

# The Annual Audit Letter for Warwickshire County Council

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**Year ended 31 March 2013**

October 2013

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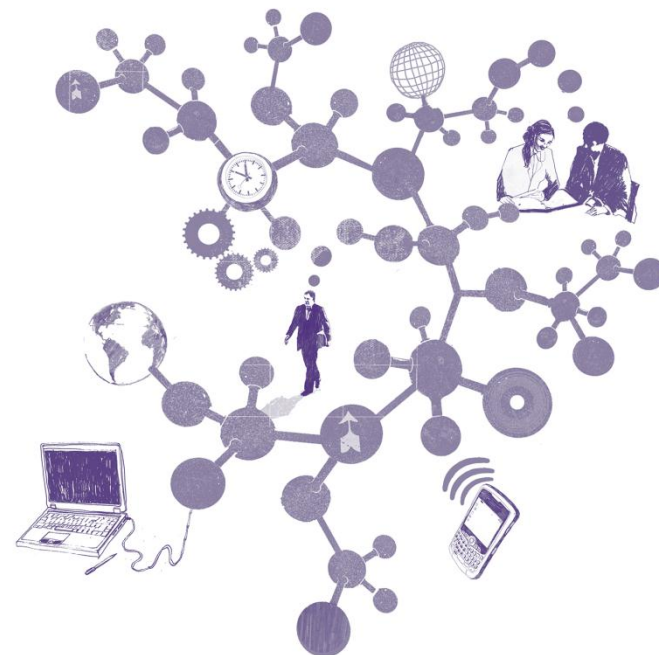
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# Section 1: Executive summary

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# Executive summary

## Purpose of this Letter

Our Annual Audit Letter ('Letter') summarises the key findings arising from the following work that we have carried out at Warwickshire County Council ('the Council') for the year ended 31 March 2013:

- auditing the 2012/13 accounts and Whole of Government Accounts submission (Section two)
- assessing the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources (Section three)
- certification of grant claims and returns (Section four).

The Letter is intended to communicate key messages to the Council and external stakeholders, including members of the public. We reported the detailed findings from our audit work to those charged with governance in the Audit Findings Report on 11 September 2013.

## Responsibilities of the external auditors and the Council

This Letter has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission ([www.audit-commission.gov.uk](http://www.audit-commission.gov.uk)).

The Council is responsible for preparing and publishing its accounts, accompanied by an Annual Governance Statement. It is also responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources (Value for Money).

Our annual work programme, which includes nationally prescribed and locally determined work, has been undertaken in accordance with the Audit Plan that we issued on 24 June 2013 and was conducted in accordance with the Audit Commission's Code of Audit Practice ('the Code'), International Standards on Auditing (UK and Ireland) and other guidance issued by the Audit Commission.

## Audit conclusions

The audit conclusions which we have provided in relation to 2012/13 are as follows:

- an unqualified opinion on the accounts which give a true and fair view of the Council's financial position as at 31 March 2013 and its income and expenditure for the year
- an unqualified conclusion in respect of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources
- an unqualified opinion on the council's Whole of Government Accounts submission.

Our work on the certification of the Teachers' Pension Return, which is the only grant claim we are required to audit for the Council, is on-going.

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## Key areas for Council attention

We summarise here the key messages arising from our audit for the Council to consider as well as highlighting key issues facing the Council in the future.

### Closure of the audit

While we were able to give an unqualified opinion and VFM conclusion on 26<sup>th</sup> September, we were unable to formally close the audit and issue a certificate of completion. The three reasons for this were the incomplete WGA return audit, the on-going objection to the accounts and the required review of the pension fund annual report.

The delay in the WGA return audit has been caused by significant problems with the software provided by DCLG to complete the return. These have now been resolved and the return was submitted in line with the national timetable.

Work is still on-going in relation to the objection received from a local elector in relation to the accounts. This is expected to be concluded shortly.

We await receipt of the draft pension fund annual report from officers in order to complete our review. This is anticipated 7<sup>th</sup> November, and will be finalised in accordance with the national timetable for completion, which is 1<sup>st</sup> December 2013.

### Overall financial performance and future financial plans

The Council's financial performance remains strong, with the Council reporting a £17m underspend against its 2012/13 revenue budget. In two of the last three years the Council has not achieved the savings targets that it has set itself. For 2012/13 the target savings of £41.3m was underachieved by £1.1m, for 2011/12 the target savings of £21.9m was over achieved by £1.4m and for 2010/11 the target savings of £9.7m was underachieved by £1.3m. In all cases, unplanned savings in other areas have enabled financial balance to be maintained.

Our recent work on financial resilience has demonstrated that the level of reserves held by the council is broadly comparable with other similar authorities, with total reserves increasing from £92.968m at the end of 2011/12 to £114.061m at the end of 2012/13.

While this demonstrates that the Council has historically managed its financial performance well, it should not detract from the huge challenge it faces in balancing the budget going forward. In preparing the next four year financial plan officers predict savings will be required of £92m. Significant work has already been completed in this area, with every service area looking and scrutinising its spend to enable proposals for savings to be considered by members. This work will continue through until the new financial plan and annual budget are approved in February 2014.

At the same time as the Council is seeking to make savings, pressures for additional spending are being felt in key service areas due to factors such as an increasingly elderly population and increased public and regulator expectations on service standards. The Council has recognised that this scenario requires a radical approach and the Leader's statement to the Council on 26 September 2013 set out a framework which indicated a need for further prioritisation and set out an approach to a 'shared collective' with residents through the 'Shaping the Future' consultation process.

Changes in the education sector are also having a significant impact on the Council. With the increase in schools switching to academy status, the Council's role as local education authority has changed, while the change has also had an impact on the provision of support services.

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## **Acknowledgements**

This Letter has been agreed with the Head of Finance and is due to be presented to the Audit Committee on 7 November 2013.

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

**Grant Thornton UK LLP**  
**October 2013**

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## Section 2: Audit of the accounts

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# Audit of the accounts

## **Audit of the accounts**

The key findings of our audit of the accounts are summarised below:

### **Preparation of the accounts**

The Council presented us with draft accounts on 28<sup>th</sup> June 2013, in accordance with the national deadline. Appropriate working papers were made available from the start of the audit fieldwork, which commenced on 1<sup>st</sup> July 2013.

The annual audit letter last year highlighted the need for the authority to make improvements in its processes for compiling the year end accounts. Officers have worked hard during the year to ensure that the financial systems were more aligned for year end reporting requirements, and these efforts were rewarded with a much smoother closedown process and audit than in previous years. Further improvements could still be made to year end working papers, particularly around the asset register. We will continue to work with officers to support any improvements in the process.

### **Issues arising from the audit of the accounts**

The majority of the amendments made to the accounts were to improve clarity and presentation. Only one numerically significant amendment was made of £41.4m, which was a reclassification between Cash and Cash Equivalents and Short Term Investments. This did not have any impact on the Council's reported financial position.

## **Annual governance statement**

At the request of officers we undertook early work looking at both the content and format of the AGS. These were considered and incorporated into the new look AGS which was approved alongside the accounts on 26<sup>th</sup> September 2013.

## **Conclusion**

Prior to giving our opinion on the accounts, we are required to report significant matters arising from the audit to 'those charged with governance' (defined as the Audit Committee at the Council). We presented our report to the Audit Committee on 11<sup>th</sup> September 2013 and summarise only the key messages in this Letter.

We issued an unqualified opinion on the Council's 2012/13 accounts on 26<sup>th</sup> September 2013, meeting the deadline set by the Department for Communities and Local Government. Our opinion confirms that the accounts give a true and fair view of the Council's financial position and of the income and expenditure recorded by the Council.

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## Section 3: Value for Money

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# Value for Money

## Scope of work

The Code describes the Council's responsibilities to put in place proper arrangements to:

- secure economy, efficiency and effectiveness in its use of resources
- ensure proper stewardship and governance
- review regularly the adequacy and effectiveness of these arrangements.

We are required to give a VFM conclusion based on the following two criteria specified by the Audit Commission which support our reporting responsibilities under the Code:

**The Council has proper arrangements in place for securing financial resilience.** The Council has robust systems and processes to manage effectively financial risks and opportunities, and to secure a stable financial position that enables it to continue to operate for the foreseeable future.

**The Council has proper arrangements for challenging how it secures economy, efficiency and effectiveness.** The Council is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.

## Key findings

### Securing financial resilience

We have undertaken a review which considered the Council's arrangements against the three expected characteristics of proper arrangements as defined by the Audit Commission:

- financial governance
- financial planning
- financial control.

Our work highlighted that arrangements meet or exceed adequate standards. Further details are provided in our Financial Resilience report issued in October 2013.

### Challenging economy, efficiency and effectiveness

We have reviewed whether the Council has prioritised its resources to take account of the tighter constraints it is required to operate within and whether it has achieved cost reductions and improved productivity and efficiencies.

Our work highlighted that arrangements meet or exceed adequate standards.

## Overall VFM conclusion

On the basis of our work, and having regard to the guidance on the specified criteria published by the Audit Commission, 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 2013.

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## Section 4: Certification of grant claims and returns

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# Certification of grant claims and returns

## **Introduction**

We are required to certify certain of the claims and returns submitted by the Council. This certification typically takes place some six to nine months after the claim period and represents a final but important part of the process to confirm the Council's entitlement to funding.

## **Approach and context to certification**

Arrangements for certification are prescribed by the Audit Commission, which agrees the scope of the work with each relevant government department or agency, and issues auditors with a Certification Instruction (CI) for each specific claim or return.

## **Key messages**

Our work on certification of grant claims is on-going. Only the Teachers' Pension Agency Return requires our certification. Initial work completed as part of the financial statement audit identified non material differences between the claim and the supporting records of the authority. Officers are working on resolving this to ensure that the claim can be certified within the required deadline. The detailed findings of our work will be reported in our Grant Certification report upon completion of our work.

# Appendices

# Appendix A: Reports issued and fees

We confirm below the fee charged for the audit and provision of non-audit services.

## Fees

	Per Audit plan £	Actual fees £
Audit Fee	126,052	126,052
Objection to the accounts		tbc
Grant certification fee	2,900	tbc
<b>Total fees</b>	<b>128,952</b>	<b>tbc</b>

## Grant certification fee

We are only aware of one grant claim that requires certification for 2012/13 and this relates to teachers pensions. Initial fieldwork has commenced in this area, however problems have been experienced in agreeing the return to the authority's payroll records. It is likely that amendments will be required to this return and additional audit fees will be requested to complete the work required. Final fieldwork is scheduled for November, the results of which will be reported in the Certification report.

## Objection to the accounts

Any formal objections to the accounts received from local electors require us to undertake additional work. This is charged on a per diem basis within guidelines set by the Audit Commission. We are liaising with the Head of Finance regarding the fees charged.

## Landfill tax recovery

Members of staff from our tax team are working with officers to reclaim landfill tax from site operators to whom it was originally paid and passed on to HMRC. As a result of a legal case in 2009, HMRC made some significant refunds to site operators but these refunds have not been passed on to the council and others who paid it in the first place. It is well established in tax law that such refunds have to be passed back to benefit those who paid in the first place. The fee which the council is paying is partly on a contingent fee basis, depending on the level of refunds obtained.

## Fees for other services

Service	Fees £
Landfill tax recovery – amount billed to date	5,000

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## Reports issued

Report	Date issued
Audit Plan	24 June 2013
Audit Findings Report	11 September 2013
Certification report	January 2014
VfM – Financial Resilience Report	October 2013
Annual Audit Letter	October 2013



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