

Annual Audit Letter

Year ending 31 March 2018

Warwick District Council

February 2019



Contents



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Section

1. Executive Summary
2. Audit of the Accounts
3. Value for Money conclusion

Page

- 3
5
11

Appendices

- A Reports issued and fees
- B Recommendations

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 2018.

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 27 November 2018.

Our work

Materiality	We determined materiality for the audit of the Council's financial statements to be £1.2m, which is 2% of the Council's gross revenue expenditure.
Financial Statements opinion	We gave an unqualified opinion on the Council's financial statements on 12 December 2018, more than four months after the statutory deadline
Whole of Government Accounts (WGA)	We completed work on the Council's consolidation return following guidance issued by the NAO.
Use of statutory powers	We did not identify any matters which required us to exercise our additional statutory powers for the current financial year, and all outstanding objections in respect of previous financial years have been cleared and the audits certified closed.
Value for Money arrangements	We were satisfied that the Council put in place proper arrangements to ensure economy, efficiency and effectiveness in its use of resources except for the matters we identified in respect of timely financial reporting. We therefore qualified our value for money conclusion in our audit report to the Council on 12 December 2018.
Certification of Grants	Since our last Annual Audit letter we have certified the Council's 2016-17 Housing Benefit subsidy claim, 2016-17 Pooling of Housing Capital Receipts 2016PO16 return, 2017-18 Housing Benefit Subsidy claim and 2017-18 Pooling of Housing Capital Receipts return. We report the results of this work to the Finance and Audit Scrutiny Committee through this Letter and our Annual Certification Letter.
Certificate	We certify that we have completed the audit of the accounts of Warwick District Council in accordance with the requirements of the Code of Audit Practice.

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 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 financial statements, we comply with International Standards on Auditing (UK) (ISAs) and other guidance issued by the NAO.

Executive Summary

Working with the Council

During the year we have delivered a number of successful outcomes with you:

- We delivered the audit by working hard in partnership with your team to tackle the issues identified, particularly those arising with the capital accounting and financing transactions.
- We provided support and signposted guidance as appropriate to the new members of the finance team, ensuring they had the information they needed to be able to complete the work required on the accounts.
- We have worked with senior officers and members to help them understand the circumstances around the late delivery of the financial statements, and what changes they need to make in future to ensure that the Council can deliver within the statutory timeframe.
- Improved financial processes – we have worked with you to help identify areas where processes could be improved for future years, in particular the reporting from the financial system and the working papers needed to support the entries within the financial statements.
- Sharing our insight – we have regularly attended the Finance and Audit Scrutiny Committee and shared our experiences.

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
February 2019

Audit of the Accounts

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 accounts to be £1.2m, which is 2% of the Council's gross revenue expenditure. We used this benchmark as, in our view, users of the Council's financial statements are most interested in where the Council has spent its revenue in the year.

We 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. As a result we set a lower level of performance materiality when compared to prior years. This measure influences the amount of audit testing that is undertaken on the financial statements. This was further reduced during the course of the audit to take account of the increased risk of error within the financial statements that was identified during the initial audit work.

We also set a lower level of specific materiality of £100k for senior officer remuneration.

We set a lower threshold of £62,000, 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 Statement of Accounts and the narrative report and annual governance statement published alongside the Statement of Accounts to check they are consistent with our understanding of the Council and with the financial statements included in the Statement of Accounts 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 is 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

Significant Audit Risks

These are the significant 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>Improper revenue recognition 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.</p>	<p>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:</p> <ul style="list-style-type: none"> • there is little incentive to manipulate revenue recognition • opportunities to manipulate revenue recognition are very limited • the culture and ethical frameworks of local authorities, including Warwick District Council, mean that all forms of fraud are seen as unacceptable 	<p>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.</p>
<p>Management override of controls 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.</p>	<p>As part of our work in this area we have;</p> <ul style="list-style-type: none"> – gained an understanding of the accounting estimates, judgements applied and decisions made by management and considered their reasonableness – obtained a full listing of journal entries and tested unusual entries for appropriateness – evaluated the rationale for any changes in accounting policies or significant unusual transactions. 	<p>Our audit work has not identified any evidence of management over-ride of controls. In particular, testing of journal entries has not identified any significant issues.</p> <p>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.</p> <p>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.</p> <p>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 needs 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.</p>

Audit of the Accounts

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Valuation of property, plant and equipment 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>As part of our work in this area we have:</p> <ul style="list-style-type: none"> • reviewed management's processes and assumptions for the calculation of the estimate, the instructions issues to valuations experts and the scope of their work • considered the competence, expertise and objectivity of any management experts used. • reviewed and challenged the information used by the valuer to ensure it was robust and consistent with our understanding. • tested revaluations made during the year to ensure they were input correctly into the Council's asset register • 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. 	<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 have gained sufficient assurance to conclude that the valuation of property, plant and equipment is free from material misstatement.</p>

Audit of the Accounts

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Valuation of pension fund net liability 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>As part of our work in this area we have:</p> <ul style="list-style-type: none"> 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. 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 undertaken procedures to confirm the reasonableness of the actuarial assumptions made reviewed the consistency of the pension fund net liability disclosures in notes to the financial statements with the actuarial report from your actuary. 	<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>Disclosure of entries in relation to Group Accounting 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>As part of our work in this area:</p> <ul style="list-style-type: none"> we have reviewed the assessment made by officers and the supporting evidence provided where estimates have been used, we have reviewed management's processes and assumptions for the formulation of those estimates 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 we have reviewed the material disclosures made in the financial statements. 	<p>The production of group accounts has been an area of significant debate throughout the audit. 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 statements published on 31st 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>

Audit of the Accounts

Audit opinion

We gave an unqualified opinion on the Council's financial statements on 12 December 2018. This was over four months after the statutory deadline of 31 July 2018.

Preparation of the accounts

The Council published draft financial statements on 31 May 2018 which was in line with the required statutory timetable. However, these did not include a fully reconciled and balanced Movement in Reserve Statement. The Council attempted, but was unable, to balance this statement. Investigations by the Council's finance team revealed the imbalance was indicative of a number of fundamental errors within the published draft financial statements, particularly in relation to the capital accounting and capital financing transactions.

Further investigation 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, 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 appropriate supervision or review.

In addition to the errors identified with the capital transactions by the Council, our initial review 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 consideration of potential impairments, and
- key points raised as part our 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 a 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 to support the process of correcting the financial statements and contributed significantly to the capacity and capability of the Council to produce a balanced set of accounts. The first version of a balanced and complete set of accounts was only made available for audit in October 2018.

Issues arising from the audit of the accounts

The challenges the Council experienced in preparing a set of financial statements that were balanced and adequately supported by working papers resulted in five different sets of accounts being presented to audit during the period from the end of May 2019 to the end of November.

We reported the key issues from our audit to the Council's Finance and Audit Scrutiny Committee on 27 November 2018. This built on the previous two update reports that were presented to the Committee in both July and November. The impact of the errors identified from the first published draft of the financial statements to the final audited set of accounts has been an adjustment of £4.271m to the Statement of Comprehensive Income and Expenditure. While this is a material adjustment, it is worth noting that the overall impact to the general fund surplus has been limited, with an increase of £56k.

The nature of the issues raised and the volume of changes has resulted in significant additional time being required by the audit team to be able to gather sufficient and appropriate audit evidence to deliver a 'safe' opinion at additional cost to the Council (Appendix A).

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.

How did the situation arise and what steps is the Council taking to make improvements?

In our 2016/17 Audit Findings Report we highlighted to the Council that achievement of sign off on the 30th August last year was achieved by doing the same things earlier, rather than considering how efficiencies could be gained in the process. In order for the Council to meet the 31 July 2018 we highlighted that the Council needed to:

- review its year end processes to gain efficiencies, including considering areas where a greater use of estimates and automated processes could be used
- introduce quality assurance (QA) arrangements for preparation and review of all working papers produced which should be appropriately evidenced, and
- noted that with two key finance personnel retiring before we began the 2017/18 final accounts audit visit appropriate succession planning would be critical to a successful outcome.

The Council struggled to fully implement these which contributed to the difficulties it subsequently encountered. As a result of the issues identified above we have therefore included the recommendations we have made and the Council responses as an appendix to this letter.

Audit of the Accounts (Cont'd)

In addition to our work, at the request of members, the Chief Executive has undertaken a detailed 'lessons learned' review. His review has confirmed and highlighted a number of areas where the arrangements in the finance team have not operated as they should have done. In particular:

- there was 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 were 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, and
- 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.

A detailed action plan is now in place to address all of the issues identified and this is the subject of regular monitoring by both senior officers and members to ensure that appropriate arrangements are in place to meet the statutory deadline for 2018/19.

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.

We have not had to use our additional powers under the Act for the current financial year, and all outstanding objections in respect of previous financial years have been cleared.

Certificate of closure of the audit

We are also required to certify that we have completed the audit of the accounts of Warwick District Council in accordance with the requirements of the Code of Audit Practice. We certified the audit as completed on 12 December 2018.

Certification of grants

Since our last Annual Audit letter we have certified the Council's 2016-17 Housing Benefit subsidy claim, 2016-17 Pooling of Housing Capital Receipts 2016PO16 return, 2017-18 Housing Benefit Subsidy claim and 2017-18 Pooling of Housing Capital Receipts Return.

2016-17 Housing benefit subsidy claim

We certified the Council's Housing Benefit subsidy claim for the financial year 2016-17 relating to subsidy claimed of £29.04 million. We reported the detailed findings from our audit work to the Council in our Certification Letter dated X February 2018.

We identified an amendment of £348 and a small number of matters which, whilst in a claim of this size, nature and complexity are not unusual, required us to qualify the claim. Those matters which we highlighted to the Council were that there were:

- three errors from the extended testing that we carried out on the 2016-17 subsidy return which recurred from 2015/16, and
- three areas where new errors were identified as a result of the testing undertaken.

We reported our findings to the DWP in our Qualification Letter dated 29 November 2017.

2017-18 Housing benefit subsidy claim

We certified the Council's Housing Benefit subsidy claim for the financial year 2017-18 relating to subsidy claimed of £29.4 million. We reported the detailed findings from our audit work to the Council in our Certification Letter dated X February 2018.

We identified an amendment of £14 and a small number of matters which, whilst in a claim of this size, nature and complexity are not unusual, required us to qualify the claim. Those matters which we highlighted to the Council were that there were:

- four errors from the extended testing that we carried out on this year's subsidy return which recurred from 2016-17, and
- there were two areas where new errors were identified as a result of the testing undertaken.

We reported our findings to the DWP in our Qualification Letter dated 29 November 2018.

Certification of pooled housing capital receipts returns

As noted in Appendix A we provided non-audit services in respect of certifying the Council's Pooling of Housing Capital Receipts returns for 2016-17 and 2017-18. We were required to report one matter in respect of each year:

- 2016-17 - officers identified differences that had arisen because an incorrect pre transfer inflation rate had been used in some quarterly returns. As a result, adjustments were made during quarter 4 to ensure that the final year end return was correct.
- 2017-18 – the figure for capital expenditure in the year needed to be adjusted to reflect the out-turn in the ledger rather than estimated new build expenditure costs.

These were reported to the Ministry of Housing, Communities and Local Government in our agreed upon procedures reports dated 5 February 2018 and 9 February 2019..

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.*

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. This initial risk assessment did not highlight any significant risks to the VFM conclusion.

We continued our review of relevant documents up to the date of giving our report, and 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. These difficulties have been reported in detail in our AFR and on pages 9 and 10 of this report. In summary, we identified significant weaknesses in the Authority's arrangements for preparing the financial statements. The Authority published unaudited financial statements on 31 May 2018 which had an incomplete Note 8 (Adjustments Between Accounting Basis and Funding Basis Under Regulations) and contained several significant errors, particularly in respect of accounting for capital and capital financing transactions. The underlying causes of these weaknesses were a lack of experience in preparing these complex areas of the financial statements within the Authority's finance team during 2017/18 and a lack of strategic oversight and leadership of the accounts preparation process. It took until 19 October 2018 for the Authority to produce amended financial statements for audit which addressed the errors which we identified in the original version published on 31 May 2018. This matter is evidence of weaknesses in proper arrangements for informed decision making in reliable and timely financial reporting that supports the delivery of strategic priorities. As a result we issued an 'except for' VFM conclusion.

As part of our overall audit responsibilities we have also 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. 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 confirmed that the financial sustainability of the Council was not a significant risk for the VFM conclusion.

Overall Value for Money conclusion

We are satisfied that, in all significant respects, except for the matters we identified in respect of timely financial reporting, the Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2018.

A. Reports issued and fees

We confirm below our final reports issued and fees charged for the audit and provision of non-audit services. The planned fees for the year were in line with the scale fee set by PSAA.

Audit Related Services Fees

	Planned £	Actual fees £	2016/17 fees £
2017/18 Statutory Council audit	53,623	103,011*	53,623
Determining Objections and Certifying Closure of Prior Years Accounts	0	4,957**	N/A
Housing Benefit Grant Certification	9,040	11,297***	8,655
Total fees	62,663	119,265	62,278

* The assumptions within our audit plan assumed that draft financial statements and working papers would be provided at the agreed date in accordance with the agreed upon information required list. As previously highlighted, we have needed to undertake additional work as a result of the quality of the initial draft financial statements and the supporting working papers provided. Due to the volume of errors identified in the initial draft financial statements the audit team was required to re-evaluate the level of testing needed on the financial statements, and this was increased to ensure sufficient assurance could be gained to deliver a 'true and fair' opinion. We have discussed the additional fee with Head of Finance and Deputy Chief Executive, and this has been included within the actual fees column above. The key reasons for the significant overrun fee are summarised in the bullet points below:

- The audit team received five different sets of accounts during the period from the 31 May through to signing the statements on the 12 December. Each set required a detailed review to identify the risks associated with the statements and the required focus for the audit testing.
- The errors identified in the first draft of the financial statements were significant, particularly in respect of capital accounting and financing transactions. In line with the auditing standards we re-assessed our view of the risk associated with the audit following the initial errors identified. This resulted in the audit team determining that a lower performance materiality was required, which meant that an increased number of transactions overall required testing than was initially planned. Two key areas where this impacted were:
 - 1) more than doubling the amount of testing we would expect to undertake on capital accounting and financing transactions. This area was further complicated as officers continued to identify errors as the audit progressed and sought to make more adjustments to the balances. These differences required assessment and review.
 - 2) Officers provided working papers on all of the errors, and the required journal entries that were necessary to correct them on both the ledger and in the financial statements. Because of the material nature of them, the journals required review and testing. Again, this more than doubled the amount of testing the audit team undertook on journals, which had already been identified as a significant risk to the audit opinion.
- Working papers provided to support the detailed transaction testing were difficult to follow and lacked the necessary information to understand the substance of the transaction that had been included in the accounts. There were very few transactions sample tested that were resolved on the first query, which proved time consuming.
- We re-programmed the audit on three separate occasions. On each occasion, this required input from both the manager and the director on the audit to communicate the issues to members of the finance team and the senior leadership team. Given the nature of the issues raised, additional regular progress calls were held, and on-going discussions on how to address issues that were arising. The input from the audit manager and director was significantly more than would be anticipated as part of the original scale fee.
- We provided two additional reports to the Finance and Audit Scrutiny Committee, setting out the issues on the audit and the key reasons for the delay. The production and presentation of these reports were not included in the initial assessment of the audit scale fee.
- Given the timeliness issues on financial reporting, we needed to re-visit the VFM conclusion, which resulted in additional time, both for the audit team, but also by our internal quality panel leading to the outcome of a qualified VFM conclusion. The wording of this conclusion was also subject to a further level of internal quality assurance.

** In addition to the fees highlighted above we have also discussed with officers the fee for the determination of two objections from members of the public in relation to the 2016/17 financial statements. These objections were closed in June 2018 and we have proposed an additional fee of £4,957 to officers.

*** The proposed increase in relation to the Housing Benefit Grant Certification is also as a result of the additional level of testing that was required based on the errors that were identified. Further details of this are included in our Grant Certification Letter. Again the fee has been discussed with the Head of Finance.

A. Reports issued and fees continued

Fees for non-audit services

Service	Fees £
Audit related services	
- Certification of Housing Capital Receipts Grant 2016/17	3,000
- Certification of Housing Capital Receipts Grant 2017/18	3,000
Total fees	6,000

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

Reports issued

Report	Date issued
Audit Plan	March 2018
Interim Audit Findings Report	July 2018
Progress Report of the Audit of the 2017-18 Financial Statements	September 2018
Audit Findings Report	November 2018
Annual Audit Letter	February 2019

B. Recommendations


We have identified 9 recommendations of sufficient important to report to those charged with governance for the Council as a result of issues identified during the course of our audit. Following the completion of the audit, the Council have begun work in a number of key areas, a brief update on the progress is included in the table below.

Assessment	Issue and risk	Recommendations
 High	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>Management response</p> <ul style="list-style-type: none"> The information to be sought from the valuer, and timing thereof, will be considered by the Head of Finance and Principal Accountants in early December ahead of a formal instruction to the valuer being issued. The valuation process will be pro-actively monitored and shared with the Accountancy Team. <p>Progress made against the recommendation</p> <ul style="list-style-type: none"> Officers have confirmed that this was initially considered in December, and the subsequently considered in more detail with the Estates Manager and valuers in January. Draft instructions to be issued to the valuers in February.
 High	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>Management response</p> <ul style="list-style-type: none"> The approach to the impairment review will be reviewed ahead of seeking information from the valuer (above). This will involve the full team and the Council's Estates Manager, and in accordance with the Code of Practice. <p>Progress made against the recommendation</p> <ul style="list-style-type: none"> As above, officers have confirmed that this has been considered during January, with the approach being documented.
 High	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>Management response</p> <ul style="list-style-type: none"> Progress on the action plan is being actively managed with weekly updates to CMT and monthly reports to Executive and Finance and Audit Scrutiny Committee. <p>Progress made against the recommendation</p> <ul style="list-style-type: none"> Regular updates are being provided.

Controls




 High – Significant effect on control system

 Medium – Effect on control system




 Low – Best practice

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B. Recommendations

Assessment	Issue and risk	Recommendations
 High	<p>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>	<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>Management response</p> <ul style="list-style-type: none"> • Training on the production of quality working papers for all the Accountancy Team will be provided by the Final Accounts Project Manager early in the New Year. <p>Progress made against the recommendation</p> <ul style="list-style-type: none"> • Following the dissemination and discussion of the closure plan with the accountancy team on the 4th January, advance excel training is planned to be provided. The training is being run by Rugby's training officer, and will be delivered to the Finance Team on the 27th February. Further team training looking at working papers is to be provided by the Final Accounts Project Manager, and also informal 1-2-1 training looking at specific issues relevant to individuals.
 Medium	<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>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>Management response</p> <ul style="list-style-type: none"> • This has been discussed with the Pension Fund Actuaries. Officers will ensure that should variances to be identified, these will be challenged, and explained. <p>Progress made against the recommendation</p> <ul style="list-style-type: none"> • No further progress to report.
 Medium	<p>The accounting policies do not include a specific de minimis level for accruals of income and expenditure.</p>	<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>Management response</p> <ul style="list-style-type: none"> • The accruals process will be reviewed early in 2019, ensuring all parties are clear about their responsibilities, timings, and relevant de minimis levels. <p>Progress made against the recommendation</p> <ul style="list-style-type: none"> • The approach has been discussed with the audit team as part of the January planning visit, officers will need to undertake further work to demonstrate that the levels considered will not have a material impact on the accounts.




Controls

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

B. Recommendations

Assessment	Issue and risk	Recommendations
 Medium	<p>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>	<p>The Head of Finance should ensure that the identified areas are actioned in future years.</p> <p>Management response</p> <ul style="list-style-type: none"> The disclosure omissions will be reviewed as part of the preparation for closedown. It should be noted that some disclosure were previously removed with the support of the auditors as part of the “de-cluttering” of the accounts. <p>Progress made against the recommendation</p> <ul style="list-style-type: none"> No further progress to report
 High	<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>Management response</p> <ul style="list-style-type: none"> The Head of Finance and Principal Accountants are reviewing journal controls to tighten procedures. New controls will be in place by January 2019. <p>Progress made against the recommendation</p> <ul style="list-style-type: none"> The new process has been mapped and the Head of Finance has confirmed that the new process was in place in January and the first month has been reviewed.
 Medium	<p>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>	<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>Management response</p> <ul style="list-style-type: none"> Full controls will be implemented to ensure all proposed changes to the Statements are fully documented for discussion and agreement with the auditors. <p>Progress made against the recommendation</p> <ul style="list-style-type: none"> No further progress to report.

Controls

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