

Warwick District Council audit plan

Year ending 31 March 2022

Warwick District Council
14 June 2022



Contents



Your key Grant Thornton team members are:

Laurelin Griffiths

Key Audit Partner

T 0121 232 5363

E laurelin.h.griffiths@uk.gt.com

Neil Preece

Manager

T 0121 232 5292

E neil.a.preece@uk.gt.com

Aaron Smallwood

Assistant Manager

T 0121 232 5336

E aaron.k.Smallwood@uk.gt.com

Section

Key matters	05
Introduction and headlines	06
Group audit scope and risk assessment	08
Significant risks identified	09
Other risks identified	13
Accounting estimates and related disclosures	14
Other matters	17
Materiality	18
IT Audit Strategy	19
Value for Money Arrangements	20
Risks of significant VFM weaknesses	21
Audit logistics and team	22
Audit fees	23
Independence and non-audit services	25
Digital Audit	26
Appendix 1: Progress against prior year recommendations	28

Page

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.

Grant Thornton UK LLP is a limited liability partnership registered in England and Wales: No.OC307742. Registered office: 30 Finsbury Square, London, EC2A 1AG. A list of members is available from our registered office. Grant Thornton UK LLP is authorised and regulated by the Financial Conduct Authority. Grant Thornton UK LLP is a member firm of Grant Thornton International Ltd (GTIL). GTIL and the member firms are not a worldwide partnership. Services are delivered by the member firms. GTIL and its member firms are not agents of, and do not obligate, one another and are not liable for one another's acts or omissions.

Significant improvements from the Financial Reporting Council's (FRC) quality inspection

On 29 October, the FRC published its annual report setting out the findings of its review of the work of local auditors. The report summarises the results of the FRC's inspections of twenty audit files for the last financial year. A link to the report is here: [FRC AOR Major Local Audits October 2021](#)

Grant Thornton are one of seven firms which currently delivers local audit work. Of our 330 local government and NHS audits, 87 are currently defined as 'major audits' which fall within the scope of the AQR. This year, the FRC looked at nine of our audits.

Our file review results

The FRC reviewed nine of our audits this year. It graded six files (67%) as 'Good' and requiring no more than limited improvements. No files were graded as requiring significant improvement, representing an impressive year-on-year improvement. The FRC described the improvement in our audit quality as an 'encouraging response by the firm to the quality findings reported in the prior year.' Our Value for Money work continues to be delivered to a high standard, with all of the files reviewed requiring no more than limited improvement. We welcome the FRC findings and conclusions which demonstrate the impressive improvement we have made in audit quality over the past year.

The FRC also identified a number of good practices including effective challenge of management's valuer, use of an auditor's expert to assist with the audit of a highly specialised property valuation, and the extent and timing of involvement by the audit partner on the VFM conclusion.

Our results over the past three years are shown in the table below:

Grade	Number 2018/19	Number 2019/20	Number 2020/21
Good with limited improvements (Grade 1 or 2)	1	1	6
Improvements required (Grade 3)	2	5	3
Significant improvements required (Grade 4)	1	0	0
Total	4	6	9

Our continued commitment to Audit quality and continuous improvement

Our work over the past year has been undertaken during the backdrop of COVID, when the public sector has faced the huge challenge of providing essential services and helping safeguard the public during the pandemic. Our NHS bodies in particular have been at the forefront of the public health crisis. As auditors we have had to show compassion to NHS staff deeply affected by the crisis, whilst staying focused on the principles of good governance and financial management, things which are more important than ever. We are very proud of the way we have worked effectively with audited bodies, demonstrating empathy in our work whilst still upholding the highest audit quality.

Significant improvements from the Financial Reporting Council's (FRC) quality inspection (cont.)

Over the coming year we will make further investments in audit quality including strengthening our quality and technical support functions, and increasing the level of training, support and guidance for our audit teams. We will address the specific improvement recommendations raised by the FRC, including:

- Enhanced training for local auditors on key assumptions within property valuations, and how to demonstrate an increased level of challenge
- Formalising our arrangements for the consideration of complex technical issues by Partner Panels.

As part of our enhanced Value for Money programme, we will focus on identifying the scope for better use of public money, as well as highlighting weaknesses in governance or financial stewardship where we see them.

Conclusion

Local audit plays a critical role in the way public sector audits and society interact, and it depends on the trust and confidence of all those who rely on it. As a firm we're proud to be doing our part to promote good governance, effective stewardship and appropriate use of public funds.

Key matters

Factors

Council developments

In December 2021 both Warwick District Council and Stratford on Avon District Council agreed to formally request the Secretary of State at the Department of Levelling Up, Housing and Communities to create a South Warwickshire District Council. Officers have been learning lessons from other partnerships / mergers, and working hard to ensure that all stakeholders feel involved in the process and not threatened by it. However, on 21 April 2022 the councils issued a joint news release stating that the proposed merger would not now go ahead.

At Easter 2022 the Head of Finance retired, and was replaced, on an interim basis, by the Financial Services Manager from Stratford DC. Following the cancellation of the proposed merger the Strategic Finance Manager at Warwick District Council will be the interim S.151 Officer.

In November 2021 the Council moved to a new financial ledger system. For 2021/22 some of the working papers supporting the financial statements will continue to be generated outside of the new system, with an aim to have a more integrated approach for 2022/23.

The Medium Term Financial Strategy (MTFS), presented to Council on 23 February 2022, includes cumulative savings / income generation schemes of around £6m. In addition to these there is a further £1.2m of recurrent savings that still need to be identified by 2026/27. While this might seem a long way off, if planned savings are not delivered in full, that figure will increase, and it takes time to develop, agree and implement large scale savings or income generation projects, particularly as “easier” savings or income generation will have already been achieved.

Recovery from the COVID-19 pandemic

The Council is continuing to move towards a new agile way of working, requiring a reduced amount of office space. The accommodation strategy is being reviewed to ensure a more efficient approach.

The Council continues to process COVID-19 related grant claims, including where it acts as “agent” and simply passes funding on to intended recipients.

Internal controls operate effectively remotely, and Internal Audit continue to deliver their programme of work, ensuring that assurance is provided to the governance function.

Milverton Homes Limited

During 2020/21 the Council created a wholly owned Local Housing Company subsidiary, Milverton Homes Ltd. The Business Plan was approved by the Council’s Cabinet on the 10 December 2020. The Council issued four loans of varying terms in the total value of £50m to Crewe Lane Kenilworth JV LLP on the 27th August 2021 to facilitate the construction of 620 dwellings in Kenilworth. Crewe Lane LLP is a 50/50 Joint Venture housing delivery vehicle between Milverton Homes Limited and Vistry Partnerships Limited.

Given the value of the loans made, we anticipate that the Council will need to prepare group accounts for the first time for 2021/22.

Our response

- As a firm, we are absolutely committed to audit quality and financial reporting in the local government sector. Our proposed work and fee, as set further in our Audit Plan, has been agreed with the Head of Finance.
- We will consider your arrangements for managing and reporting your financial resources as part of our work in completing our Value for Money work.
- In our 2020/21 Audit Findings Report we reported four recommendations for improvement, as set out on pages 27 and 28. We will follow up progress against these during our post statements audit work.
- In our 2020/21 Auditors’ Annual Report, presented to Audit and Standards Committee on 13 April 2022, we identified seven improvement recommendations. We will follow up progress against these as part of our Value for Money work.
- We will assess the impact of the proposed merger with Stratford on Avon District Council being cancelled. This will include the impact on financial sustainability and capacity within the Council.
- We will continue to provide you with sector updates via our Audit Committee updates.
- We identified a significant audit risk relating to the implementation of the new ledger system and the data migration assets to the new company – please refer to page 10. Our IT auditors will review the Council’s process for ensuring the data migration was complete and accurate.
- We identified an audit risk relating to the probability that the Council will need to prepare Group Financial Statements for the first time. Please refer to pages 11 and 13.

Introduction and headlines

Purpose

This document provides an overview of the planned scope and timing of the statutory audit of Warwick District Council ('the Council') for those charged with governance.

Respective responsibilities

The National Audit Office ('the NAO') has issued a document entitled Code of Audit Practice ('the Code'). This summarises where the responsibilities of auditors begin and end and what is expected from the audited body. Our respective responsibilities are also set out in the agreed in the Terms of Appointment and Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA), the body responsible for appointing us as auditor of Warwick District Council. We draw your attention to both of these documents.

Scope of our audit

The scope of our audit is set in accordance with the Code and International Standards on Auditing (ISAs) (UK). We are responsible for forming and expressing an opinion on the Council and group's financial statements that have been prepared by management with the oversight of those charged with governance (the Audit and Standards Committee); and we consider whether there are sufficient arrangements in place at the Council and group for securing economy, efficiency and effectiveness in your use of resources. Value for money relates to ensuring that resources are used efficiently to maximise the outcomes that can be achieved.

The audit of the financial statements does not relieve management or the Audit and Standards Committee of your responsibilities. It is the responsibility of the Council to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Council is fulfilling these responsibilities.

Our audit approach is based on a thorough understanding of the Council's business and is risk based.

Group Audit

We anticipate that the Council will be required to prepare group financial statements that consolidate the financial information of Milverton Homes Limited. As this will be the first year group financial statements have been required, we have identified this as an audit risk.

Significant risks

Those risks requiring special audit consideration and procedures to address the likelihood of a material financial statement error have been identified as:

- management override of controls;
- new financial ledger implementation;
- valuation of land and buildings; and
- valuation of the pension fund net liability.

We will communicate significant findings on these areas as well as any other significant matters arising from the audit to you in our Audit Findings (ISA 260) Report.

Materiality

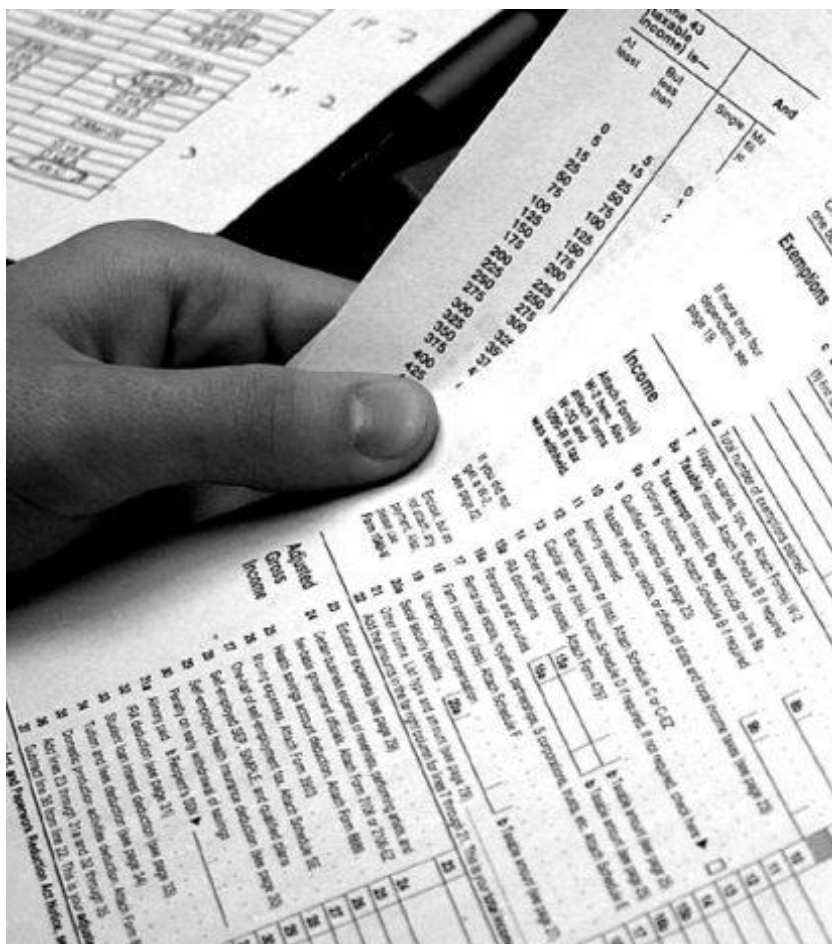
We have determined planning materiality to be £1,600k (PY £1,400k) for the Council, which equates to 1.75% of your prior year gross expenditure. We are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. Clearly trivial has been set at £80k (PY £70k). We will need to calculate a separate materiality level for the group. As the impact on the financial statements is, at this stage, unclear, we will do this on receipt of the draft financial statements.

Value for Money arrangements

Our risk assessment regarding your arrangements to secure value for money have identified the following risks of significant weakness:

- financial sustainability; and
- governance arrangements of the newly formed housing company, Milverton Homes Limited, and whether the expected benefits are realised.

Introduction and headlines cont.



Audit logistics

Our interim visit took place in February and March and our final visit will take place from August to November. Our key deliverables are this Audit Plan, our Audit Findings Report and Auditor's Annual Report.

Our fee for the audit will be £73,140 (PY: £65,540) for the Council, subject to the Council delivering a good set of financial statements and working papers.

We have complied with the Financial Reporting Council's Ethical Standard (revised 2019) 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..

Group audit scope and risk assessment

In accordance with ISA (UK) 600, as group auditor we are required to obtain sufficient appropriate audit evidence regarding the financial information of the components and the consolidation process to express an opinion on whether the group financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework.

Component	Individually Significant?	Level of response required under ISA (UK) 600	Risks identified	Planned audit approach
Warwick District Council	Yes	Audit of the financial information of the component using component materiality	<ul style="list-style-type: none"> Please refer to pages 9 to 12. 	Full scope audit performed by Grant Thornton UK LLP
Milverton Homes Limited	TBC	TBC	<ul style="list-style-type: none"> This is the first year that Milverton Homes Limited has had any transactions or traded. As set out on page five, on 27 August 2021 the Council issued four loans of varying terms in the total value of £50m to Crewe Lane Kenilworth JV LLP. Crewe Lane LLP is a 50/50 Joint Venture housing delivery vehicle between Milverton Homes Limited and Vistry Partnerships Limited. 	We will review the draft group financial statements and determine the appropriate audit approach. This will be determined by the significance of the group transactions and balances.

Key changes within the group:

This is the first year that the Council has had to prepare group financial statements.

Audit scope

- Audit of the financial information of the component using component materiality
- Audit of one more classes of transactions, account balances or disclosures relating to significant risks of material misstatement of the group financial statements
- Review of component's financial information
- Specified audit procedures relating to risks of material misstatement of the group financial statements
- Analytical procedures at group level

Significant risks identified

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.

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
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.	Council	This presumed risk 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: <ul style="list-style-type: none"> • 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 do not consider this to be a significant risk for Warwick District Council.
Risk of fraud related to expenditure recognition	Council	In line with the Public Audit Forum Practice Note 10, in the public sector, auditors must also consider the risk that material misstatements due to fraudulent financial reporting may arise from the manipulation of expenditure recognition (for instance by deferring expenditure to a later period).	We have rebutted this risk for Warwick District Council because: <ul style="list-style-type: none"> • expenditure is primarily related to employee costs • lack of incentive to manipulate financial results, coupled with an overall strong control environment. We therefore do not consider this to be a significant risk for Warwick District Council. We will continue to review material expenditure transactions as part of our audit ensuring that it remains appropriate to rebut the risk of expenditure recognition for Warwick District Council.

Significant risks identified

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
Management over-ride of controls	Council	<p>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.</p> <p>We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk of material misstatement.</p>	<p>To address this risk we will:</p> <ul style="list-style-type: none"> • evaluate the design effectiveness of management controls over journals; • analyse the journals listing and determine the criteria for selecting high risk unusual journals; • test unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration; • gain an understanding of the accounting estimates and critical judgements applied by management and consider their reasonableness with regard to corroborative evidence; and • evaluate the rationale for any changes in accounting policies, estimates or significant unusual transactions.
New financial ledger implementation	Council	<p>The new financial ledger went live in November 2021. There is a significant risk that the transfer of data from the old system to the new one is not complete or accurate.</p>	<p>Our IT auditors will review the Council's process for ensuring the data migration was complete and accurate and the IT General Controls in place around the new financial ledger.</p>

Significant risks identified

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
Valuation of land and buildings	Council	<p>The Council revalues its land, buildings and council dwellings on a rolling five-yearly basis.</p> <p>This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved (approximately £411m of council dwellings and £81m other land & buildings in the prior period) and the sensitivity of this estimate to changes in key assumptions.</p> <p>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.</p> <p>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.</p>	<p>To address this risk we will:</p> <ul style="list-style-type: none"> • evaluate management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work; • evaluate the competence, capabilities and objectivity of the valuation expert; • write to the valuer to confirm the basis on which the valuation is carried out to ensure that the requirements of the CIPFA Code are met; • challenge the information and assumptions used by the valuer to assess completeness and consistency with our understanding; • test revaluations made during the year to see if they had been input correctly into the Council's balance sheet; and • evaluate 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.

Significant risks identified

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
Valuation of the pension fund net liability	Council	<p>The Council'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 (£50m in the Council's balance sheet) and the sensitivity of the estimate to changes in key assumptions.</p> <p>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.</p> <p>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.</p> <p>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, in the prior year, the actuary 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.</p>	<p>To address this risk we will:</p> <ul style="list-style-type: none"> • update 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; • evaluate the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work; • assess the competence, capabilities and objectivity of the actuary who carried out the Council's pension fund valuation; • assess the accuracy and completeness of the information provided by the Council to the actuary to estimate the liability; • test 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; • undertake 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 • obtain 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.

Other risks identified

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
Preparation of group financial statements	Group	This is the first year that the Council has also had to prepare group financial statements.	The additional accounting required, and disclosures in the financial statements, can be complex. We have therefore assessed this as an increased risk.
Officer capacity	Group	Following the cancellation of the proposed merger with Stratford on Avon District Council the Strategic Finance Manager at Warwick District Council will now be interim Head of Finance / S.151 Officer. This officer has, in previous years, been our key contact during our audit of the financial statements and value for money work. There is a risk that our audit or value for money work does not progress as quickly as planned if appropriate backfill and support arrangements are not put in place.	We will keep in regular contact with the interim Head of Finance to ensure any delays or potential problems are discussed at an early stage. If appropriate we will raise concerns with the Chief Executive and / or the Audit and Standards Committee.
Valuation of Investment Properties	Council	<p>The Council is required to revalue its investment property annually..</p> <p>This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved (approximately £10m of investment property in the prior period) and the sensitivity of this estimate to changes in key assumptions.</p> <p>We have therefore identified valuation of investment properties, as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>	<p>To address this risk we will:</p> <ul style="list-style-type: none"> • evaluate management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work; • evaluate the competence, capabilities and objectivity of the valuation expert; • write to the valuer to confirm the basis on which the valuation is carried out to ensure that the requirements of the CIPFA Code are met; • challenge the information and assumptions used by the valuer to assess completeness and consistency with our understanding; and • test revaluations made during the year to see if they had been input correctly into the Council's balance sheet.

We will communicate significant findings on these areas as well as any other significant matters arising from the audit to you in our Audit Findings Report.

Accounting estimates and related disclosures

The Financial Reporting Council issued an updated ISA (UK) 540 (revised): *Auditing Accounting Estimates and Related Disclosures* which includes significant enhancements in respect of the audit risk assessment process for accounting estimates. We identified two recommendations in our 2020/21 audit in relation to the Council's estimation process for valuation of land and buildings and the provision for business rates appeals.

Introduction

Under ISA (UK) 540 (Revised December 2018) auditors are required to understand and assess an entity's internal controls over accounting estimates, including:

- The nature and extent of oversight and governance over management's financial reporting process relevant to accounting estimates;
- How management identifies the need for and applies specialised skills or knowledge related to accounting estimates;
- How the entity's risk management process identifies and addresses risks relating to accounting estimates;
- The entity's information system as it relates to accounting estimates;
- The entity's control activities in relation to accounting estimates; and
- How management reviews the outcomes of previous accounting estimates.

As part of this process auditors also need to obtain an understanding of the role of those charged with governance, which is particularly important where the estimates have high estimation uncertainty, or require significant judgement.

Specifically do Audit and Standards Committee members:

- Understand the characteristics of the methods and models used to make the accounting estimates and the risks related to them;
- Oversee management's process for making accounting estimates, including the use of models, and the monitoring activities undertaken by management; and
- Evaluate how management made the accounting estimates?



Accounting estimates and related disclosures

Additional information that will be required

To ensure our compliance with this revised auditing standard, we will be requesting further information from management and those charged with governance during our audit for the year ended 31 March 2022.

Based on our knowledge of the Council we have identified the following material accounting estimates for which this is likely to apply:

- Valuations of land and buildings, council dwellings and investment properties
- Depreciation
- Valuation of defined benefit net pension fund liabilities
- Fair value estimates

The Council's Information systems

In respect of the Council's information systems we are required to consider how management identifies the methods, assumptions and source data used for each material accounting estimate and the need for any changes to these. This includes how management selects, or designs, the methods, assumptions and data to be used and applies the methods used in the valuations.

When the models used include increased complexity or subjectivity, as is the case for many valuation models, auditors need to understand and assess the controls in place over the models and the data included therein. Where adequate controls are not in place we may need to report this as a significant control deficiency and this could affect the amount of detailed substantive testing required during the audit.

If management has changed the method for making an accounting estimate we will need to fully understand management's rationale for this change. Any unexpected changes are likely to raise the audit risk profile of this accounting estimate and may result in the need for additional audit procedures.

We are aware that the Council uses management experts in deriving some of its more complex estimates, e.g. asset valuations and pensions liabilities. However, it is important to note that the use of management experts does not diminish the responsibilities of management and those charged with governance to ensure that:

- All accounting estimates and related disclosures included in the financial statements have been prepared in accordance with the requirements of the financial reporting framework, and are materially accurate;
- There are adequate controls in place at the Council (and where applicable its service provider or management expert) over the models, assumptions and source data used in the preparation of accounting estimates.



Estimation uncertainty

Under ISA (UK) 540 we are required to consider the following:

- How management understands the degree of estimation uncertainty related to each accounting estimate; and
- How management address this estimation uncertainty when selecting their point estimate.

For example, how management identified and considered alternative, methods, assumptions or source data that would be equally valid under the financial reporting framework, and why these alternatives were rejected in favour of the point estimate used.

The revised standard includes increased emphasis on the importance of the financial statement disclosures. Under ISA (UK) 540 (Revised December 2018), auditors are required to assess whether both the accounting estimates themselves and the related disclosures are reasonable.

Where there is a material uncertainty, that is where there is a significant risk of a material change to the estimated carrying value of an asset or liability within the next year, there needs to be additional disclosures. Note that not all material estimates will have a material uncertainty and it is also possible that an estimate that is not material could have a risk of material uncertainty.

Where there is material estimation uncertainty, we would expect the financial statement disclosures to detail:

- What the assumptions and uncertainties are;
- How sensitive the assets and liabilities are to those assumptions, and why;
- The expected resolution of the uncertainty and the range of reasonably possible outcomes for the next financial year; and
- An explanation of any changes made to past assumptions if the uncertainty is unresolved.

Planning enquiries

As part of our planning risk assessment procedures we have prepared and agreed with management a separate document (Informing the audit risk assessment 2021-22) that is being presented to the Audit and Standards Committee alongside this audit plan.

Further information

Further details on the requirements of ISA (UK) 540 (Revised December 2018) can be found in the auditing standard on the Financial Reporting Council's website:

[https://www.frc.org.uk/getattachment/0fa69c03-49ec-49ae-a8c9-cc7a2b65382a/ISA-\(UK\)-540_Revised-December-2018_final.pdf](https://www.frc.org.uk/getattachment/0fa69c03-49ec-49ae-a8c9-cc7a2b65382a/ISA-(UK)-540_Revised-December-2018_final.pdf)

Other matters

Other work

In addition to our responsibilities under the Code of Practice, we have a number of other audit responsibilities, as follows:

- We read your Narrative Report and Annual Governance Statement to check that they are consistent with the financial statements on which we give an opinion and our knowledge of the Council.
- We carry out work to satisfy ourselves that disclosures made in your Annual Governance Statement are in line with requirements set by CIPFA.
- We carry out work on your consolidation schedules for the Whole of Government Accounts process in accordance with NAO group audit instructions.
- We consider our other duties under legislation and the Code, as and when required, including:
 - giving electors the opportunity to raise questions about your 2021/22 financial statements, consider and decide upon any objections received in relation to the 2021/22 financial statements;
 - issuing a report in the public interest or written recommendations to the Council under section 24 of the Local Audit and Accountability Act 2014 (the Act).
 - application to the court for a declaration that an item of account is contrary to law under section 28 or a judicial review under section 31 of the Act
 - issuing an advisory notice under section 29 of the Act
- We certify completion of our audit.

Other material balances and transactions

Under International Standards on Auditing, "irrespective of the assessed risks of material misstatement, the auditor shall design and perform substantive procedures for each material class of transactions, account balance and disclosure". All other material balances and transaction streams will therefore be audited. However, the procedures will not be as extensive as the procedures adopted for the risks identified in this report.

Materiality

The concept of materiality

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. Misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Materiality for planning purposes

We have determined financial statement materiality based on a proportion of the gross expenditure of the group and Council for the prior financial year. In the prior year we used the same benchmark. Materiality at the planning stage of our audit is £1,600k (PY £1,400k) for the Council, which equates to 1.75% of your gross expenditure for the prior period. We will need to calculate a separate materiality level for the group. As the impact on the financial statements is, at this stage, unclear, we will do this on receipt of the draft financial statements.

We design our procedures to detect errors in specific accounts at a lower level of precision which we have determined to be £10k for senior officer remuneration owing to the sensitive nature of these disclosures.

We reconsider planning materiality if, during the course of our audit engagement, we become aware of facts and circumstances that would have caused us to make a different determination of planning materiality.

Matters we will report to the Audit and Standards Committee

Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Audit and Standards Committee any unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work. Under ISA 260 (UK) 'Communication with those charged with governance', we are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. ISA 260 (UK) defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria. In the context of the group and Council, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £80k (PY £70k).

If management have corrected material misstatements identified during the course of the audit, we will consider whether those corrections should be communicated to the Audit and Standards Committee to assist it in fulfilling its governance responsibilities.

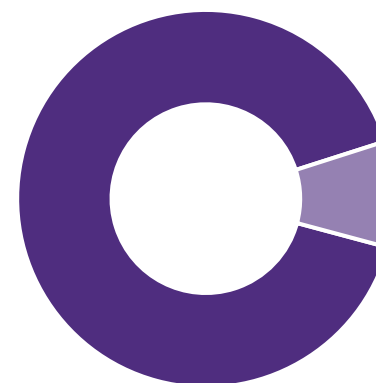
Prior year gross operating costs

£TBCm group

(PY: N/A)

£90.9m Council

(PY98.9m)



■ Prior year gross operating costs

Materiality

£TBCm

group financial statements materiality

(PY: N/A)

£1,600k

Council financial statements materiality

(PY: £1,400k)

£80k

Misstatements reported to the Audit and Standards Committee
(PY: £70k)

IT audit strategy

In accordance with ISA (UK) 315, we are required to obtain an understanding of the information systems relevant to financial reporting to identify and assess the risks of material misstatement. As part of this we obtain an understanding of the controls operating over relevant Information Technology (IT) systems i.e., IT general controls (ITGCs). Our audit will include completing an assessment of the design of ITGCs related to security management; technology acquisition, development and maintenance; and technology infrastructure. Based on the level of assurance required for each IT system the assessment may focus on evaluating key risk areas ('streamlined assessment') or be more in depth ('detailed assessment').

The following IT systems have been judged to be in scope for our audit and based on the planned financial statement audit approach we will perform the indicated level of assessment:

IT system	Audit area	Planned level IT audit assessment
CiAnywhere (TechnologyOne)	Financial reporting (new ledger system)	<ul style="list-style-type: none"> Detailed ITGC assessment (design and operating effectiveness)
Total	Financial reporting (former ledger system)	<ul style="list-style-type: none"> Streamlined ITGC design assessment

In addition, due to the new ledger system implementation additional audit procedures will be completed to address the additional risks of material misstatement identified.

IT system	Event	Relevant risks	Planned IT audit procedures
CiAnywhere (TechnologyOne)	New system implementation	Post migration data completeness and accuracy; system functionality operating to design.	<ul style="list-style-type: none"> Obtain an understanding of the process used for new system implementation Audit of data migration activity and results

Value for Money arrangements

Approach to Value for Money work for 2021/22

The National Audit Office (NAO) issued updated guidance for auditors in April 2020. The Code requires 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 three specified reporting criteria. These are as set out below:



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



Risks of significant VFM weaknesses

As part of our planning work, we considered whether there were any risks of significant weakness in the body's arrangements for securing economy, efficiency and effectiveness in its use of resources that we needed to perform further procedures on. The risks we have identified are detailed in the first table below, along with the further procedures we will perform. We may need to make recommendations following the completion of our work. The potential different types of recommendations we could make are set out in the second table below.

Risks of significant weakness

Those risks requiring audit consideration and procedures to address the likelihood that proper arrangements are not in place at the body to deliver value for money.



Financial Sustainability

The Medium Term Financial Strategy (MTFS), presented to Council on 23 February 2022, includes cumulative savings / income generation schemes of around £6m. In addition to these there is a further £1.2m of recurrent savings that still need to be identified by 2026/27. There is a risk around financial sustainability, and whether the Council has realistic, robust plans to move to a balanced financial position in the longer term. This risk is heightened as the cancelling of the proposed merger with Stratford on Avon District Council will mean that some of the anticipated savings are unlikely to be achieved.

To address this risk we will look at the arrangements in place to identify savings or income generation schemes, and how robust and realistic these are.



Milverton Homes limited

The Council will need to develop and embed appropriate governance arrangements for the newly formed housing company, Milverton Homes Limited, and also establish arrangements to assess whether the expected benefits are realised.

To address this we will gain an understanding of the arrangements, and how governance works in practice. This will include how the Council satisfies itself regarding progress and benefits realisation.

Potential types of recommendations

A range of different recommendations could be made following the completion of work on risks of significant weakness, 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

Audit logistics and team



Laurelin Griffiths, Key Audit Partner

Laurelin leads our relationship with you and takes overall responsibility for the delivery of a high quality audit, ensuring the highest professional standards are maintained with a commitment to add value to the Council.



Neill Preece, Audit Manager

Neil is responsible for overseeing delivery of our service and managing the audit process in respect of the Council. He will be on hand to answer any queries, whilst ensuring an efficient audit process.



Aaron Smallwood, Audit Incharge

Aaron will work with relevant officers and our operational team to ensure the smooth planning and delivery of the audits. He will oversee the day to day running of the audit and discuss any issues with you during the audit process as well as any questions you may have throughout the year.

Audited body responsibilities

Where audited bodies do not deliver to the timetable agreed, we need to ensure that this does not impact on audit quality or absorb a disproportionate amount of time, thereby disadvantaging other audits. Where the elapsed time to complete an audit exceeds that agreed due to a client not meeting its obligations we will not be able to maintain a team on site. Similarly, where additional resources are needed to complete the audit due to a client not meeting their obligations we are not able to guarantee the delivery of the audit to the agreed timescales. In addition, delayed audits will incur additional audit fees.

Our requirements

To minimise the risk of a delayed audit, you need to ensure that you:

- produce draft financial statements of good quality by the timetable you have agreed with us, including all notes, the Narrative Report and the Annual Governance Statement
- ensure that good quality working papers are available at the start of the audit, in accordance with the working paper requirements schedule that we have shared with you
- ensure that the agreed data reports are available to us at the start of the audit and are reconciled to the values in the accounts, in order to facilitate our selection of items for testing
- ensure that all appropriate staff are available on site throughout (or as otherwise agreed) the planned period of the audit
- respond promptly and adequately to audit queries.

Audit fees

In 2018, PSAA awarded a contract of audit for Warwick District Council to begin with effect from 2018/19. The fee agreed in the contract was £41,290. Since that time, there have been a number of developments, particularly in relation to the revised Code and ISA's which are relevant for the 2021/22 audit.

Across all sectors and firms, the FRC has set out its expectation of improved financial reporting from organisations and the need for auditors to demonstrate increased scepticism and challenge and to undertake additional and more robust testing, as detailed on pages 14 and 15 in relation to the updated ISA (UK) 540 (revised): Auditing Accounting Estimates and Related Disclosures.

As a firm, we are absolutely committed to meeting the expectations of the FRC with regard to audit quality and public sector financial reporting. Our proposed work and fee for 2021/22, as set out below, is detailed overleaf and has been agreed with the Head of Finance.

	Actual Fee 2019/20	Actual Fee 2020/21	Proposed fee 2021/22
Warwick District Council Audit	£57,290	£65,540	£73,140
Total audit fees (excluding VAT)	£57,290	£65,540	£73,140

Assumptions

In setting the above fees, we have assumed that the Council will:

- prepare a good quality set of financial statements, supported by comprehensive and well presented working papers which are ready at the start of the audit
- provide appropriate analysis, support and evidence to support all critical judgements and significant judgements made during the course of preparing the financial statements
- provide early notice of proposed complex or unusual transactions which could have a material impact on the financial statements.

Relevant professional standards

In preparing our fee estimate, we have had regard to all relevant professional standards, including paragraphs 4.1 and 4.2 of the FRC's [Ethical Standard \(revised 2019\)](#) which stipulate that the Engagement Lead (Key Audit Partner) must set a fee sufficient to enable the resourcing of the audit with partners and staff with appropriate time and skill to deliver an audit to the required professional and Ethical standards.

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	£3,125	
Enhanced audit procedures for Property, Plant and Equipment	£2,187	
Enhanced audit procedures for Pensions	£2,188	
Recurring element of 2019/20 fee		£48,790

Ongoing issues from 2020/21

Additional work on Value for Money (VfM) under new NAO Code	£10,000	
Increased audit requirements of revised ISAs	£5,000	
Local risk factors i.e. establishment of local housing company	£1,750	
Recurring element of 2020/21 fee		£65,540

New issues for 2021/21

Infrastructure assets	£2,500	
Additional cost of remote working & new ledger implementation	£5,100	
Total audit fees (excluding VAT)		£73,140

Independence and non-audit services

Auditor independence

Ethical Standards and ISA (UK) 260 require us to give you timely disclosure of all significant facts and matters that may bear upon the integrity, objectivity and independence of the firm or covered persons, relating to our independence. We encourage you to contact us to discuss these or any other independence issues with us. We will also discuss with you if we make additional significant judgements surrounding independence matters.

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 (Revised 2019) 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.

We confirm that we have implemented policies and procedures to meet the requirements of the Ethical Standard. For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council.

Other services

The following other services provided by Grant Thornton were identified. The amounts detailed are fees agreed to-date for audit related and non-audit services to be undertaken by Grant Thornton UK LLP in the current financial year. These services are consistent with the Council's policy on the allotment of non-audit work to your auditors. Any changes and full details of all fees charged for audit related and non-audit related services by Grant Thornton UK LLP and by Grant Thornton International Limited network member Firms will be included in our Audit Findings report at the conclusion of the audit.

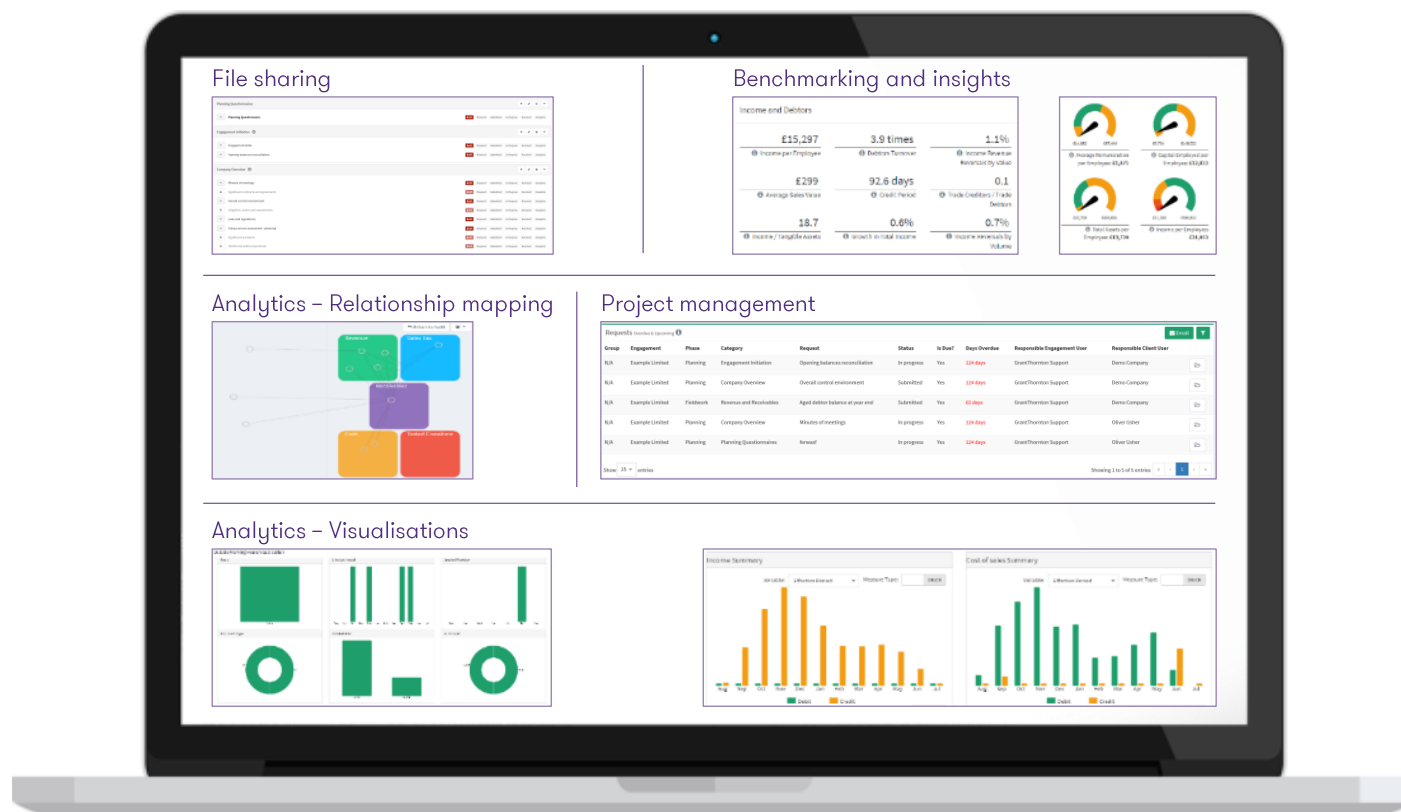
None of the services provided are subject to contingent fees.

Service	Fees £	Threats	Safeguards
Audit related			
Certification of Housing Benefits Subsidy Claim 2021/22	22,600	Self-Interest (because this is a recurring fee)	The level of these recurring fees taken on their own are not a significant threat to independence as the fee for this work is £28,600 in comparison to the total fee for the audit of £73,140. Furthermore these fees are not significant relative to Grant Thornton UK LLP's turnover overall. These are also fixed fees and there are no contingent elements to it.
Certification of Housing Capital receipts grant 2021/22	6,000	Self-Interest (because this is a recurring fee)	We are satisfied that these factors all mitigate the perceived self-interest threat to an acceptable level.
Total	28,600		

Our digital audit experience

A key component of our overall audit experience is our comprehensive data analytics tool, which is supported by Inflo Software technology. This tool has a number of key functions within our audit process:

Function	Benefits for you
Data extraction	Providing us with your financial information is made easier
File sharing	An easy-to-use, ISO 27001 certified, purpose-built file sharing tool
Project management	Effective management and oversight of requests and responsibilities
Data analytics	Enhanced assurance from access to complete data populations



Grant Thornton's Analytics solution is supported by Inflo Software technology

Our digital audit experience

A key component of our overall audit experience is our comprehensive data analytics tool, which is supported by Inflo Software technology. This tool has a number of key functions within our audit process:



Data extraction

- Real-time access to data
- Easy step-by-step guides to support you upload your data



File sharing

- Task-based ISO 27001 certified file sharing space, ensuring requests for each task are easy to follow
- Ability to communicate in the tool, ensuring all team members have visibility on discussions about your audit, reducing duplication of work



Project management

- Facilitates oversight of requests
- Access to a live request list at all times



Data analytics

- Relationship mapping, allowing understanding of whole cycles to be obtained quickly
- Visualisation of transactions, allowing easy identification of trends and anomalies

How will analytics add value to your audit?

Analytics will add value to your audit in a number of ways. We see the key benefits of extensive use of data analytics within the audit process to be the following:

Improved fraud procedures using powerful anomaly detection

Being able to analyse every accounting transaction across your business enhances our fraud procedures. We can immediately identify high risk transactions, focusing our work on these to provide greater assurance to you, and other stakeholders.

Examples of anomaly detection include analysis of user activity, which may highlight inappropriate access permissions, and reviewing seldom used accounts, which could identify efficiencies through reducing unnecessary codes and therefore unnecessary internal maintenance.

Another product of this is identification of issues that are not specific to individual postings, such as training requirements being identified for members of staff with high error rates, or who are relying on use of suspense accounts.

More time for you to perform the day job

Providing all this additional value does not require additional input from you or your team. In fact, less of your time is required to prepare information for the audit and to provide supporting information to us.

Complete extracts from your general ledger will be obtained from the data provided to us and requests will therefore be reduced.

We provide transparent project management, allowing us to seamlessly collaborate with each other to complete the audit on time and around other commitments.

We will both have access to a dashboard which provides a real-time overview of audit progress, down to individual information items we need from each other. Tasks can easily be allocated across your team to ensure roles and responsibilities are well defined.

Using filters, you and your team will quickly be able to identify actions required, meaning any delays can be flagged earlier in the process. Accessible through any browser, the audit status is always available on any device providing you with the information to work flexibly around your other commitments.

Appendix 1: Progress against prior year audit recommendations

We identified the following issues in our 2020/21 audit of the Council's financial statements, which resulted in four recommendations being reported in our 2020/21 Audit Findings Report. We will follow up progress against these as part of our year end audit.

Assessment	Issue and risk	Recommendations
Medium	<p>Fixed Asset Register</p> <p>There is an £89k difference between the fixed asset register and the ledger, and hence the financial statements. As noted on page 7 [of the 2020/21 Audit Findings Report], Officers are unable to identify why this is and correct the imbalance.</p> <p>While there is little risk of the property values being materially misstated, even over time, the two should agree.</p>	<p>Management should identify and correct the differences between the fixed asset register and the ledger.</p> <p>Management response</p> <p>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.</p>
Medium	<p>Floor area evidence to support property valuations</p> <p>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.</p>	<p>As floor area is a key determinant in the valuation of some properties Management need to ensure that this information is readily available.</p> <p>Management response</p> <p>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.</p>
Medium	<p>Provision for Business rates appeals</p> <p>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.</p> <p>By using an out of date process the estimate of the provision could be misstated.</p>	<p>The Council should consider the Check, Challenge and Appeal (CCA) in the computation of provision for business rates appeals.</p> <p>Management response</p> <p>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.</p>

Appendix 1: Progress against prior year audit recommendations

Assessment	Issue and risk	Recommendations
High	<p>Bank Reconciliation</p> <p>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.</p> <p>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.</p>	<p>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.</p> <p>Management response</p> <p>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.</p>

Controls

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

