The Audit Findings for Warwick District Council

Year ended 31 March 2021

Warwick District Council

3 November 2021

Contents

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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit planning process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the Council or all weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

This Audit Findings presents the observations arising from the audit that are significant to the responsibility of those charged with governance to oversee the financial reporting process, as required by International Standard on Auditing (UK) 260. Its contents have been discussed with management.

Grant Patterson

Name : Grant Patterson
For Grant Thornton UK LLP
Date : 3 November 2021

1. Headlines

This table summarises the key findings and other matters arising from the statutory audit of Warwick District Council ('the Council') and the preparation of the Council's financial statements for the year ended 31 March 2021 for those charged with governance.

Financial Statements

Under International Standards of Audit (UK) (ISAs) and the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion:

- the Council's financial statements give a true and fair view of the financial position of the Council and its income and expenditure for the year; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting and prepared in accordance with the Local Audit and Accountability Act 2014.

We are also required to report whether other information published together with the audited financial statements (including the Annual Governance Statement (AGS), and Narrative Report), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

Our audit work was completed on remotely during July-October. Our findings are summarised on pages 5 to 17.

We have not identified any adjustments to the financial statements that have resulted in an adjustment to the Council's Comprehensive Income and Expenditure Statement and General Fund balance. However, on 28 September 2021 the Council received a revised actuarial report which better reflected pension fund assets as at 31 March. This resulted in an increase in the Council's share of pension fund assets of £2,851k, and a corresponding reduction in the net liability. The pension fund note, Balance Sheet and Movement in Reserves Statement will be adjusted for this movement. There has also been a £1,000k reclassification between cash and short-term debtors.

There remains a difference between the Council's fixed asset register and the ledger. This has increased to £89k (PY £50k) and is now just above our trivial level. Management are not proposing to adjust on the basis of materiality. The Finance & Audit Scrutiny Committee will be asked to confirm their agreement to this through their approval of the Letter of Representation. Audit adjustments are detailed in Appendix C.

Our work is substantially complete and there are no matters of which we are aware that would require modification of our audit opinion [Appendix E] or material changes to the financial statements, subject to the following outstanding matters:

- completion of our work in relation to property valuations;
- completion of our work in relation to the net pension liability;
- completion of our work in relation to journals testing;
- completion of our work in relation to the Movement in Reserves Statement;
- completion of our work in relation to housing benefit expenditure;
- receipt of management representation letter; and
- review of the final set of financial statements.

We have concluded that the other information to be published with the financial statements, is consistent with our knowledge of your organisation and the financial statements we have audited.

We have also raised recommendations for management as a result of our audit work in Appendix A. Our follow up of recommendations from the prior year's audit are detailed in Appendix B. There are three new recommendations and two rolled over recommendations in respect of:

- undertaking monthly reconciliations for the "whole" cash in bank account and reconciling the difference of £94k between the adjusted cash balance per the bank reconciliation and balance per the ledger;
- continuing to improve the process and timing of property valuations;
- the continuing need to reconcile the fixed asset register with the general ledger;
- the availability of floor area information to support property valuations; and
- the process for estimating the provision for business rates appeals.

Our anticipated audit report opinion will be unmodified.

1. Headlines

Value for Money (VFM) arrangements	
Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to consider whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. Auditors are now required to report in more detail on the Council's overall arrangements, as well as key recommendations on any significant weaknesses in arrangements identified during the audit. Auditors are required to report their commentary on the Council's arrangements under the following specified criteria: - Improving economy, efficiency and effectiveness; - Financial sustainability; and - Governance	We have not yet completed all of our VFM work and so are not in a position to issue our Auditor's Annual Report. An audit letter explaining the reasons for the delay was presented to Finance and Audit Scrutiny Committee on 22 September 2021. We expect to issue our Auditor's Annual Report shortly after the Finance and Audit Scrutiny Committee on 15 December 2021. This is in line with the National Audit Office's revised deadline, which requires the Auditor's Annual Report to be issued no more than three months after the date of the opinion on the financial statements. As part of our work, we considered whether there were any risks of significant weakness in the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources. We identified risks in respect of financial sustainability, closer working with Stratford upon Avon District Council and the establishment of the housing company (Milverton Homes Ltd). Our work on this risk is underway and an update is set out in the value for money arrangements section of this report.
Statutory duties	
The Local Audit and Accountability Act 2014 ('the Act') also requires us to: • report to you if we have applied any of the additional powers and duties ascribed to us under the Act; and • to certify the closure of the audit.	We have not exercised any of our additional statutory powers or duties. We expect to certify the completion of the audit upon the completion of our work on the Council's VFM arrangements, which will be reported in our Annual Auditor's report in December 2021, and the Whole of Government Accounts assurance statement – the guidance for which is not expected until December 2021.
Significant Matters	Whilst we did not encounter any significant difficulties or identify any significant matters arising during our audit our work on property valuations was again challenging. It took a long time for us to be satisfied that the revaluations provided by the external valuer, Carter Jonas, had been properly reflected in the financial statements. The revised auditing standard in relation to estimates has also ed to heightened scrutiny over the estimates in the accounts, particularly in this area and pension valuations.

2. Financial Statements

Overview of the scope of our audit

This Audit Findings Report presents the observations arising from the audit that are significant to the responsibility of those charged with governance to oversee the financial reporting process, as required by International Standard on Auditing (UK) 260 and the Code of Audit Practice ('the Code'). Its contents have been discussed with management.

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

Audit approach

Our audit approach was based on a thorough understanding of the Council's business and is risk based, and in particular included:

- An evaluation of the Council's internal controls environment, including its IT systems and controls; and
- Substantive testing on significant transactions and material account balances, including the procedures outlined in this report in relation to the key audit risks.

Conclusion

We have substantially completed our audit of your financial statements and subject to outstanding queries being resolved, we anticipate issuing an unqualified audit opinion following the Finance & Audit Scrutiny Committee meeting on 3 November 2021, as detailed in Appendix E. These outstanding items include:

- completion of our work in relation to property valuations;
- completion of our work in relation to the net pension liability;
- completion of our work in relation to journals testing;
- completion of our work in relation to the Movement in Reserves Statement;
- completion of our work in relation to housing benefit expenditure;
- receipt of management representation letter; and
- review of the final set of financial statements.

Acknowledgements

We would like to take this opportunity to record our appreciation for the assistance provided by the finance team and other staff. The impact of the pandemic has meant that both your finance team and our audit team faced audit challenges again this year, such as remote access working arrangements video calling, physical verification of assets, and verifying the completeness and accuracy of information provided remotely produced by the Council.

2. Financial Statements

Our approach to materiality

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law.

We have revised materiality due to the actual gross expenditure changing significantly from that at the planning stage resulting in a review of the appropriateness of the materiality figure.

We detail in the table below our determination of materiality for Warwick District Council

	Planning Amount (£m)	Final Amount (£m)	Qualitative factors considered
Materiality for the financial statements	1.6	1.4	We initially determined materiality for the audit of the Council's financial statements as a whole to be £1,600,000, which equates to approximately 1.6% of the Council's gross operating expenses for the prior period. On receipt of the draft 2020/21 financial statements gross expenditure had decreased from £97,979k to £90,861k. We re-calculated materiality on the lower figure. 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.
Performance materiality	1.12	0.98	We use a different level of materiality, performance materiality, to drive the extent of our testing and this was set at 70% of financial statement materiality for the audit of the financial statements. Our consideration of performance materiality is based upon a number of factors: • We are not aware of a history of significant deficiencies or a high number of deficiencies in the control environment. • There has not historically been a large number or significant misstatements arising as a result of the financial statements audits at the Council. • Senior management and key reporting personnel in the finance function has remained stable from the prior year audit.
Trivial matters	0.08	0.07	We determined the threshold at which we will communicate misstatements to the Finance & Audit Scrutiny Committee to be £70k.
Materiality for senior officers' remuneration	0.1	0.1	In accordance with ISA320 we have considered the need to set lower levels of materiality for sensitive balances, transactions or disclosures in the accounts. We consider the disclosures of senior officer remuneration to be sensitive as we believe these disclosures are of specific interest to the reader of the accounts.

2. Financial Statements – key messages

Key messages arising from our financial statements work

- the financial statements were submitted before the deadline;
- officers have made a number of minor changes to the financial statements to correct typographical errors;
- officers made adjustments to a number of notes in order to improve clarity and to better comply with the CIPFA Code. None of these adjustments impacted the Council's financial performance;
- our work on Note 20 – Cash & Cash Equivalents – took a lot longer than planned. Officers prepared a revised bank reconciliation which resulted in a net movement of £1m between bank current accounts and short-term debtors. While there is no impact on the Net Current Assets, we have made a recommendation on page 25 for Officers to address this.
- the financial statements have been updated to reflect the impact of latest IAS 19 actuarial report from the Council's actuary, Hyman Robertson. This had the affect of increasing the Council's share of pension fund assets by £2.851m, and reducing the net liability by the same amount. This arose owing to changes in the value of pension fund assets between the actuarial report used to prepare the financial statements and the values as at 31 March 2021;
- officers have included an additional disclosure note in regard to the early payment of pension contributions in order to receive a discount. This also explains that he Pensions Reserve is £57,452k, with the net liability £52,687. The £4,755k difference being the early payment.
- our work on the business rates (NNDR) provision identified that the provision is estimated based on the national average of 4.7% which is applicable in the previous calculations of provisions for business rates appeals. We have recommended that the Council should consider the Check, Challenge and Appeal (CCA) in the computation of provision for business rates appeals. We also noted that management had been over-providing for appeals as they has not been taking off the actioned appeals from the calculation using the 4.7%. This led to the removal of £3,628k provisions as shown in Note 22. The 2017 check, challenge and appeals details have only recently become available to Councils. This has led to an improvement in the estimation technique, with the resulting change as noted.
- our work on property valuations was again challenging. It took a long time for us to be satisfied that the revaluations provided by the external valuer, Carter Jonas, had been properly reflected in the financial statements. Our work identified a number of issues, and we have made two recommendations on page 25:
  - officers use the change in value of those assets revalued in year as a proxy for those that are not revalued. Where the estimated change in value of those assets not revalued is material, officers request further valuations. However, the change in asset values had been applied incorrectly. While this has not had a material impact in this financial year, it could result in the Council obtaining unnecessary valuations, or a material difference in value at 31 March.
  - the fixed asset register (Logotech) does not agree to the general ledger. There is an £89k difference between the two. Last year we reported the difference as being £50k, so it has nearly doubled in year but is only just above our trivial level. Officers have been unable to identify the cause of this, other than to comment that it may be due to asset lives being revised, with a difference arising in depreciation between Logotech and the manually calculated spreadsheets used for the ledger; or revaluations being incorrectly entered into Logotech.
  - valuations conducted by Carter Jonas did not include any in year additions. As the additions will have been known at the time of the valuations, including them in the instructions to the valuer would then eliminate the need for further adjustments to asset values.
  - neither the external valuer, Carter Jonas, nor officers, were able to provide us with floor areas for the assets we tested. We were provided with floor plans, but these did not include any measurements. As floor area is a key determinant in the valuation of some properties officers need to ensure that this information is readily available.

2. Financial Statements - Significant risks

Significant risks are defined by ISAs (UK) as risks that, in the judgement of the auditor, require special audit consideration. In identifying risks, audit teams consider the nature of the risk, the potential magnitude of misstatement, and its likelihood. Significant risks are those risks that have a higher risk of material misstatement.

This section provides commentary on the significant audit risks communicated in the Audit Plan.

Risks identified in our Audit Plan	Commentary
Management override of controls Under ISA (UK) 240, there is a non-rebuttable presumed risk that management override of controls is present in all entities. The Council faces external scrutiny of its spending and this could potentially place management under undue pressure in terms of how they report performance. We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk of material misstatement.	To address this risk we: • evaluated the design effectiveness of management controls over journals; • analysed the journals listing and determined the criteria for selecting high risk unusual journals; • tested unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration; • gained an understanding of the accounting estimates and critical judgements applied by management and considered their reasonableness with regard to corroborative evidence; and • evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions. **Findings** Our audit work in this area is nearly complete. To date we have not identified any evidence of management override of controls.
Improper revenue recognition Under ISA (UK) 240, there is a rebuttable 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. As external auditors in the public sector, we are also required to give regard to Practise Note 10, which interprets the ISA in a public sector context and directs us to consider whether the assumption also applies to expenditure.	Having considered the risk factors set out in ISA 240 and the nature of the revenue streams at the Council, we determined that the risk of fraud arising from revenue and expenditure recognition can be rebutted, because: • there is little incentive to manipulate revenue and expenditure recognition • opportunities to manipulate revenue and expenditure recognition are very limited; and • the culture and ethical frameworks of local authorities, including Warwick District Council, mean that all forms of fraud are seen as unacceptable. Therefore we did not consider this to be a significant risk for Warwick District Council. **Findings** Our audit work did not identify any issues which caused us to re-consider our initial assessment.

2. Financial Statements - Significant risks

Risks identified in our Audit Plan	Commentary
Valuation of land and buildings and investment properties The Council revalues its land, buildings and council dwellings 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 (approximately £402m of council dwellings, £81m other land & buildings and £10m of investment property in the prior period) and the sensitivity of this estimate to changes in key assumptions. Additionally, management will need to ensure the carrying value in the Council financial statements is not materially different from the current value of the fair value (for surplus assets) at the financial statements date, where a rolling program is used. We have 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.	To address this risk we: • Evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work; • Evaluated the competence, capabilities and objectivity of the valuation expert; • Wrote to the valuer to confirm the basis on which the valuation was carried out to ensure that the requirements of the CIPFA Code are met; • Challenged the information and assumptions used by the valuer to assess completeness and consistency with our understanding; • Tested revaluations made during the year to see if they had been input correctly into the Council's balance sheet; • Evaluated assumptions made by management for assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value at year end. **Findings** Our audit work in this area has been challenging, and is ongoing. We have set out the main challenges on page 7. We are still working with the external valuer, Carter Jonas, and with officers, to complete our detailed testing on the sample of assets selected. However, our work to date has not raised any concerns that the valuations are materially misstated.

2. Financial Statements - Significant risks

Risks identified in our Audit Plan	Commentary
Valuation of the pension fund net liability 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. The pension fund net liability is considered a significant estimate due to the size of the numbers involved (£53m in the Authority's balance sheet) and the sensitivity of the estimate to changes in key assumptions. The methods applied in the calculation of the IAS 19 estimates are routine and commonly applied by all actuarial firms in line with the requirements set out in the Code of practice for local government accounting (the applicable financial reporting framework). We have therefore concluded that there is not a significant risk of material misstatement in the IAS 19 estimate due to the methods and models used in their calculation. The source data used by the actuaries to produce the IAS 19 estimates is provided by administering authorities and employers. We do not consider this to be a significant risk as this is easily verifiable. The actuarial assumptions used are the responsibility of the entity but should be set on the advice given by the actuary. A small change in the key assumptions (discount rate, inflation rate, salary increase and life expectancy) can have a significant impact on the estimated IAS 19 liability. In particular the discount and inflation rates, where the actuary has indicated that a 0.5% change in these two assumptions would have an approximately £17m - £20m (8.3 to 9.8%) effect on the gross liability. We have therefore concluded that there is a significant risk of material misstatement in the IAS 19 estimate due to the assumptions used in their calculation. With regard to these assumptions we have therefore identified valuation of the Authority's pension fund net liability as a significant risk.	To address this risk we: • Updated our understanding of the processes and controls put in place by management to gain reasonable assurance that Council's net pension liability is not materially misstated and evaluate the design of the associated controls; • Evaluated the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work; • Assessed the competence, capabilities and objectivity of the actuary who carried our the Council's pension fund valuation; • Assessed the accuracy and completeness of the information provided by the Council to the actuary to estimate the liability; • 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; • 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; and • Obtained assurances from the auditor of Warwickshire Pension Fund as to the controls surrounding the validity and accuracy of membership data, contributions data and benefits data sent to the actuary by the pension fund and the fund assets valuation in the pension fund financial statements. **Findings** Our audit work in this area is ongoing. As noted on page 7, the Council has been provided with an updated actuarial report which fully reflects the pension fund assets valuations as at 31 March 2021. This has resulted in the Council's share of the pension fund assets increasing by £2.851m, and the net liability decreasing by the same amount. Our work to date has not raised any issues we need to report and, based on the work completed, we are satisfied that the net pension liability is fairly stated.

2. Financial Statements – key judgements and estimates

This section provides commentary on key estimates and judgements inline with the enhanced requirements for auditors.

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Land and Building valuations – £81.427m	Other land and buildings comprises specialised assets of £36.9m which include assets such as Newbold Comyn Leisure Centre, Royal Spa Centre, Pump rooms, which are required to be valued at depreciated replacement cost (DRC) at year end. The remainder of other land and buildings (£44.6m) are not specialised in nature and are required to be valued at existing use in value (EUV) at year end. The Council has engaged its own external valuer, Carter Jonas LLP, to complete the valuation of properties on a four yearly cyclical basis.	We have: • Assessed the objectiveness and competency of management's expert • Determined the accuracy of the underlying information used to determine the estimate • Compared the consistency of estimate against a report from Gerald Eve setting out indices movements in the year • Tested the value of the properties by comparing a sample to enable us to assess the reasonableness of the increase in the estimate • Reviewed the adequacy of disclosure of estimate in the financial statements Whilst we are satisfied there is no material misstatement in the value of Other Land and Buildings we did identify improvements which could be made to the revaluation process. These are reported on page 7, and are included as recommendations at Appendix A.	We consider management's process is appropriate and key assumptions are neither optimistic or cautious.

Assessment

- [Purple] We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- [Blue] We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- [Grey] We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- [Light Purple] We consider management's process is appropriate and key assumptions are neither optimistic or cautious

2. Financial Statements - key judgements and estimates

Significant judgement or estimate | **Summary of management's approach** | **Audit Comments** | **Assessment**

Net pension liability – £52.7m

Summary of management's approach

The Council's total net pension liability at 31 March 2021 per the draft accounts is £57.452m (PY £40.891m) .

The Council uses Hymans Robertson LLP to provide actuarial valuations of the Council's assets and liabilities derived from the Local Government Pension Scheme in which it participates, (which is the Warwickshire Pension Fund, administered by Warwickshire County Council).

A full actuarial valuation is required every three years. A roll forward approach is used in intervening periods which utilises key assumptions such as life expectancy, discount rates, salary growth and investment returns. Given the significant value of the net pension fund liability, small changes in assumptions can result in significant valuation movements.

The 31st March 2019 formal valuations for English and Welsh LGPS Funds were concluded by 31st March 2020..

The Council has received a revised IAS19 report from Hymans Robertson to reflect the actual return on plan assets for the year to 31 March 2021. The impact of this is a revised net pension liability of £49.846m, a reduction in the liability of £2.851m. The Council has adjusted for this. Please refer to Appendix C.

Audit Comments

PwC were engaged by the Audit Commission (and subsequently the NAO) as consulting actuary to undertake a central review of the actuaries used by the Local Government Pension Scheme (LGPS).

They produce a report designed to provide support to auditors when assessing the competence and objectivity of, and assumptions and approach adopted by, actuaries producing IAS 19 figures in respect of the LGPS, Police and Fire schemes as at 31 March 2021.

Assumption	Actuary Value	PwC range	Assessment
Discount rate	2%	1.95% - 2.05%	● (G)
Pension increase rate	2.85%	2.85% - 2.80%	● (G)
Salary growth	3.65%	2.80% - 3.85%	● (G)
Life expectancy – Males currently aged 45 / 65	23 / 21.8	21.8-24.3 / 20.4-22.7	● (G)
Life expectancy – Females currently aged 45 / 65	26.1 / 24.2	25.2-26.7 / 23.2-24.9	● (G)

We have also reviewed the:

- Completeness and accuracy of the underlying information used to determine the estimate
- There have been no changes to the valuation method since the previous year, other than the updating of key assumptions above.
- Reasonableness of the Council's share of LGPS pension assets.
- Reasonableness of decrease in estimate
- Adequacy of disclosure of the estimate in the financial statements

Assessment

We consider management's process is appropriate and key assumptions are neither optimistic or cautious.

Assessment

- ● Dark Purple We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- ● Blue We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- ● Grey We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- ● Light Purple We consider management's process is appropriate and key assumptions are neither optimistic or cautious

2. Financial Statements - key judgements and estimates

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Provisions - NNDR appeals - £3.699m (£0.849m short-term, £2.820m long-term)	The Council is responsible for repaying a proportion of successful rateable value appeals. Management calculate the level of provision required based upon the latest information about outstanding rates appeals provided by the Valuation Office Agency (VOA) and previous success rates.	We have: • Reviewed the appropriateness of the underlying information used to determine the estimate • Considered the reasonableness of increase/decrease in estimate • Confirmed the adequacy of disclosure of estimate in the financial statements We note that the provision is estimated based on the national average of 4.7% which is applicable in the previous calculations of provisions for business rates appeals. Moving forward, the Council should consider the Check, Challenge and Appeal (CCA) in the computation of provision for business rates appeals. We also note that management had been over-providing for appeals as they has not been taking off the actioned appeals from the calculation using the 4.7%. This led to the removal of £3,628k provisions as shown in Note 22. The 2017 check, challenge and appeals details have only recently become available to Councils. This has led to an improvement in the estimation technique, with the resulting change as noted.	We consider management's process is appropriate and key assumptions are neither optimistic or cautious.

Assessment

- Dark Purple We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- Blue We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- Grey We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- Light Purple We consider management's process is appropriate and key assumptions are neither optimistic or cautious

2. Financial Statements - key judgements and estimates

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Grants Income Recognition and Presentation- £59.4m	Note 33 – Grant Income – includes £6m in respect of Covid-19 grants from Government. We have reviewed each of the significant grants received in respect of Covid-19, and are satisfied that the Council has appropriately concluded whether it is acting as agent or principal.	We have considered: • whether the Council is acting as the principal or agent which would determine whether the authority recognises the grant at all; • the completeness and accuracy of the underlying information used to determine whether there are conditions outstanding (as distinct from restrictions) that would determine whether the grant be recognised as a receipt in advance or income • the impact for grants received, whether the grant is specific or non specific grant (or whether it is a capital grant) – which impacts on where the grant is presented in the CIES; and • the adequacy of disclosure of judgement in the financial statements. Our work has not identified any issues in relation to judgements or estimates.	We consider management's process is appropriate and key assumptions are neither optimistic or cautious.
Land and Buildings – Council Housing - £411.124m	The Council owns 5,462 dwellings and is required to revalue these properties in accordance with MHCLG's Stock Valuation for Resource Accounting guidance. The guidance requires the use of beacon methodology, in which a detailed valuation of representative property types is then applied to similar properties. The Council's last full valuation of council dwellings was as at 31 March 2021. The year end valuation of Council Housing was £411.124m, a net increase of £9.005m from 2019/20 (£402.119m). This is made up of: Asset additions £7.584m Asset disposals (£1.491m) Revaluation Increases £2.912m TOTAL £9.005m	We have: • Assessed management's expert, • Reviewed the completeness and accuracy of the underlying information used to determine the estimate • Assessed the impact of any changes to valuation method • Considered the reasonableness of the increase in estimate • Considered where the disclosures relating to the estimate are appropriate in the financial statements Our work in this area is ongoing. To date we have not identified any issues which indicate the valuation of council dwellings is materially misstated.	We consider management's process is appropriate and key assumptions are neither optimistic or cautious.

Assessment

- Dark Purple We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- Blue We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- Grey We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- Light Purple We consider management's process is appropriate and key assumptions are neither optimistic or cautious

2. Financial Statements - key judgements and estimates

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Minimum Revenue Provision - £0.244m	The Council is responsible on an annual basis for determining the amount charged for the repayment of debt known as its Minimum Revenue Provision (MRP). The basis for the charge is set out in regulations and statutory guidance and the Council's policy for the calculation of MRP is set out in its annual budget setting report presented to Council. The year-end MRP charge was £0.244m, a net increase of £6k from 2019/20.	We have assessed this estimate, considering: • the Council primarily applies MRP to internal borrowing / loans for three assets – St Nicholas Park Leisure Centre; Newbold Comyn Leisure Centre and Europa Way Spine Road • in accordance with the relevant guidance, the Council does not provide MRP on the borrowing incurred as part of the self financing of the Housing Revenue Account. • whether the MRP has been calculated in line with the statutory guidance • whether the Council's policy on MRP complies with statutory guidance. • whether any changes to the authority's policy on MRP have been discussed and agreed with those charged with governance and have been approved by full council • the reasonableness of the increase in MRP charge We have no findings to report.	We consider management's process is appropriate

Assessment

- Dark Purple We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- Blue We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- Grey We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- Light Purple We consider management's process is appropriate and key assumptions are neither optimistic or cautious

2. Financial Statements - other communication requirements

We set out below details of other matters which we, as auditors, are required by auditing standards and the Code to communicate to those charged with governance.

Issue	Commentary
Matters in relation to fraud	• We have previously discussed the risk of fraud with the Finance & Audit Scrutiny Committee. We have not been made aware of any other incidents in the period and no other issues have been identified during the course of our audit procedures.
Matters in relation to related parties	• We are not aware of any related parties or related party transactions which have not been disclosed.
Matters in relation to laws and regulations	You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work.
Written representations	• A letter of representation has been requested from the Council, which is included with the Committee papers.
Confirmation requests from third parties	• We requested from management permission to send confirmation requests to those organisations with which is banks, invests and borrows from. This permission was granted. • We have identified no issues from the work performed to date.
Accounting practices	• We have evaluated the appropriateness of the Council's accounting policies, accounting estimates and financial statement disclosures. Our review found no material omissions in the financial statements.
Audit evidence and explanations/ significant difficulties	• All information and explanations requested from management were provided as requested. • However, as noted last year, remote working has highlighted the complexity of the Council's underlying financial systems. It has taken additional time to explain the audit trail of transactions through remote working rather than discussing processes and procedures in person. Certain reports have also taken longer to obtain in an appropriate format than would be expected, for example the bank reconciliation and journal reports. The finance team are aware of the limitations with the current finance system and have procured a replacement finance package which is due for implementation in 2021/22.

2. Financial Statements - other communication requirements

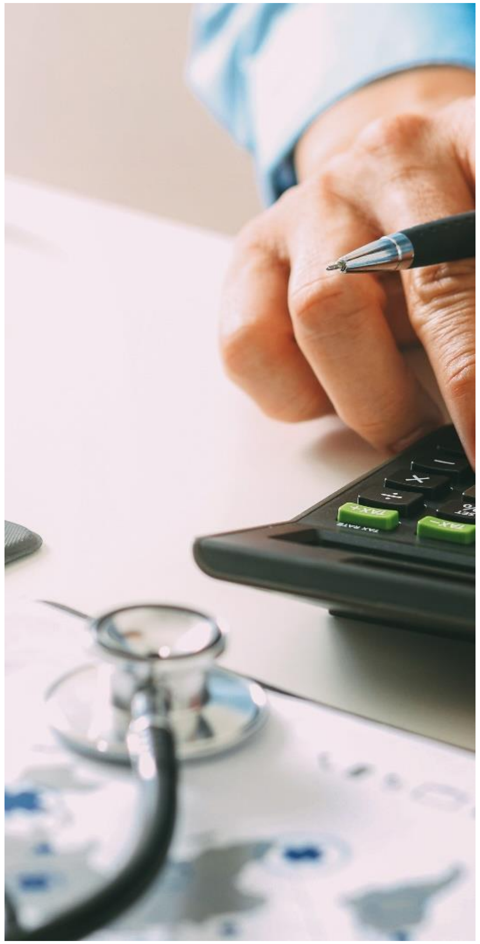
Our responsibility

As auditors, we are required to "obtain sufficient appropriate audit evidence about the appropriateness of management's use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the entity's ability to continue as a going concern" (ISA (UK) 570).

Issue	Commentary
Going concern	In performing our work on going concern, we have had reference to Statement of Recommended Practice – Practice Note 10: Audit of financial statements of public sector bodies in the United Kingdom (Revised 2020). The Financial Reporting Council recognises that for particular sectors, it may be necessary to clarify how auditing standards are applied to an entity in a manner that is relevant and provides useful information to the users of financial statements in that sector. Practice Note 10 provides that clarification for audits of public sector bodies. Practice Note 10 sets out the following key principles for the consideration of going concern for public sector entities: • the use of the going concern basis of accounting is not a matter of significant focus of the auditor's time and resources because the applicable financial reporting frameworks envisage that the going concern basis for accounting will apply where the entity's services will continue to be delivered by the public sector. In such cases, a material uncertainty related to going concern is unlikely to exist, and so a straightforward and standardised approach for the consideration of going concern will often be appropriate for public sector entities • for many public sector entities, the financial sustainability of the reporting entity and the services it provides is more likely to be of significant public interest than the application of the going concern basis of accounting. Our consideration of the Council's financial sustainability is addressed by our value for money work, which is covered elsewhere in this report. Practice Note 10 states that if the financial reporting framework provides for the adoption of the going concern basis of accounting on the basis of the anticipated continuation of the provision of a service in the future, the auditor applies the continued provision of service approach set out in Practice Note 10. The financial reporting framework adopted by the Council meets this criteria, and so we have applied the continued provision of service approach. In doing so, we have considered and evaluated: • the nature of the Council and the environment in which it operates • the Council's financial reporting framework • the Council's system of internal control for identifying events or conditions relevant to going concern • management's going concern assessment. On the basis of this work, we have obtained sufficient appropriate audit evidence to enable us to conclude that: • a material uncertainty related to going concern has not been identified • management's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

2. Financial Statements - other responsibilities under the Code

Issue	Commentary
Other information	We are required to give an opinion on whether the other information published together with the audited financial statements (including the Annual Governance Statement and Narrative Report), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. Minor inconsistencies between the Narrative Report and financial statements have been identified but have been adequately rectified by management. We plan to issue an unmodified opinion in this respect – please refer to appendix E
Matters on which we report by exception	We are required to report on a number of matters by exception in a number of areas: • if the Annual Governance Statement does not comply with disclosure requirements set out in CIPFA/SOLACE guidance or is misleading or inconsistent with the information of which we are aware from our audit, • if we have applied any of our statutory powers or duties. • where we are not satisfied in respect of arrangements to secure value for money and have reported [a] significant weakness/es. We have nothing to report on these matters.
Specified procedures for Whole of Government Accounts	We are required to carry out specified procedures (on behalf of the NAO) on the Whole of Government Accounts (WGA) consolidation pack under WGA group audit instructions. We do not anticipate detailed work being required as the Council normally does not exceed the threshold for this. However, the guidance and assurance statement for 2020/21 are not expected until December 2021.
Certification of the closure of the audit	We intend to delay the certification of the closure of the 2020/21 audit of Warwick District Council in the audit report, as detailed in appendix E, due to incomplete VFM work and awaiting the WGA guidance and assurance statement.



3. Value for Money arrangements

Revised approach to Value for Money work for 2020/21

On 1 April 2020, the National Audit Office introduced a new Code of Audit Practice which comes into effect from audit year 2020/21. The Code introduced a revised approach to the audit of Value for Money. (VFM)

There are three main changes arising from the NAO's new approach:

- A new set of key criteria, covering financial sustainability, governance and improvements in economy, efficiency and effectiveness
- More extensive reporting, with a requirement on the auditor to produce a commentary on arrangements across all of the key criteria.
- Auditors undertaking sufficient analysis on the Council's VFM arrangements to arrive at far more sophisticated judgements on performance, as well as key recommendations on any significant weaknesses in arrangements identified during the audit.

The Code require auditors to consider whether the body has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. When reporting on these arrangements, the Code requires auditors to structure their commentary on arrangements under the three specified reporting criteria.

Improving economy, efficiency and effectiveness

Arrangements for improving the way the body delivers its services. This includes arrangements for understanding costs and delivering efficiencies and improving outcomes for service users.

Financial Sustainability

Arrangements for ensuring the body can continue to deliver services. This includes planning resources to ensure adequate finances and maintain sustainable levels of spending over the medium term (3-5 years)

Governance

Arrangements for ensuring that the body makes appropriate decisions in the right way. This includes arrangements for budget setting and management, risk management, and ensuring the body makes decisions based on appropriate information

Potential types of recommendations

A range of different recommendations could be made following the completion of work on the body's arrangements to secure economy, efficiency and effectiveness in its use of resources, which are as follows:

Statutory recommendation

Written recommendations to the body under Section 24 (Schedule 7) of the Local Audit and Accountability Act 2014. A recommendation under schedule 7 requires the body to discuss and respond publicly to the report.

Key recommendation

The Code of Audit Practice requires that where auditors identify significant weaknesses in arrangements to secure value for money they should make recommendations setting out the actions that should be taken by the body. We have defined these recommendations as 'key recommendations'.

Improvement recommendation

These recommendations, if implemented should improve the arrangements in place at the body, but are not made as a result of identifying significant weaknesses in the body's arrangements.

3. VFM - our procedures and conclusions

We have not yet completed all of our VFM work and so are not in a position to issue our Auditor's Annual Report. An audit letter explaining the reasons for the delay was presented to the Finance and Audit Scrutiny Committee on 22 September 2021. We expect to issue our Auditor's Annual Report by 17 December 2021. This is in line with the National Audit Office's revised deadline, which requires the Auditor's Annual Report to be issued no more than three months after the date of the opinion on the financial statements.

As part of our work, we considered whether there were any risks of significant weakness in the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources. We identified the risks set out in the table below. We have performed further procedures in respect of these risks and have completed this element of our VFM work. Our conclusions are detailed below.

Risk of significant weakness	**Work completed to date**
Financial Sustainability In our audit plan presented to the Finance & Audit Scrutiny Committee on 7 July 2021, we commented "The Council is now forecasting to achieve an improved position on its 2020/21 Budget compared to the position previously reported to Members. However, to balance the budget in the current year, it has been necessary to make greater use of the Business Rates Retention Volatility Reserve (BRRVR). Taking into account government funding, expenditure savings and re-profiling the Council's MTFS now indicates that additional savings will not be required before 2023/24. However, the financial position does remain volatile and therefore maintaining reserve levels remains a priority. The Council will need to maintain focus on delivering its budget, and be agile in the face of any continuing impacts of the pandemic. We will review the Council's Medium Term Financial Statement and financial monitoring reports and assess the assumptions being used and savings being achieved."	We noted that we would review the Council's Medium Term Financial Statement and financial monitoring reports and assess the assumptions being used and savings being achieved. Our work in this area remains in progress. We have conducted file reviews and had discussions with the Head of Finance. Through this we have considered: • how the Council ensures that it identifies all the significant financial pressures that are relevant to its short and medium-term plans and builds these into them plans • how the Council plans to bridge its funding gaps and identifies achievable savings • how the Council plans finances to support the sustainable delivery of services in accordance with strategic and statutory priorities • how the body identifies and manages risks to financial resilience, e.g. unplanned changes in demand, including challenge of the assumptions underlying its plans We are in the process of drawing our findings together but have not identified any significant weaknesses from the work done to date.

3. VFM - our procedures and conclusions

Risk of significant weakness	Outcome
Governance and the 3Es In our audit plan presented to the Finance & Audit Scrutiny Committee on 7 July 2021, we commented "The Council is working closer with Stratford on Avon DC (SAVDC) – in February 2021 both the Council and SACDC agreed to seek a merger by 1 April 2024. The councils are appointing joint Heads of Service and have established a Joint Cabinet. Savings are anticipated through greater integration and we will review progress and governance as part of our work."	Our work in this area remains in progress. We have conducted file reviews and spoken to officers. We will undertake further meetings and work. Again, we are in the process of drawing our findings together but have not identified any significant weaknesses from the work done to date.
Governance and the 3Es In our audit plan presented to the Finance & Audit Scrutiny Committee on 7 July 2021, we commented "The Council established a Housing Company in March 2021. It is intended that the Company will primarily develop properties for market sale and market rent. The Company will be able to access loans of between £45-60m from the Council. As noted in recent Public Interest Reports at other councils the governance and accountability arrangements around such companies are important to ensure value for money for the public. We will therefore review the arrangements established by the Council as part of our work	Our work in this area remains in progress. We have conducted file reviews and spoken to officers. We will undertake further meetings and work. Again, we are in the process of drawing our findings together but have not identified any significant weaknesses from the work done to date.

4. Independence and ethics

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Financial Reporting Council's Ethical Standard and confirm that we, as a firm, and each covered person, are independent and are able to express an objective opinion on the financial statements

We confirm that we have implemented policies and procedures to meet the requirements of the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.

Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in May 2020 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

Details of fees charged are detailed in Appendix D.

Transparency

Grant Thornton publishes an annual Transparency Report, which sets out details of the action we have taken over the past year to improve audit quality as well as the results of internal and external quality inspections. For more details see Transparency report 2020 (grantthornton.co.uk)

4. Independence and ethics

Audit and 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 following non-audit services were identified which were charged from the beginning of the financial year to 3 November 2021, as well as the threats to our independence and safeguards that have been applied to mitigate these threats.

Service	Fees £	Threats identified	Safeguards
Audit related			
Certification of Housing capital receipts grant	2,300	Self-Interest (because this is a recurring fee) Self review (because GT provides audit services)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £2,300 in comparison to the total fee for the audit and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level. To mitigate against the self review threat , the timing of certification work is done after the audit has completed, materiality of the amounts involved to our opinion and unlikelihood of material errors arising and the Council has informed management who will decide whether to amend returns for our findings and agree the accuracy of our reports on grants.
Certification of Housing Benefit Grant Claim	17,250	Self-Interest (because this is a recurring fee) Self review (because GT provides audit services)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £17,250 in comparison to the total fee for the audit and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level. To mitigate against the self review threat , the timing of certification work is done after the audit has completed, materiality of the amounts involved to our opinion and unlikelihood of material errors arising and the Council has informed management who will decide whether to amend returns for our findings and agree the accuracy of our reports on grants.

None of the services provided are subject to contingent fees.

Appendices

A. Action plan – Audit of Financial Statements

We have identified four recommendations for the Council as a result of issues identified during the course of our audit. We have agreed our recommendations with management and we will report on progress on these recommendations during the course of the 2021/22 audit. The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

Assessment	Issue and risk	Recommendations
Medium	Fixed Asset Register There is an £89k difference between the fixed asset register and the ledger, and hence the financial statements. As noted on page 7, Officers are unable to identify why this is and correct the imbalance. While there is little risk of the property values being materially misstated, even over time, the two should agree.	Management should identify and correct the differences between the fixed asset register and the ledger. Management response This will be addressed as part of the implementation of the new Financial Management System, with any adjustment required to rectify the imbalance reflected in the 2021/22 Statement of Accounts.
Medium	Floor area evidence to support property valuations Neither the external valuer, Carter Jonas, nor officers, were able to provide us with floor areas for the assets we tested. We were provided with floor plans, but these did not include any measurements.	As floor area is a key determinant in the valuation of some properties Management need to ensure that this information is readily available. Management response Work with the Assets team will commence to ensure Floor areas plans (with measurements) are held and made available for the external valuer as necessary.
Medium	Provision for Business rates appeals The provision is estimated based on the national average of 4.7% which is applicable in the previous calculations of provisions for business rates appeals. By using an out of date process the estimate of the provision could be misstated.	The Council should consider the Check, Challenge and Appeal (CCA) in the computation of provision for business rates appeals. Management response With more data now available on Check, Challenge, Appeal being incorporated into our provision, the risk of future assessments of the business rates appeals being misstated should be reduced.

Controls

- High – Significant effect on financial statements
- Medium – Limited Effect on financial statements
- Low – Best practice

A. Action plan – Audit of Financial Statements

Assessment	Issue and risk	Recommendations
High	**Bank Reconciliation** The cash in bank balance is composed of various cost centre accounts - all of which are separately maintained for the bank balance and other cash reconciling items such as cash in transit, unpresented cheques and cash transfers in/out. Officers prepare monthly cash reports to summarise cash income, expenditures, and transfers in/out during the period and agree them to the ending balances of each cost centre. However, there is really no bank reconciliation performed during the year for the "whole" cash in bank account. Hence, Officers overlooked to reconcile the difference of £1m at the end of the year, as reported on page 7. Officers advised the audit team that the difference comes from the postings on "PARIS suspense account." Being a suspense account, this should be zeroed out at year-end. On further investigation Officers identified that they overlooked to make an entry to reclassify the PARIS suspense account to short-term debtors. Officers are also unable to reconcile the remaining difference of £94k between the adjusted cash balance per the bank reconciliation and balance per the ledger. Officers believe the difference may pertain to the timing difference between the bank statement and ledger postings.	Management should prepare monthly bank reconciliations that consider all the cost centre accounts that make up the cash in bank account. Any suspense accounts should be cleared and reconciling items investigated at the same time. **Management response** The new Financial Management System should improve the bank reconciliation process, with full reconciliations to be undertaken monthly. It is expected that the full benefits of the new system will be realised for the 2022/23 Statement of Accounts, due to the migration to the new Financial Management System taking place mid-year in 2021/22.

Controls

- High – Significant effect on financial statements
- Medium – Limited Effect on financial statements
- Low – Best practice

B. Follow up of prior year recommendations

We identified the following issues in the audit of Warwick District Council's 2019/20 financial statements, which resulted in seven recommendations being reported in our 2019/20 Audit Findings report. We have followed up on the implementation of our recommendations and note two are still to be completed.

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
✓	**Delivery of savings plans** The financial year 2022/2023 will see perhaps the peak of the challenge. The Council's current MTFS shows a budget gap of £6.139m in setting a balanced budget for 2022/23. The Council is also likely to see further impact of the pandemic. Based on the work completed we have concluded that the Council has adequate arrangements in place to deliver financial sustainability. **Recommendation** The savings plans identified need to be progressed as a matter of urgency along with the agreement of further projects and initiatives to close the budget gap.	**Management response** An update on the savings plans is due to be considered by the Executive on 10 December 2020. **Audit comment** We identified this as a significant VFM risk, and have reviewed progress as part of our VFM work. Please see page 20 for the detail. Based upon our work at this time we are satisfied that financial sustainability is not a significant risk to the Council.
X	**Property, Plant and Equipment – Asset register** The value of PP&E per Note 13 of the draft financial statements is £501,725k. The value of assets per the underlying asset register is £501,775k, a difference of £50k. The financial statements are not supported by a fully reconciled asset register. **Recommendation** The PP&E register difference of £50k should be investigated and corrected for the 2020/21 financial year.	**Management response** The PP&E register difference will be investigated and corrected for the 20/21 Financial Year. Looking forward, it is expected that the Asset Register will be incorporated into the new Financial Management System (due to be in place by July 2021), allowing for a more efficient and accurate reconciliation process. **Audit comment** As noted on page 7, these differences persist.

Assessment

✓ Action completed

X Not yet addressed

B. Follow up of prior year recommendations

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
✓	**Waste management contract** As part of our review of the Council's MTFS we have considered the Council's decision to extend its existing waste management contract. This extension is for 18 months (with the option to extend for a further year) We have not identified this as a significant risk however it does represent a significant recurrent cost increase above forecast in the Council's MTFS. We have discussed the contract extension with relevant officers of the Council and reviewed relevant reports to support the decision. We have also sought assurance that appropriate legal advice was taken by the council throughout this contract negotiation period and certainly prior to offering the 18 month extension. We are satisfied that the Council has taken appropriate legal advice from Warwickshire County Council Legal Services department. We are also satisfied this contract extension will give the council the opportunity to review the previous tender exercise and where necessary make amendments to take account of current circumstances combined with the Council's strategic direction in relation to Climate Change and Partnership working. **Recommendation** The Council should use the agreed waste management contract extension period to revisit the original tender exercise and update where. It will also give the Council the opportunity to reflect on the exercise and align with the Council's strategic direction in relation to Climate Change and Partnership working.	**Management response** The contract extension will allow officers to revisit the waste collection specification that it takes to the market. Currently the specification requires kerbside sorting of recyclables and residual waste collection, both on a fortnightly basis, and food waste collection on a weekly basis. The extension will allow the frequencies to be revisited along with the approach to recycling i.e. should recyclables be co-mingled as opposed to kerbside sorted. There will also be an opportunity to examine whether the approach to waste disposal through a Materials Recovery Facility would be more cost effective. These considerations can be done in the context of the Council's ambition to work more closely with its neighbour Stratford upon Avon District Council whilst also addressing its climate change objectives. **Audit comment** A new waste management contract, which incorporates Stratford upon Avon District Council, has been agreed.

Assessment

✓ Action completed

X Not yet addressed

B. Follow up of prior year recommendations

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
✓	**Property Plant and Equipment – Valuation arrangements – 20% rolling programme** It is acknowledged the Council has made progress this year in relation to its PP&E revaluation process and improved quality control procedures to ensure valuations have been carried our as per instructions to the valuer. It is however possible to improve this process further and in particular eliminate duplication of effort in the valuation process. 20% of assets identified as General fund assets are subject to revaluation at 1 April 2019 as part of the rolling programme of valuations. 26 assets were revalued at 1 April 2019 as part of the 20% rolling programme. 10 of these assets are investment properties which are revalued annually in accordance with accounting standards. The 10 investment properties included within the 20% rolling programme have been subject to revaluation at both 1 April 2019 and at 28 February 2020. This is duplication of effort. Investment properties are revalued annually as per accounting standards and as such should not be included in the rolling programme of valuation. **Recommendation** The Council should review its 20% rolling programme and complete this valuation at the year end or 28 February in line with other assets rather than as at 1 April. (The Council may wish to consider the valuation date of assets given potential changes to the accounts timetable moving forward). The rolling programme of revaluation should be reviewed to ensure there is no duplication of valuations in relation to Investment Property.	**Management response** As part of the discussions with valuers, the valuation dates will be reviewed to streamline the process, and to seek to reduce the amount of work required at year end. The dates on which the valuations are carried out will be agreed to best support completion in line with the 2020/21 Statement of Accounts deadlines. **Audit comment** The 20% rolling programme is still in use, but with assets being valued at 31 March 2021. There has been no duplication of valuations in 2020/21.

Assessment

✓ Action completed

X Not yet addressed

B. Follow up of prior year recommendations

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
✓	**Property Plant and Equipment – 80% sample of assets** As at 28 February 2020 the Council instructed the valuer, Carter Jonas to revalue a sample of assets which had not been subject to revaluation as part of the 20% rolling programme. This sample includes high value assets in particular and provides assurance that values included within the financial statements remain appropriate.. 41 assets were revalued with a total value per the valuers report of £44.885m. These assets are included in the asset register at a value of £44.924m (a difference of £39k). The Council has not updated the asset register for asset valuations carried out at 28 February 2020 on the basis that the £39k movement is trivial. Although we are satisfied the overall movement in assets is trivial there are both upward an downward movements on individual assets which are not trivial. As such this will impact on for example depreciation calculations depending on the assets useful life. Although we are satisfied assets are not materially misstated the Council should ensure its underlying asset registers reflect the latest valuation information provided by managements expert, Carter Jonas. **Recommendation** All revaluations should be updated within the Council's asset management system to ensure these reflect the most up to date valuations provided by management experts, in this case Carter Jonas.	**Management response** The revaluations will be updated within the Council's asset management system to reflect the most up to date valuations provided by the valuers. Looking forward, it is expected that the Asset Register will be incorporated into the new Financial Management System (due to be in place by July 2021), allowing for a more efficient and accurate reconciliation process. **Audit comment** Assets were revalued as at 31 March 2021, and any changes have been reflected in the asset register.

Assessment

✓ Action completed

X Not yet addressed

B. Follow up of prior year recommendations

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
X	**Bank reconciliation** As part of year end audit procedures we obtain 3rd party bank confirmations. For two bank accounts there were trivial differences in the reconciliations. Although these differences are trivial the reconciliation of all bank accounts is a key control and as such all bank accounts should be reconciled. **Recommendation** The reconciliation of all bank accounts is a key control and as such all bank accounts should be reconciled at appropriate intervals throughout the financial year and as part of year end close process.	**Management response** Bank accounts will be reconciled in line with recommendations. **Audit comment** Our work on the bank reconciliation this year took a lot longer than it should have done. This is because of the complexity of the reconciliation. Ultimately, Officers prepared a revised bank reconciliation, and this resulted in a £1m movement from Cash and Cash Equivalents to Short Term Debtors. Net assets remained the same.
✓	**Financial statement quality assurance procedures** Due to a mapping issue a number of material values were included in the wrong heading within Note 38, Pensions and Note 22, provisions. Overall, this has no impact on the values disclosed within the primary statements, this is presentational only. **Recommendation** As part of the year end procedures the Council should build in a final quality control review of the financial statements in order to identify mapping issues.	**Management response** Appropriate levels of review will be built into year-end process going forward to ensure mapping issues do not reoccur. **Audit comment** The mapping issue did not occur this year, and there are relatively few adjustments to the financial statements that we need to report to you. As noted above, there were some significant movements between asset categories as a result of Officers re-doing the bank reconciliation.

Assessment

✓ Action completed

X Not yet addressed

C. Audit Adjustments

We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management.

Impact of adjusted misstatements

All adjusted misstatements are set out in detail below along with the impact on the key statements and the reported net expenditure for the year ending 31 March 2021.

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000
Decrease in cash and cash equivalents and increase Short Term Debtors	0	(1,000) 1,000	0
Increase in pension fund assets and consequential reduction in the Net Liability:	0		0
Decrease in Net Liability		(2,851)	
Decrease in Unusable Reserves		2,851	
Overall impact	£0	**£0**	**£0**

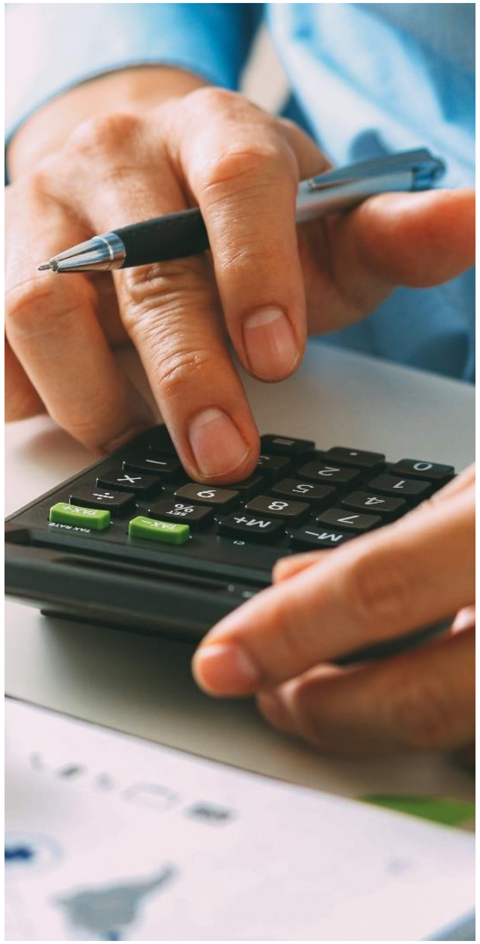
C. Audit Adjustments

Misclassification and disclosure changes

The table below provides details of misclassification and disclosure changes identified during the audit which have been made in the final set of financial statements.

Disclosure omission	Auditor recommendations	Adjusted?
Note 5 – Events after the reporting period	An additional disclosure has been made to reflect progress made on the establishment and funding of the housing company and associated loans which the Council has provided.	✓
Note 38 – Defined benefit pension schemes	The narrative disclosure was amended to remove reference to the material uncertainty around pension fund property assets. There is no uncertainty for 2020/21. The narrative disclosure was enhanced to include the early payment of pension contributions.	✓
Minor amendments – Various Notes	A small number of other minor amendments were made to correct typing errors, page numbering and incorporate additional narrative information. We do not deem these significant enough to bring to the attention of those charged with governance.	. ✓

C. Audit Adjustments



Impact of unadjusted misstatements

The table below provides details of adjustments identified during the 2020/21 audit which have not been made within the final set of financial statements. The Finance & Audit Scrutiny Committee is required to approve management's proposed treatment of all items recorded within the table below.

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000	Reason for not adjusting
Property Plant and Equipment (PP&E). The value of PP&E per note 13 of the draft financial statements is £89k less than the value of assets per the underlying asset register.	(£89) (reduce expenditure)	£89 (increase assets)	(£89)	• Immaterial
Overall impact	£89	£89	£89	

C. Audit Adjustments

Impact of prior year unadjusted misstatements

The table below provides details of adjustments identified during the prior year audit which had not been made within the final set of 2019/20 financial statements.

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000	Reason for not adjusting
Property Plant and Equipment (PP&E). The value of PP&E per note 13 of the draft financial statements is £501,725k. The value of assets per the underlying asset register is £501,775k, a difference of £50k.	(£50) (reduce expenditure)	£50 (increase assets)	(£50)	• Immaterial
Net Pension Liability - The Council has received a revised IAS19 report from Hymans Robertson to reflect the actual return on plan assets for the year to 31 March 2020. The impact of this would be a revised net pension liability of £40.476m, a reduction in the liability of £415k.	(£415) (reduce expenditure)	£415 (reduce liability)	See note below	• Immaterial
Overall impact	**(£465)**	**£465**	**(£50)**	

Update for 2020/21

PPE – as noted on page 7, this difference has now increased to £89k.
Net Pension Liability – this has been reflected in the actuarial reports for 2020/21, and is therefore resolved.

D. Fees

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

Audit fees	Proposed fee (£)	Final fee (£)
Council Audit	65,540	TBC
Total audit fees (excluding VAT)	65,540	TBC

We will agree the audit fee with Officers after the completion of the audit. Any fee variations need Public Sector Audit Appointment (PSAA) approval.

Non-audit fees for other services	Proposed fee (£)	Final fee (£)
Audit Related Services		
Certification of Housing Capital Receipts return (2019/2020 billed 2020/2021)	2,300	2,300
Certification of Housing Benefit Grant Claim (2019/2020 billed 2020/2021)	14,250	17,250
Total non-audit fees (excluding VAT)	**£16,550**	**£19,550**

We have provided a reconciliation to the financial statements:

- Fees per financial statements = £49,000
- Difference in Council estimate and actual fees for 2019/20 = (£1,710)
- New fees in respect of 2020/21 developments = £18,250
- Total fees per above = £65,540

Audit fees – detailed analysis

Scale fee published by PSAA		£41,290
Ongoing increases to scale fee first identified in 2019/20		
Raising the bar/regulatory factors	£2,500	
Enhanced audit procedures for Property, Plant and Equipment	£1,750	
Enhanced audit procedures for Pensions	£1,750	
Recurring element of 2019/20 fee		£47,290
New issues for 2020/21		
Additional work on Value for Money (VfM) under new NAO Code	£10,000	
Increased audit requirements of revised ISAs	£6,500	
Local risk factors i.e. establishment of local housing company	£1,750	
Proposed increase to agreed recurring 2019/20 fee		£18,250
Total audit fees (excluding VAT)		£65,540

E. Audit opinion

Our audit opinion is included below.

We anticipate we will provide the Council with an unmodified audit report.

Independent auditor's report to the members of Warwick District Council

Report on the Audit of the Financial Statements

Opinion on financial statements

We have audited the financial statements of Warwick District Council (the 'Authority') for the year ended 31 March 2021, which comprise the Comprehensive Income and Expenditure Statement, the Movement in Reserves Statement, the Balance Sheet, the Cash Flow Statement, the Housing Revenue Account Income and Expenditure Statement, the Movement on the Housing Revenue Account Statement, the Collection Fund Statement and notes to the financial statements, including a summary of significant accounting policies The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2020/21.

In our opinion, the financial statements:

- give a true and fair view of the financial position of the Authority as at 31 March 2021 and of its expenditure and income for the year then ended;
- have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2020/21; and
- have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law, as required by the Code of Audit Practice (2020) ("the Code of Audit Practice") approved by the Comptroller and Auditor General. Our responsibilities under those standards are further described in the 'Auditor's responsibilities for the audit of the financial statements' section of our report. We are independent of the Authority in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We are responsible for concluding on the appropriateness of the Head of Finance's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Authority's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify the auditor's opinion. Our conclusions are based on the audit evidence obtained up to the date of our report. However, future events or conditions may cause the Authority to cease to continue as a going concern.

In our evaluation of the Head of Finance's conclusions, and in accordance with the expectation set out within the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2020/21 that the Authority's financial statements shall be prepared on a going concern basis, we considered the inherent risks

E. Audit opinion

associated with the continuation of services provided by the Authority. In doing so we had regard to the guidance provided in Practice Note 10 Audit of financial statements and regularity of public sector bodies in the United Kingdom (Revised 2020) on the application of ISA (UK) 570 Going Concern to public sector entities. We assessed the reasonableness of the basis of preparation used by the Authority and the Authority's disclosures over the going concern period.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Authority's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In auditing the financial statements, we have concluded that the Head of Finance's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

The responsibilities of the Head of Finance with respect to going concern are described in the 'Responsibilities of the Authority, the Head of Finance and Those Charged with Governance for the financial statements' section of this report.

Other information

The Head of Finance is responsible for the other information. The other information comprises the information included in the Statement of Accounts, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

Other information we are required to report on by exception under the Code of Audit Practice

Under the Code of Audit Practice published by the National Audit Office in April 2020 on behalf of the Comptroller and Auditor General (the Code of Audit Practice) we are required to consider whether the Annual Governance Statement does not comply with 'delivering good governance in Local Government Framework 2016 Edition' published by CIPFA and SOLACE or is misleading or inconsistent with the information of which we are aware from our audit. We are not required to consider whether the Annual Governance Statement addresses all risks and controls or that risks are satisfactorily addressed by internal controls.

We have nothing to report in this regard.

Opinion on other matters required by the Code of Audit Practice

In our opinion, based on the work undertaken in the course of the audit of the financial statements and our knowledge of the Authority, the other information published together with the financial statements in the Statement of Accounts for the financial year for which the financial statements are prepared is consistent with the financial statements.

E. Audit opinion

Matters on which we are required to report by exception

Under the Code of Audit Practice, we are required to report to you if:

- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make a written recommendation to the Authority under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or;
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014, in the course of, or at the conclusion of the audit.

We have nothing to report in respect of the above matters.

Responsibilities of the Authority, the Head of Finance and Those Charged with Governance for the financial statements

As explained in the Statement of Responsibilities set out on page 26, the Authority is required to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the Head of Finance. The Head of Finance is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2020/21, for being satisfied that they give a true and fair view, and for such internal control as the Head of Finance determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Head of Finance is responsible for assessing the Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless there is an intention by government that the services provided by the Authority will no longer be provided.

The Finance and Audit Scrutiny Committee is Those Charged with Governance. Those Charged with Governance are responsible for overseeing the Authority's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. Owing to the inherent limitations of an audit, there is an unavoidable risk that material misstatements in the financial statements may not be detected, even though the audit is properly planned and performed in accordance with the ISAs (UK).

E. Audit opinion

The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below:

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the Authority and determined that the most significant ,which are directly relevant to specific assertions in the financial statements, are those related to the reporting frameworks (international accounting standards as interpreted and adapted by the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2020/21, the Local Audit and Accountability Act 2014, the Accounts and Audit Regulations 2015, the Local Government Act 2003, the Local Government Act 1972, the Local Government and Housing Act 1989, the Local Government Finance Act 1988 (as amended by the Local Government Finance Act 1992) and the Local Government Finance Act 2012.
- We enquired of senior officers and the Finance and Audit Scrutiny Committee, concerning the Authority's policies and procedures relating to:
  - the identification, evaluation and compliance with laws and regulations;
  - the detection and response to the risks of fraud; and
  - the establishment of internal controls to mitigate risks related to fraud or non-compliance with laws and regulations.
- We enquired of senior officers, internal audit and the Finance and Audit Scrutiny Committee, whether they were aware of any instances of non-compliance with laws and regulations or whether they had any knowledge of actual, suspected or alleged fraud.
- We assessed the susceptibility of the Authority's financial statements to material misstatement, including how fraud might occur, by evaluating officers' incentives and opportunities for manipulation of the financial statements. This included the evaluation of the risk of management override of controls, including the use of accounting estimates, assumptions and judgements, the risk of fraudulent expenditure recognition and the risk of improper revenue recognition. We determined that the principal risks were in relation to large and unusual journals which were designed to change financial performance, for example, moving amounts between the Balance Sheet and Comprehensive Income and Expenditure Statement.
- Our audit procedures involved:
  - evaluation of the design effectiveness of controls that the Head of Finance has in place to prevent and detect fraud;
  - challenging assumptions and judgements made by management in its significant accounting estimates in respect of the valuation of land and buildings, investment property and defined benefit pensions liability valuations; and
  - assessing the extent of compliance with the relevant laws and regulations as part of our procedures on the related financial statement item.
- These audit procedures were designed to provide reasonable assurance that the financial statements were free from fraud or error. However, detecting irregularities that result from fraud is inherently more difficult than detecting those that result from error, as those irregularities that result from fraud may involve collusion, deliberate concealment, forgery or intentional misrepresentations. Also, the further removed non-compliance with laws and regulations is from events and transactions reflected in the financial statements, the less likely we would become aware of it.
- The team communications in respect of potential non-compliance with relevant laws and regulations, including the potential for fraud in revenue and expenditure recognition, and the significant accounting estimates related to the valuation of land and buildings, investment property and defined benefit pensions liability valuations.
- Assessment of the appropriateness of the collective competence and capabilities of the Authority's engagement team included consideration of the engagement team's:
  - understanding of, and practical experience with audit engagements of a similar nature and complexity through appropriate training and participation
  - knowledge of the local government sector
  - understanding of the legal and regulatory requirements specific to the Authority including:

E. Audit opinion

- the provisions of the applicable legislation
- guidance issued by CIPFA/LASAAC and SOLACE
- the applicable statutory provisions.

- In assessing the potential risks of material misstatement, we obtained an understanding of:
  - the Authority's operations, including the nature of its income and expenditure and its services and of its objectives and strategies to understand the classes of transactions, account balances, expected financial statement disclosures and business risks that may result in risks of material misstatement.
  - The Authority's control environment, including the policies and procedures implemented by the Authority to ensure compliance with the requirements of the financial reporting framework.

Report on other legal and regulatory requirements – the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

Matter on which we are required to report by exception – the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

Under the Code of Audit Practice, we are required to report to you if, in our opinion, we have not been able to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2021.

Our work on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources is not yet complete. The outcome of our work will be reported in our commentary on the Authority's arrangements in our Auditor's Annual Report. If we identify any significant weaknesses in these arrangements, these will be reported by exception in a further auditor's report. We are satisfied that this work does not have a material effect on our opinion on the financial statements for the year ended 31 March 2021.

Responsibilities of the Authority

The Authority is responsible for putting in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

Auditor's responsibilities for the review of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to be satisfied that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

We undertake our review in accordance with the Code of Audit Practice, having regard to the guidance issued by the Comptroller and Auditor General in April 2021. This guidance sets out the arrangements that fall within the scope of 'proper arrangements'. When reporting on these arrangements, the Code of Audit Practice requires auditors to structure their commentary on arrangements under three specified reporting criteria:

- Financial sustainability: how the Authority plans and manages its resources to ensure it can continue to deliver its services;
- Governance: how the Authority ensures that it makes informed decisions and properly manages its risks; and
- Improving economy, efficiency and effectiveness: how the Authority uses information about its costs and performance to improve the way it manages and delivers its services.

E. Audit opinion

We document our understanding of the arrangements the Authority has in place for each of these three specified reporting criteria, gathering sufficient evidence to support our risk assessment and commentary in our Auditor's Annual Report. In undertaking our work, we consider whether there is evidence to suggest that there are significant weaknesses in arrangements.

Report on other legal and regulatory requirements – Delay in certification of completion of the audit

We cannot formally conclude the audit and issue an audit certificate for Warwick District Council for the year ended 31 March 2021 in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice until we have completed:

- our work on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources and issued our Auditor's Annual Report,
- the work necessary to issue our Whole of Government Accounts (WGA) Component Assurance statement for the Authority for the year ended 31 March 2021.

We are satisfied that this work does not have a material effect on the financial statements.

Use of our report

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the Authority's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

Signature:

Grant Patterson, Key Audit Partner

for and on behalf of Grant Thornton UK LLP, Local Auditor

Birmingham

Date:

Grant Thornton

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