rolling programme is used.</p> <p>As part of the 2017/18 audit it was identified that there were no clear and specific instructions issued to the valuer, there were multiple valuations performed throughout the period, and there was no formal annual impairment review.</p> <p>We therefore identified valuation of land and buildings, particularly revaluations and impairments, as a significant risk, which was one of the most significant assessed risks of material misstatement, and a key audit matter.</p>	<p>As part of our audit work we have:</p> <ul style="list-style-type: none"> <li>evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work</li> <li>evaluated the competence, capabilities and objectivity of the valuation expert</li> <li>written to the valuer to confirm the basis on which the valuation was carried out to ensure that the requirements of the Code are met</li> <li>Evaluated the assumptions made by management for those assets not revalued during the year and how management have satisfied themselves that these are not materially different to current value.</li> <li>challenged the information and assumptions used by the valuer to assess completeness and consistency with our understanding, and</li> <li>tested revaluations made during the year to see if they had been input correctly into the Authority's asset register.</li> </ul>	<p>Whilst we raised a number of recommendations in relation to Property, Plant and Equipment we are satisfied there is no indication of material misstatement.</p> <p>We have no other points to report in relation to the valuation of Property, Plant and Equipment.</p>

# Audit of the Financial Statements

## Significant Audit Risks- continued

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p><b>Valuation of pension fund net liability</b></p> <p>The Authority's pension fund net liability, as reflected in its balance sheet as the net defined benefit liability, represents a significant estimate in the financial statements.</p> <p>The pension fund net liability is considered a significant estimate due to the size of the numbers involved (£48 million in the Authority's balance sheet) and the sensitivity of the estimate to changes in key assumptions.</p> <p>We therefore identified valuation of the Authority's pension fund net liability as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>	<p>As part of our audit work we have:</p> <ul style="list-style-type: none"> <li>documented our understanding of the processes and controls put in place by management to ensure that the Authority's pension fund net liability is not materially misstated and evaluate the design of the associated controls;</li> <li>evaluated the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work;</li> <li>assessed the competence, capabilities and objectivity of the actuary who carried out the Authority's pension fund valuation;</li> <li>assessed the accuracy and completeness of the information provided by the Authority to the actuary to estimate the liability;</li> <li>tested the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial report from the actuary;</li> <li>undertaken procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performing any additional procedures suggested within the report.</li> </ul>	<p>Our audit work has not identified any issues in respect of valuation of the pension fund net liability, except in relation to the McCloud judgement and GMP indexation. We have satisfied ourselves that there is not a risk of material error as a result of this issue. We also acknowledge the significant uncertainties relating to the estimation of the impact on the Council's liability.</p>

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# Audit of the Financial Statements

## **Audit opinion**

We gave an unqualified opinion on the Council's financial statements on 31 July 2019.

## **Preparation of the financial statements**

There were significant delays in the 2017/18 financial statements audit, as such the opinion on the 2017/18 financial statements was not given until 12 December 2018, 5 months after the reporting deadline

We were pleased to report that the Council had implemented a number of changes to its internal processes to ensure 2018/19 financial statements were prepared and subject to quality checks prior to 31 May 2019. The Council presented us with draft financial statements in accordance with the national deadline, and provided a good set of working papers to support them. The finance team responded promptly and efficiently to our queries during the course of the audit.

## **Issues arising from the audit of the financial statements**

We reported the key issues from our audit to the Council's Finance and Audit Scrutiny Committee on 30 July 2019.

## **Annual Governance Statement and Narrative Report**

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

Both documents were prepared in line with the CIPFA Code and relevant supporting guidance. We confirmed that both documents were consistent with the financial statements prepared by the Council and with our knowledge of the Council.

## **Whole of Government Accounts (WGA)**

We carried out work on the Council's Data Collection Tool in line with instructions provided by the NAO . We issued an assurance statement which confirmed the Council was below the audit threshold for undertaking detailed testing.

## **Other statutory powers**

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.

## **Certificate of closure of the audit**

We certified that we have completed the audit of the financial statements of Warwick District Council in accordance with the requirements of the Code of Audit Practice on 31 July 2019.

## **Certification of Grants**

The 2017/18 Annual Audit Letter was issued in February 2019. We have not completed any further grant certification work since this date.

We have stated our work to certify the Council's 2018-19 Housing Benefit Subsidy claim on behalf of the Department for Work and pensions (DWP). Our work on this claim is not yet complete and will be finalised by 30<sup>th</sup> November 2019. We will report the results of this work to the Finance and Audit Scrutiny Committee in our Annual Certification Letter.



# Value for Money conclusion

## Background

We carried out our review in accordance with the NAO Code of Audit Practice, following the guidance issued by the NAO in November 2017 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.* We have performed a risk assessment and identify the risks where we concentrated our work. The risks we identified and the work we performed are set out below.

Risks identified in our audit plan	How we responded to the risk	Findings																								
<p><b>Future Savings Plans</b> Local Government funding continues to be stretched with increasing cost pressures and demand from residents. For 2018/19 the Authority amended its budget upwards by £0.7m and is forecasting to break-even upon its revised budget. These continuing pressures, combined with continuing uncertainty on long term local government funding has led the Council to estimate that the Council will have a funding gap, after savings identified, of £0.6m for 2019/20, £0.1m in 2020/21, £0.9m in 2021/22 and £0.7m in 2022/23.</p> <p>The authority has historically been able to achieve savings through making incremental changes to services and ways of working, however, there is a growing acceptance that more challenging decisions are needed to ensure financial stability in the longer term. As part of the Future Fit Scheme savings of £300k were identified in relation to councils office relocation in 2020/21. We understand this may now need to be reprofiled following the withdrawal of one of the development partners.</p>	<p>To address this risk we planned to review the Council's arrangements for identifying and agreeing savings plans to ensure that the Council is resilient to the increasing financial challenges of coming years.</p>	<p><b>Outturn position 2018/19</b></p> <p>Historically, the Council has a strong track record of delivering against its financial objectives, and this continues to be the case for 2018/19 with a favourable variance of £322k on the General Fund (GF) budget and £116k on the Housing Revenue Account (HRA) being reported to the Executive on 10<sup>th</sup> July 2019.</p> <p>There are a number of significant variances (both adverse and favourable) which have contributed to the net favourable outturn of £322k for the General Fund. The main variances have been summarised in the July report to the Executive and the main variances are £986,700 favourable variances and £900,300 adverse.</p> <p>For 2018/19 the Council has seen slippage in its capital programme of £2.581m on a budgeted programme of £29.045m.</p> <p><b>MTFS</b></p> <p>The Council's MTFS was presented to members in February 2019, this has been subsequently updated and savings reprofiled and reported to Executive on 10<sup>th</sup> July . This has been summarised in the table below.</p> <table border="1" data-bbox="1077 799 1802 963"> <thead> <tr> <th></th> <th>Savings reported in February 2019</th> <th>Savings required - reported 10th July 2019</th> <th>Variance</th> </tr> </thead> <tbody> <tr> <td>2020/21</td> <td>330</td> <td>309</td> <td>-21</td> </tr> <tr> <td>2021/22</td> <td>1,025</td> <td>494</td> <td>-531</td> </tr> <tr> <td>2022/23</td> <td>456</td> <td>664</td> <td>208</td> </tr> <tr> <td>2023/24</td> <td>574</td> <td>733</td> <td>159</td> </tr> <tr> <td>2024/25</td> <td></td> <td>483</td> <td></td> </tr> </tbody> </table> <p>Within the update the proposed office move savings of £385k have now been factored from April 2022.</p> <p>As part of the MTFS the council has also recognised that from 2020/21 there may be substantial changes to figures due to the Fair Funding Review and the Business Rate Retention (BRR) scheme anticipated to change from 50% to 75%. The Council has taken a prudent stance in its forecasting.</p> <p><b>Savings plans</b></p> <p>Council savings plans were submitted for approval to Executive on 10<sup>th</sup> July. The executive agreed the service area plans which represent the councils programme of work for the 19/20 financial year. The Council has already recognised that the HQ relocation and town Hall use savings of £385k are still to be delivered and need to be monitored closely.</p> <p><b>Reserves</b></p> <p>Each year the Council reviews the level of reserves and balances it holds as part of setting the budget, as in previous years the s151 officer concluded that there were sufficient level of reserves. A review of balances as at the end of the period confirms that the Council's total usable reserves have increased by £2m from £68m to £70m.</p>		Savings reported in February 2019	Savings required - reported 10th July 2019	Variance	2020/21	330	309	-21	2021/22	1,025	494	-531	2022/23	456	664	208	2023/24	574	733	159	2024/25		483	
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# Value for Money conclusion - continued

Risks identified in our audit plan	How we responded to the risk	Findings
<p><b>Publication of financial statements</b>            In 2017/18, the statutory date for publication of audited local government accounts was brought forward to 31st July, across the whole sector. The Authority did not achieve this deadline and the financial statement audit opinion was given on 12<sup>th</sup> December 2018. The Council has a detailed action plan in place in order to ensure the deadlines for 2018/19 are met but the risk of missing the deadlines remains.</p>	<p>To address this risk we planned to review the Council's progress against its action plan and the changes in arrangements for meeting the publication deadlines</p>	<p>Members will be aware that there were significant delays in the 2017/18 financial statements audit, as such the opinion on the 2017/18 financial statements was not given until 12<sup>th</sup> December 2018, some 5 months after the reporting deadline of 31<sup>st</sup> July 2018. The Authority's Value for Money conclusion was qualified in this respect.</p> <p>We are pleased to report that over the past year the Council has implemented a number of changes to its internal processes to ensure draft financial statements were prepared and subject to quality checks prior to 31<sup>st</sup> May 2019.</p> <p>Following the 2017/18 audit closure there was a detailed wash up meeting which included all members of the Finance team and other staff where required. The audit team attended this meeting in part. This meeting was then followed up with regular updates in order to develop a detailed action plan to ensure lessons were learnt resulting in the 2018/19 financial statements delivered to the appropriate quality standard and on time.</p> <p>We have reviewed the working document used to monitor progress and can confirm that this document has been updated on at least a weekly basis. This information formed the basis of the progress update report which has been reported to the Finance and Audit Scrutiny Committee since December 2018.</p> <p>We have met with the Council's finance team on a number of occasions throughout the year. The Council has also been fully engaged in the use of Inflo, a system used by the audit team to administer and track audit working paper and evidence requests. They have raised technical points or queries with the audit team in a timely manner which has enabled early testing to be completed where necessary, for example, the consideration of Group accounting and review of revised Accruals policy.</p> <p>The progress made by the finance team this year has resulted in a sound foundation on which to build further improvements. With further potential key finance staff changes in the next 12 months it is critical that the Council continues to focus on its succession planning within the finance team, including robust handover processes.</p> <p>We are satisfied that the Council has made significant progress in its final accounts preparation process.</p> <p>The council must remain proactive and seek to improve processes further in particular relating to Property, Plant and Equipment valuation procedures.</p> <p>The council also needs to focus on succession planning within the finance department and ensure detailed handover arrangements are in place between staff.</p>

**Overall Value for Money 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 2019.

# A. Reports issued and fees

We confirm below our final reports issued and fees charged for the audit.

## Reports issued

Report	Date issued
Audit Plan	2 April 2019
Audit Findings Report	30 July 2019
Annual Audit Letter	August 2019

## Fees

	Planned £	Actual fees £	2017/18 fees £
Statutory audit	41,290	45,790	104,356*
Determinations and objections			4,967
Non-audit services	17,250	TBC	9,149
<b>Total fees</b>	<b>£58,540</b>	<b>TBC</b>	<b>£118,462</b>

## Fees for non-audit services

Service	Fees £
<b>Audit related services</b>	
- Housing benefit (Subsidy) Assurance Process	14,250
- Certification of pooled Housing capital receipts return	3,000
<b>Non-Audit related services</b>	0

### 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 table above summarises all non-audit services which were identified.
- We have considered whether non-audit services might be perceived as a threat to our independence as the Council's auditor and have ensured that appropriate safeguards are put in place.

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

## Audit fee variation

As outlined in our audit plan, the 2018-19 scale fee published by PSAA of £41,290 assumes that the scope of the audit does not significantly change. There are a number of areas where the scope of the audit has changed, which has led to additional work. These are set out in the following table.

Area	Reason	Fee Variation proposed £
<b>Assessing the impact of the McCloud ruling</b>	The Government's transitional arrangements for pensions were ruled discriminatory by the Court of Appeal last December. The Supreme Court refused the Government's application for permission to appeal this ruling. As part of our audit we have reviewed the revised actuarial assessment of the impact on the financial statements along with any audit reporting requirements.	<b>£4,500</b>
<b>Pensions – IAS 19</b>	The Financial Reporting Council has highlighted that the quality of work by audit firms in respect of IAS 19 needs to improve across local government audits. Accordingly, we have increased the level of scope and coverage in respect of IAS 19 this year to reflect this.	
<b>PPE Valuation – work of experts</b>	As above, the Financial Reporting Council has highlighted that auditors need to improve the quality of work on PPE valuations across the sector. We have increased the volume and scope of our audit work to reflect this.	

The revised fee for the year is subject to approval by Public Sector Appointments Ltd (PSAA).

\* Details regarding the 2017/18 statutory audit fee were included in detail within the 2017/18 Annual Audit Letter which was presented to the Finance and Audit Scrutiny Committee in February 2019. The fee variation for the 2017/18 statutory audit was agreed by PSAA in August 2019.



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