

Audit approach

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 NAO's 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;
- Substantive testing on significant transactions and material account balances, including the procedures outlined in this report in relation to the key audit risks

We have not had to alter our audit plan, as communicated to you on 27 May 2020.

Conclusion

We have substantially completed our audit of your financial statements and subject to outstanding queries being resolved as noted on page 4 we anticipate issuing an unqualified audit opinion including an Emphasis of Matter - this details a material uncertainty regarding the valuation of land and buildings due to COVID – 19.

Our proposed audit opinion is included in appendix E.

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.

Subject to satisfactory conclusion of the outstanding matters listed above our anticipated audit report opinion will be unmodified including an Emphasis of Matter - this details a material uncertainty regarding the valuation of land and buildings due to COVID – 19.

Audit approach

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. Materiality levels remain the same as reported in our audit plan on 27 May 2020.

	Amount (£)	Qualitative factors considered
Materiality for the financial statements	£1,200,000	We determined materiality for the audit of the Council's financial statements as a whole to be £1,200,000, which equates to approximately 1.4% of the Council's gross operating expenses. 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	£840,000	<p>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:</p> <ul style="list-style-type: none"> • 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	£60,000	We determined the threshold at which we will communicate misstatements to the Finance and Audit Scrutiny Committee to be £60k.
Materiality for specific transactions, balances or disclosures	£25,000	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.

Significant audit risks

Risks identified in our Audit Plan

Covid – 19

The global outbreak of the Covid-19 virus pandemic has led to unprecedented uncertainty for all organisations, requiring urgent business continuity arrangements to be implemented. We expect current circumstances will have an impact on the production and audit of the financial statements for the year ended 31 March 2020, including and not limited to;

- Remote working arrangements and redeployment of staff to critical front line duties may impact on the quality and timing of the production of the financial statements, and the evidence we can obtain through physical observation
- Volatility of financial and property markets will increase the uncertainty of assumptions applied by management to asset valuation and receivable recovery estimates, and the reliability of evidence we can obtain to corroborate management estimates
- Financial uncertainty will require management to reconsider financial forecasts supporting their going concern assessment and whether material uncertainties for a period of at least 12 months from the anticipated date of approval of the audited financial statements have arisen; and
- Disclosures within the financial statements will require significant revision to reflect the unprecedented situation and its impact on the preparation of the financial statements as at 31 March 2020 in accordance with IAS1, particularly in relation to material uncertainties.

We therefore identified the global outbreak of the Covid-19 virus as a significant risk, which was one of the most significant assessed risks of material misstatement.

Auditor commentary

We:

- worked with management to understand the implications the response to the Covid-19 pandemic had on the organisation's ability to prepare the financial statements and update financial forecasts and assessed the implications for our audit approach
- liaised with other audit suppliers, regulators and government departments to co-ordinate practical cross-sector responses to issues as and when they arose. Examples include the material uncertainty disclosed by the Council's property valuation expert
- evaluated the adequacy of the disclosures in the financial statements that arose in light of the Covid-19 pandemic;
- evaluated whether sufficient audit evidence could be obtained through remote technology;
- evaluated whether sufficient audit evidence could be obtained to corroborate significant management estimates such as asset valuations and recovery of receivables balances;
- evaluated management's assumptions that underpin the revised financial forecasts and the impact on management's going concern assessment;
- discussed with management the implications for our audit report where we have been unable to obtain sufficient audit evidence.

There is only one significant impact on the financial statements in relation to Covid-19. This relates to the valuation of land and property. We will be including an Emphasis of Matter paragraph, highlighted PP&E valuation material uncertainties which is the basis upon which the Council's valuers have provided their valuations. The Council will need to reflect this uncertainty in its accounts and we will refer to these material valuation uncertainties in our audit report (see page 11)

The revenue cycle includes fraudulent transactions – rebutted

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.

Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the Council, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:

- there is little incentive to manipulate revenue recognition
- opportunities to manipulate revenue recognition are very limited
- the culture and ethical frameworks of local authorities, including Warwick District Council, mean that all forms of fraud are seen as unacceptable

Therefore, we do not consider this to be a significant risk for Warwick District Council. Whilst not a significant risk, as part of our audit work we did undertake work on material revenue items. Our work did not identify any matters that would indicate our rebuttal was incorrect.

Significant audit risks

Risks identified in our Audit Plan

Management override of controls

Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities.

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, which was one of the most significant assessed risks of material misstatement.

Auditor commentary

We have undertaken the following work in relation to this risk:

- evaluated the design effectiveness of management controls over journals
- analysed the journals listing and determine 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 made by management and consider their reasonableness with regard to corroborative evidence
- evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions.

Our audit work at the Council has not identified any issues in respect of management override of controls.

For an in depth consideration of the Council's estimates please see pages 13 and 14.

Significant audit risks

Risks identified in our Audit Plan

Commentary

Valuation of Property, Plant and Equipment (PP&E)

The Council revalues its land and buildings on a rolling five-yearly basis. This valuation represents a significant estimate by management in the financial statements due to the size of the balance involved (£502m) and the sensitivity of this estimate to changes in key assumptions. Additionally, management will need to ensure the carrying value in the Authority financial statements is not materially different from the current value or the fair value (for surplus assets) at the financial statements date, where a rolling programme is used.

We therefore identified valuation of land and buildings, particularly revaluations and impairments, as a significant risk, which was one of the most significant assessed risks of material misstatement, and a key audit matter.

We have undertaken the following work in relation to this risk:

- updated our understanding of the processes, controls and assumptions put in place by management to ensure that the PP&E valuation is not materially misstated and evaluate the design of these and whether they are sufficient to mitigate the risk of material misstatement;
- assessed the competence, capabilities and objectivity of management's experts (valuers) who carried out your PP&E valuations;
- evaluated the instructions issued by management to their management expert (a valuer) for this estimate and the scope of the valuer's work;
- communicated with the valuer about the basis on which the valuation is carried out and where necessary challenge the key assumptions
- reviewed and challenge the information used by the valuer to ensure it is robust and consistent with our understanding
- tested revaluations made during the year to ensure they are consistent with the valuer's report and input correctly into the Council's asset register
- evaluated the assumptions made by management for those assets not revalued during the year and how management have satisfied themselves that these are not materially different to current value

Findings

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 out 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% rolling programme of valuation

- a) 20% of assets identified as General Fund assets are subject to revaluation at 1 April 2019 as part of the rolling programme of valuations. We have confirmed these values have been updated appropriately within the financial statements and that the assets revalued are in accordance with instructions submitted to the valuer, Carter Jonas and the rolling programme of valuations. The financial statements are produced as at 31 March, by valuing at 1 April the Council needs to demonstrate the valuations have not moved significantly in 12 months. The Council should review its rolling programme and complete this valuation either at the year end or 28 February, in line with other assets, to reduce the risk of material movements.
- b) 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.

80% sample of assets

As at 28 February 2020 the Council instructed 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 and 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 management's expert, Carter Jonas.

Significant audit risks

Risks identified in our Audit Plan	Commentary
Valuation of Property, Plant and Equipment (PP&E)	<p data-bbox="410 311 1006 335">Disclosures regarding material valuation uncertainty</p> <p data-bbox="410 349 1980 401">The Council's valuers have included in their valuation report update a material uncertainty with regard to the valuation of assets. This uncertainty has arisen due to the unpredictability of the building and property market.</p> <p data-bbox="410 425 1980 511">The Council has disclosed this issue in Note 5 'Events after the reporting period' to its financial statements. We do not however consider this disclosure is sufficiently detailed to meet the requirements of the accounting standards and amendments to the disclosure have been recommended to the Council. A detailed commentary on the amendment is included on page 30. In summary, the recommended amendments are:</p> <ul data-bbox="505 535 1887 686" style="list-style-type: none"> <li data-bbox="505 535 1804 559">▪ Move the disclosure to Note 4 'Assumptions Made About the Future and Other Major Sources of Estimation Uncertainty' <li data-bbox="505 584 1612 608">▪ Explicitly state that the valuer has included a material valuation uncertainty regarding asset valuations <li data-bbox="505 632 1887 686">▪ Provide a sensitivity analysis to enable users of the financial statements to understand the impact of potential changes to asset valuations <p data-bbox="410 711 1980 762">We will be including an Emphasis of Matter 'effects of Covid-19 on the valuation of land and buildings' within our auditor's report. Our opinion is not modified in respect of this matter.</p> <p data-bbox="410 782 555 806">Other points</p> <p data-bbox="410 821 1980 872">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.</p> <p data-bbox="410 905 1939 956">We have noted that post 31 March 2020 the Council has made the decision not to use the 4th floor of Riverside House. We are satisfied that this does not have an impact on the valuation of Riverside House as at 31 March 2020.</p> <p data-bbox="410 989 540 1013">Conclusion</p> <p data-bbox="410 1028 1980 1079">We have raised a number of recommendations in relation to PP&E however we are satisfied that the value of Property, Plant and Equipment is not materially misstated within the financial statements.</p>

Significant audit risks

Risks identified in our Audit Plan

Valuation of pension fund net liability

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 (£40.891m in the Council's balance sheet) and the sensitivity of the estimate to changes in key assumptions.

We therefore identified valuation of the Council's pension fund net liability as a significant risk, which was one of the most significant assessed risks of material misstatement.

Auditor commentary

We have:

- updated our understanding of the processes and controls put in place by management to ensure that the Council's pension fund net 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 out 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

Findings

No issues have been identified at present however, our work in this area is not yet complete.

We are currently waiting for assurances from the Pension Fund auditor 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. We are also waiting for some responses from the Council and Actuary in respect or challenge questions we have raised..

The Council has also received an updated IAS19 report which is based on the actual return on scheme assets rather than an estimate. The impact of this would be a reduction in the Council's net pension liability of £415k. The Council has not adjusted this within the financial statements and as such this is included as an unadjusted misstatement within Appendix C.

The Council's actuary has reported a net defined liability comprising significant "experience" items of £26.8m. These are material and therefore we are investigating, through liaison with the actuary (via the pension fund) the breakdown of this amount to determine that items included are appropriate.



At the time of writing this report there are two items that may result in further audit queries:

- MHCLG is consulting on a remedy for the McCloud judgment that we reported upon last year. The Council's actuary has made assumptions in respect of the liability prior to the proposed remedy. The expectation is that these assumptions are likely to have produced figures for the liability that are greater than those proposed under the remedy.
- the impact of the Goodwin judgement (inequality within the Teachers Pension Scheme where male survivors of female scheme members received lower survivor benefit than a comparable same-sex survivor) and the government's commitment that the difference in treatment will also need to be remedied in other public service pension schemes (<https://questions-statements.parliament.uk/written-statements/detail/2020-07-20/HCWS397>).





The impact of the above on the LGPS is being considered by the NAO and their auditor expert PWC. The expectation is that both are unlikely to be material but this may result in further audit queries.

As well as the outstanding issues above, we have requested assistance from the pension fund auditor to help with our review and pending receipt of this information we cannot conclude upon our work in this area.



Significant findings – key judgements and estimates

Accounting area	Summary of management's policy	Audit Comments	Assessment										
Provisions - NNDR appeals - £5.120m (£2.300m 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.	<p>We have:</p> <ul style="list-style-type: none"> 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 <p>We have identified a misclassification issue within the provisions note. This is a presentation adjustment only and does not affect the stated balance. This has been adjusted in the financial statements and is included in Appendix C.</p> <p>We are satisfied that the overall provision is not materially misstated.</p>	 Green										
Land and Buildings – Council Housing - £387.206m	<p>The Council owns 5,477 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 from as at 28 February 2020. The year end valuation of Council Housing was £402.119m, a net increase of £14.913m from 2018/19 (£387.206m). This is made up of:</p> <table border="0"> <tr> <td>➤ Asset additions</td> <td style="text-align: right;">£14.934m</td> </tr> <tr> <td>➤ Asset disposals</td> <td style="text-align: right;">(£1.946m)</td> </tr> <tr> <td>➤ Asset reclassifications</td> <td style="text-align: right;">£0.220m</td> </tr> <tr> <td>➤ Revaluation Increases</td> <td style="text-align: right;">£1.705m</td> </tr> <tr> <td>➤ TOTAL</td> <td style="text-align: right;">£14.913m</td> </tr> </table>	➤ Asset additions	£14.934m	➤ Asset disposals	(£1.946m)	➤ Asset reclassifications	£0.220m	➤ Revaluation Increases	£1.705m	➤ TOTAL	£14.913m	<p>We have:</p> <ul style="list-style-type: none"> 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 <p>The valuation of Council Dwellings was completed as at 28 February 2020. We consider it is unlikely that the value of these properties would materially change to 31 March 2020 and we have satisfied ourselves in respect of the assumptions used by management's expert. We are therefore satisfied that the valuation as at 31st March 2020 is not materially misstated.</p>	 Green
➤ Asset additions	£14.934m												
➤ Asset disposals	(£1.946m)												
➤ Asset reclassifications	£0.220m												
➤ Revaluation Increases	£1.705m												
➤ TOTAL	£14.913m												





Assessment

-  **Red** - We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
-  **Amber** - We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
-  **Yellow** - We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
-  **Green** - We consider management's process is appropriate and key assumptions are neither optimistic or cautious

Significant findings – key judgements and estimates

	Summary of management's policy	Audit Comments	Assessment
Land and Buildings – Other (OLB) - £81.278m	<p>Other land and buildings comprises specialised assets of £35.3m 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.</p> <p>The remainder of other land and buildings (£45.978m) are not specialised in nature and are required to be valued at existing use in value (EUV) at year end.</p> <p>The Council has engaged its own external valuer, Carter Jonas LLP, to complete the valuation of properties as at 1 April 2020 on a four yearly cyclical basis.</p>	<p>We have:</p> <ul style="list-style-type: none"> 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 <p>Whilst we are satisfied there is no material misstatement in the value of Other Land and Buildings (as at 31 March 2020 – we are satisfied that one day will not materially impact upon the valuation) we did identify improvements which could be made to the revaluation process . These are included as recommendations at Appendix A.</p>	 Green
Investment property valuation process – Note 15	<p>In accordance with IFRS 13 and IAS 40 investment property should be measured at fair value at the reporting date.</p>	<ul style="list-style-type: none"> Investment property per the financial statements Note 15 total £10.234m. In accordance with IFRS 13 and IAS 40 investment property should be measured at fair value at the reporting date through an annual revaluation. We are satisfied that the Investment property value included within the financial statements is not materially misstated. 	 Green

Assessment

-  **Red** - We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
-  **Amber** - We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
-  **Yellow** - We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
-  **Green** - We consider management's process is appropriate and key assumptions are neither optimistic or cautious

Significant findings – key judgements and estimates

Summary of management's policy

Net pension liability – £40.891m

The Council's total net pension liability at 31 March 2020 per the draft accounts is £40.891m (PY £48.466m).

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, as such the Council's Balance Sheet position as at 31 March 2020 is based on this new roll forward from the 2019 formal valuation. This differs to the balance sheet position as at 31 March 2019 and the charge to the P&L for 2019/20, which were based on a roll forward from the 2016 formal valuation. This change has led to sizeable asset and liability 'remeasurement experience' items in the reconciliation of the balance sheet from 31 March 2019 to 31 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 2020. The impact of this would be a revised net pension liability of £40.476m, a reduction in the liability of £415k. The Council has not adjusted for this on the basis of materiality. See 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 2020.

Assessment






Green

Assumption	Actuary Value	PwC range	Assessment
Discount rate	2.3%	2.3%	
Pension increase rate	1.9%	1.85% - 1.95%	
Salary growth	2.3%	Employer specific	
Life expectancy – Males currently aged 45 / 65	22.1	21.6 – 23.3	
Life expectancy – Females currently aged 45 / 65	25	24.6 – 26.3	

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

Item 9 / Page 20

Significant findings - Going concern

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).

Going concern commentary

Management's assessment process

Auditor commentary

Going Concern is defined as “the concept that the local authority will remain in operational existence for the foreseeable future, in particular that the revenue accounts and balance sheet assume no intention to curtail significantly the scale of operations.”

The Council's financial statements are prepared on going concern basis on the grounds that budgets are in place and are being measured and managed to ensure that liabilities can be met as and when they fall due.

Audit procedures undertaken have not found any indication of the existence of going concern events or conditions which may cast significant doubt on the Authority's ability to continue as a going concern. The Council budgets more than a year in advance and undertakes frequent spending reviews where budgets are adjusted where required.

Work performed

Auditor commentary

We have reviewed the budgetary processes in place and would note the following:

- We are satisfied from our review of the Council's reserves balance that it has sufficiency of usable reserves (e general fund and earmarked reserves) to support its finances should its savings plans not be delivered, but clearly reserves can only be used once.
- The Council is rightly concerned that there are a number of unknowns in its funding, especially with regard to the Business Rates Reset. However, in and of itself, this is not considered to cast significant doubt on the Council's ability to continue as a going concern.
- The Council has reviewed its Medium Term Financial Plan (MTFP) in light of Covid 19– we are aware that this is a situation which is changing as funding announcements are being made however we are satisfied that the Council has updated its MTFP with known developments and communicated the effects of this to Those Charged With Governance (TCWG).

Concluding comments

We therefore agree with the Council's conclusion that the going concern assumption is appropriate.

Other matters for communication

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	Auditor commentary
Matters in relation to fraud	<ul style="list-style-type: none"> We have previously discussed the risk of fraud with the Audit and Risk 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	<ul style="list-style-type: none"> We are not aware of any related parties or related party transactions which have not been disclosed.
Matters in relation to laws and regulations	<ul style="list-style-type: none"> 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	<ul style="list-style-type: none"> A letter of representation has been requested from the Council, which is appended.
Confirmation requests from third parties	<ul style="list-style-type: none"> 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.
Disclosures	<ul style="list-style-type: none"> We have requested enhanced disclosures in respect of the material uncertainties on PP&E valuations (see page 30). There were no other significant disclosure omissions or amendments made to the draft 2019-20 draft financial statements as a result of audit procedures.
Audit evidence and explanations/significant difficulties	<ul style="list-style-type: none"> All information and explanations requested from management were provided as requested. We commend the Council on the overall standard of workpapers provided for audit and the timelines of responses to our audit request However, 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 Journal, debtor and creditor reports. We estimate that combined with the impact of remote working this has extended the core final accounts audit process by 2 weeks plus additional review procedures by the Audit Manager and Engagement Lead. The finance team are aware of the limitations with the current finance system and have recently been through a detailed procurement process to identify a replacement finance package. We understand the Council has now made a decision in relation to the new finance system which is due for implementation in 2020/21.

Other responsibilities under the Code

Issue	Commentary
Other information	<p>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.</p> <p>No inconsistencies have been identified. We plan to issue an unmodified opinion in this respect – refer to appendix E</p>
Matters on which we report by exception	<p>We are required to report on a number of matters by exception in a numbers of areas:</p> <ul style="list-style-type: none"> • If the Annual Governance Statement does not meet the disclosure requirements set out in the CIPFA/SOLACE guidance or is misleading or inconsistent with the other information of which we are aware from our audit • If we have applied any of our statutory powers or duties <p>We have nothing to report on these matters</p>
Specified procedures for Whole of Government Accounts	<p>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. This work is not required as the Council does not exceed the threshold</p>
Certification of the closure of the audit	<p>We intend to certify the closure of the 2019/20 audit of Warwick District Council in the audit report, as detailed in Appendix E.</p>

Value for Money

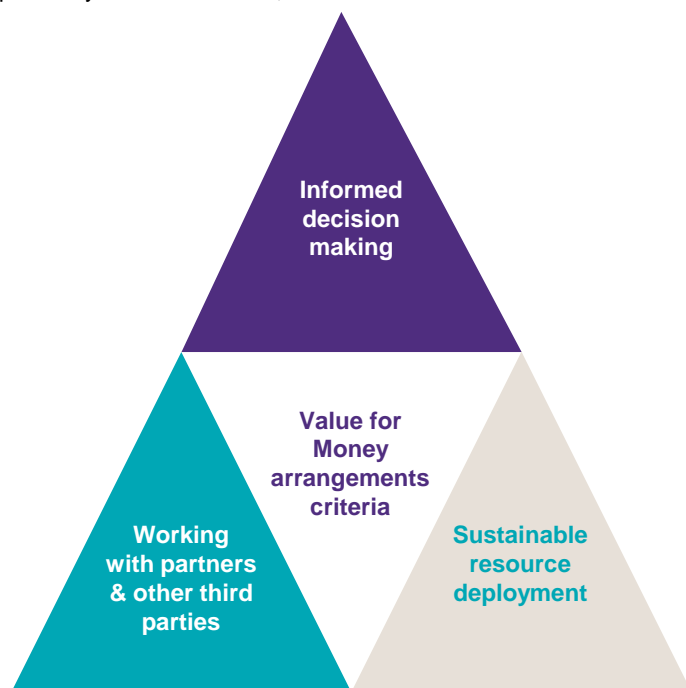
Background to our VFM approach

We are required to satisfy ourselves that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the Value for Money (VFM) conclusion.

We are required to carry out sufficient work to satisfy ourselves that proper arrangements are in place at the Council. In carrying out this work, we are required to follow the NAO's Auditor Guidance Note 3 (AGN 03) issued in November 2017. AGN 03 identifies one single criterion for auditors to evaluate:

"In all significant respects, the audited body takes properly informed decisions and deploys resources to achieve planned and sustainable outcomes for taxpayers and local people."

This is supported by three sub-criteria, as set out below:



Risk assessment

We carried out an initial risk assessment in February 2020 and identified one significant risk in respect of specific areas of proper arrangements using the guidance contained in AGN03. We communicated these risks to you in our Audit Plan presented to Finance and Audit Scrutiny Committee on 27 May 2020.

We have:

- updated our VFM risk assessment to document our understanding of your arrangements to ensure critical business continuity in the current environment. We have not identified any new VFM risks in relation to the Covid-19 pandemic.
- continued our review of relevant documents up to the date of giving our report, and have not identified any further significant risks where we need to perform further work.
- carried out further work only in respect of the significant risks we identified from our initial and ongoing risk assessment. Where our consideration of the significant risks determined that arrangements were not operating effectively, we have used the examples of proper arrangements from AGN 03 to explain the gaps in proper arrangements that we have reported in our VFM conclusion.

Our work

AGN 03 requires us to disclose our views on significant qualitative aspects of the Council's arrangements for delivering economy, efficiency and effectiveness. We have focused our work on the significant risks that we identified in the Council's arrangements. In arriving at our conclusion, our main considerations were:

- The Council's outturn as at 31 March 2020
- The Council's Budget Plans up to 2024/25
- The Council's consideration to extend its Waste Management contract with Suez.

We have set out more detail on the risks we identified, the results of the work we performed, and the conclusions we drew from this work on pages 20 to 22.

Recommendations for improvement

We discussed findings arising from our work with management and have agreed recommendations for improvement. Our recommendations and management's response to these can be found in the Action Plan at Appendix A

Significant difficulties in undertaking our work

We did not identify any significant difficulties in undertaking our work on your arrangements which we wish to draw to your attention.

Significant matters discussed with management

There were no matters where no other evidence was available or matters of such significance to our conclusion or that we required written representation from management or those charged with governance.

Overall conclusion

Based on the work we performed to address the significant risk, we are satisfied that the Council had proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

The text of our report which confirms this can be found at Appendix E.

Value for Money

Key findings

We set out below our key findings against the significant risks we identified through our initial risk assessment and further risks identified through our ongoing review of documents.

Significant risk

Financial sustainability

When Members approved the 2019/20 Budget in February 2019, the Medium term Financial Strategy showed that that the Council would be in deficit by £574,000 by 2023/24.

A number of changes have been made to the MTFS, largely resulting from re-profiling of savings. The Council's MTFS as reported to members in February 2020 is now showing a projected increase in the recurring deficit of £1.868m by 2023/24. In the short term it is proposed to use the Business Rate Retention Volatility Reserve (BRRVR) to help smooth the savings needed to be secured.

This will eliminate the projected deficits in 2020/21 and 2021/22 and has enabled the Council to agree a balanced Budget for 2020/21. However, recurrent savings of £522k will be required in 2022/23 and additional recurrent savings of £1,346k in 2023/24.

The Council acknowledged that by using the BRRVR it has effectively bought itself some time to get new initiatives in place but that it now needs to develop strategies for balancing its budget over the medium to long term to create a sustainable platform to deliver services.

Given the in-year challenges and those anticipated looking forward we have identified a residual VFM risk in respect of planning finances effectively to support the sustainable delivery of strategic priorities and maintain statutory functions.

Findings

In light of Covid-19 we have carried out a review of the updated financial information being produced by the council. Covid-19 has had a significant impact on all sectors. In particular Council's have faced challenges in relation to lost income, examples include parking and leisure income.

The Council's Medium term Financial Strategy (MTFS) was reported to members in February 2020 as part of the 2020/21 Budget setting process. At that stage the profile of savings to be found was as follows:-

2020/21 – £0

2021/22 – £0

2022/23 - £522k

2023/24 - £1,868k

2024/25 - £1,762k

This profile of savings from 2020/21 to 2024/25 includes a net contribution of £6,245m from the Business Rates Volatility reserve to support the General Fund.. Due to the Covid19 pandemic the MTFS presented to members in February 2020 was outdated before the financial year had begun. As such, updates of the MTFS have been reported to Cabinet in June and August 2020 in order to forecast the impact of lost income, additional cost pressures but also government funding received in relation to the pandemic. A summary of the savings required at each update compared to the February 2020 MTFS is summarised below:

Financial year	Savigs required per February 2020 MTFP	Savings required - Updated June 2020	Savings required- Updated August 2020
	000's	000's	000's
2020/2021	0	3,503	0
2021/2022	0	3,515	3,190
2022/2023	522	2,581	6,139
2023/2024	1,868	4,044	5,701
2024/2025	1,762	3,943	5,335
TOTAL	4,162	17,586	20,365

Value for Money (continued)

Findings (continued)

The latest MTFs update in August 2020 presents a balanced position for 2020/21. This accounts for known budget pressures such as the waste management contract (see below) and Covid 19 funding from the Government. The use of the Business Rate Retention Volatility Reserve (BRRVR) has been brought forward to 2020/21 in order to offset the budget pressures and show a balanced position for 2020/21.

£3.2m of savings need to be secured to enable the Council to be able to set a balanced budget for 2021/22 and not draw further than planned upon reserves. As part of the August 2020 update a schedule of proposed projects and savings has been developed which should assist the Council to reduce, although not eradicate, the budget deficit. This totals £4.115m per annum, £1m of which relates to the introduction of an annual fee to collect green bin waste. The savings plans identified will need to be progressed as a matter of urgency, along with the agreement of further projects and initiatives, to close the budget gap.

Usable reserves

Each year the Council reviews the level of reserves and balances it holds as part of setting the budget, as in previous years the s151 officer concluded that there were sufficient levels of reserves. A review of balances as at the end of the period confirms that the Council's total usable reserves have decreased by £5m from £71m to £66m. Of these reserves, £22.774m relates to the General Fund Revenue balance. This would be sufficient to cover the budget shortfalls to 2024/2025 however it should be noted that reserves can only be used once and the development of recurrent savings plans should be a priority for the Council.

Outturn position 2019/20

Historically, the Council has a strong track record of delivering against its financial objectives, and this continues to be the case for 2019/20 with a favourable variance of £782k on the General Fund (GF) budget and £48k on the Housing Revenue Account (HRA) being reported to the Executive on 13 July 2020. The main variances were summarised in the 13 July 2020 report to the Executive. Overall, the main variances are £1.497m of favourable variances and £715k adverse.

For 2019/20 the Council has seen slippage in its capital programme of £25.941m on a budgeted programme of £54.322m. This is largely due to delays in delivering agreed programmed works and projects commencing late. The budget to be carried forward to 2020/21 for these specific planned works total £24.716m on the Housing Investment Programme.

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 an 18 months (with the option to extend for a further year). We did not identify this as a significant risk however it does represent a significant recurrent cost increase above that forecast in the Council's MTFs.

The Council's waste contract with Suez expires on 1 April 2021. The current annual cost of the waste contract is £2.4m. It was budgeted that this cost would increase to £3.6m from 2021 however the retendering exercise identified that this budgeted cost had been underestimated and the annual cost would be in the region of £5.6m, £2m (per annum) over the budgeted amount included in the February 2020 MTFs.

Officers have worked closely with a Leader established Councillor Working Party to determine the next steps following the early results of the tender process. Prior to Councillors making any decision, a contract extension quote from Suez was requested as a contingency should the procurement process be hampered by the pandemic. Suez had provided a quote of £5.5 which was £1.8m greater than in the Council's indicative budget for 2021/22. It was concluded not to continue with the current procurement process and officers were asked to request a contract extension of 18 months (with the option of a further year) from the current service provider Suez.

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 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 arrangements to take into account the current circumstances combined with the Council's strategic direction in relation to Climate Change and Partnership working.

Value for Money (continued)

Conclusion

It is clear that the Council has responded positively to the challenge presented by Covid-19 and are adequately monitoring and assessing the current and future impacts on the Council's finances.

The financial year 2022/2023 will see perhaps the peak of the challenge. The Council's current MTFP 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. It is therefore business critical that officers and members take immediate action to reduce this gap

Based on the work completed we have concluded that the Council has adequate arrangements in place to deliver financial sustainability.

We are satisfied that the Council has sought appropriate legal advice regarding the contract extension.

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 financial challenges facing the Council in being able to set a balanced budget on a sustained basis is recognised as the key challenge for the Council. This is actively being considered by officers and members, with an update on how the required savings can be achieved to be considered by Executive on 10 December 2020.

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



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 15 September 2020, as well as the threats to our independence and safeguards that have been applied to mitigate these threats.




Service	£	Threats	Safeguards
Audit related			
Certification of Housing capital receipts grant	2,300	Self-Interest (because this is a recurring fee)	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.
		Self review (because GT provides audit services)	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	14,250	Self-Interest (because this is a recurring fee)	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 £14,250 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.
		Self review (because GT provides audit services)	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.
Additional HBAP 2017/18 Module X	2,850	Self-Interest (because this is potentially a recurring fee)	Whilst a one-off we are remunerated for the work. The level of this fee taken on its own is not considered a significant threat to independence as the fee for this work is £2,850 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.
		Self review (because GT provides audit services)	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.

Action plan



We have identified 6 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 2020/21 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
 High	<p>Delivery of savings plans</p> <p>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.</p>	<p>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.</p> <p>Management response</p> <p>An update on the savings plans is due to be considered by the Executive on 10 December 2020.</p>
 High	<p>Waste management contract</p> <p>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.</p> <p>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.</p> <p>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.</p>	<p>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.</p> <p>Management response</p> <p>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 District Council whilst also addressing its climate change objectives.</p>




Controls

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

Action plan (continued)

Assessment	Issue and risk	Recommendations
 Medium	<p>Property, Plant and Equipment – Asset register</p> <p>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</p>	<p>The PP&E register difference of £50k should be investigated and corrected for the 2020/21 financial year</p> <p>Management response</p> <p>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.</p>
 Medium	<p>Property Plant and Equipment – Valuation arrangements – 20% rolling programme</p> <p>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 out 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.</p> <p>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.</p>	<p>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)</p> <p>The rolling programme of revaluation should be reviewed to ensure there is no duplication of valuations in relation to Investment Property.</p> <p>Management response</p> <p>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.</p>

Controls

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

Action plan (continued)

Assessment	Issue and risk	Recommendations
<p>●</p> <p>Medium</p>	<p>Property Plant and Equipment – 80% sample of assets</p> <p>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).</p> <p>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 and 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.</p>	<p>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.</p> <p>Management response</p> <p>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.</p>
<p>●</p> <p>Medium</p>	<p>Bank reconciliation</p> <p>As part of year end audit procedures we obtain 3rd party bank confirmations. For 2 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.</p>	<p>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.</p> <p>Management response</p> <p>Bank accounts will be reconciled in line with recommendations.</p>
<p>●</p> <p>Low</p>	<p>Financial statement quality assurance procedures</p> <p>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.</p>	<p>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.</p> <p>Management response</p> <p>Appropriate levels of review will be built into year-end process going forward to ensure mapping issues do not reoccur.</p>

Controls

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

Follow up of prior year recommendations

We identified the following issues in the audit of Warwick District Council's 2018/19 financial statements, which resulted in 3 recommendations being reported in our 2018/19 Audit Findings report. We are pleased to report that management have implemented all of our recommendations.

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
✓	<p>As part of our testing we have reviewed the valuation reports provided by managements experts and found there to be a number of omissions and/or inconsistencies with the information provided.</p> <p>Due to the number of queries arising from this our work in relation to Property, Plant and Equipment has taken longer than anticipated.</p> <p>Recommendation</p> <p>The Council should thoroughly check valuation information provided by the valuer and ensure this is both in line with the agreed Terms of Engagement and information within the report has been scrutinised for accuracy.</p>	<p>Management response</p> <p>A meeting was arranged with the Council's valuers, Carter Jonas, with attendees from Finance and Asset Management teams present. The meeting, which took place in early September, focused on reviewing the valuation process to ensure that it resulted in timely, accurate information being received from the valuer, while also looking at efficiencies for Finance.</p> <p>It has been established in the meeting that a single date will be used going forward to get all necessary valuations completed, with the date likely to be at the end of February. This will give the valuers sufficient time to complete their work and get the information sent across before the Accountancy team's busy April period, helping to alleviate some of the capacity issues faced with the team.</p> <p>Audit comment</p> <p>This recommendation has been closed as we are satisfied that the Council has progressed in relation to PP&E revaluation arrangements. We have however raised new recommendations as part of the current year audit.</p>
✓	<p>Property, Plant and Equipment valuations</p> <p>There should be clear working papers demonstrating that the Council has provided the valuer with all of the appropriate information and that it has considered whether the information provided back from the valuer is complete and reasonable. The Council may also wish to review the timing of these valuations, because at present valuations are undertaken at varying points in the year, making the process more complicated than we see at other similar Councils.</p> <p>Recommendation</p> <p>To reduce the risk of carrying value being materially different to current value the Council should value its assets as at the balance sheet date.</p>	<p>Management response</p> <p>Following the meeting with the valuer, and agreeing to bring forward the date of the valuation report ahead of the busy April period of the process, it will give more time for both the valuer and the Accountancy team to review the information provided. This should help to eliminate some of the issues faced during the 2018/19 final accounts process, where some of the data presented in supporting working papers was derived from earlier drafts of the valuation information. Having this information earlier will enable the team to ensure this information is up to date, accurate and consistent.</p>

Assessment

- ✓ Action completed
- ✗ Not yet addressed

Follow up of prior year recommendations (continued)

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
✓	<p>Year end procedures</p> <p>The positive progress made by the finance team this year is evident and has resulted in a sound foundation on which to build further improvements.</p> <p>With a number potential key finance staff changes in the next 12 months it is critical that the Council focusses on its succession planning within the finance team, including robust handover processes.</p> <p>Recommendation</p> <p>The Council should focus on its succession planning within the finance team, including robust handover processes.</p>	<p>Management response</p> <p>Since the completion of the audit and the departure of the temporary resourcing, the Accountancy team has increased in size with the appointment of 2 new members of staff, a Principal Accountant (3 year fixed term contract) and an Apprentice. Both staff will be expected to support the closedown process in 2019/20, either directly through assigned tasks, or indirectly by managing some of the ongoing tasks within the department, freeing capacity for the rest of the team to prioritise final accounts while continuing to deliver support to other departments in the Council. Specifically, the Principal Accountant has been appointed to focus on the supporting the delivery of key Council projects which may have been delayed or not prioritised in the past in order to meet statutory deadlines.</p>

Assessment

- ✓ Action completed
- ✗ Not yet addressed

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 2020.

Detail	Comprehensive Income and Expenditure Statement £'000	Balance Sheet (Statement of Financial Position) £' 000	Impact on total net expenditure £'000
Note 13. Assets under construction – The Council has revalued Assets under construction as at 28 February 2020. In accordance with section 4.1.2.30 of the Code assets under construction shall be measured at depreciated historical cost. As such a revaluation adjustment should not have been applied to Assets under Construction.	(£638k) (decrease expenditure)	£638k (increase assets)	(£638k) (decrease expenditure)
Overall impact	(£638k)	£638k	(£638k)

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/change	Detail	Auditor recommendations	Adjusted?
Note 5. Events after the reporting period	<p>Disclosures regarding material valuation uncertainty</p> <p>The Council's valuers have included in their valuation report update a material uncertainty with regard to the valuation of assets. This uncertainty has arisen due to the unpredictability of the building and property market.</p> <p>The Council has disclosed this issue in a note 5 'Events after the reporting period' to its financial statements. We do not however consider this disclosure is sufficient and amendments to the disclosure have been recommended to the Council.</p>	<p>In summary the recommended amendments are:</p> <ul style="list-style-type: none"> Move the disclosure to note 4 'Assumptions Made About the Future and Other Major Sources of Estimation Uncertainty' Explicitly state that the valuer has included a material valuation uncertainty regarding asset valuations Provide a sensitivity analysis to enable users of the financial statements to understand the impact of potential changes to asset valuations <p>We will be including an Emphasis of Matter 'effects of Covid-19 on the valuation of land and buildings' within our auditor's report. Our opinion is not modified in respect of this matter.</p>	✓
Note 38. Pensions note and note 22, Provisions	<p>Accounts mapping</p> <p>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 financial statements, this is presentation only</p>	<p>Accounts are amended and going forward as part of the year end procedures the council should build in a final quality control review in order to identify mapping issues.</p>	✓
Minor amendments	<ul style="list-style-type: none"> Various 	<p>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.</p>	✓

Audit adjustments

Impact of unadjusted misstatements

The table below provides details of adjustments identified during the 2019/20 audit which have not been made within the final set of financial statements. The 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 £501,725k. The value of assets per the underlying asset register is £501,775k, a difference of £50k. .	(£50k) (reduce expenditure)	£50k (increase assets)	(£50k)	• 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.	(£415k) (reduce expenditure)	£415k (reduce liability)	See note below	• Immaterial
Overall impact	(£465k)	£465k	(£50k)	

NB: If adjusted, the entries would impact upon the Statement of Comprehensive Income and Expenditure, Balance Sheet and MiRS and various other accounts disclosures in relation to the pensions liability but would ultimately be reversed out to the pensions reserve under statute (Dr MIRS: Adjustments affecting Pension Reserve £415k and Cr Balance Sheet: Pension Reserve £415m). There would therefore be no impact on the General Fund or HRA reserves and council tax.

Impact of prior year unadjusted misstatements

In 2018/19 the Council requested an estimate from its actuary of the potential impact of the McCloud ruling and GMP indexation. The actuary's estimate was of a possible increase in pension liabilities of £1,089k. The Council determined not to amend the accounts on the basis of materiality. This has no impact upon the 2019/20 financial statements as the actuary has incorporated an estimate for these liabilities within their 2019/20 IAS 19 report.

Appendix D

Fees

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

Audit fees	Proposed fee	Final fee
Council Audit Scale Fee	£41,290	£41,290
PSAA approved variation	£7,500	£7,500
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 Journal, debtor and creditor reports. We estimate that combined with the impact of remote working this has extended the audit process by 2 weeks plus additional review procedures by the Audit Manager and Engagement lead		TBC
Total audit fees (excluding VAT)	£48,790	TBC

Non-audit fees for other services	Proposed fee	Final fee
Certification of Housing capital receipts grant (2018/2019 billed 2019/2020)	2,300	2,300
Certification of Housing Benefit Grant Claim (2018/2019 billed 2019/2020)	14,250	14,750
Additional HBAP 2017/18 Module X (billed in 2019/2020)	2,850	2,850
Total non- audit fees (excluding VAT)	£19,400	£19,400

The fees reconcile to the financial statements per note 31 'External Audit Costs' as follows:

- fees per financial statements £65k
- Certification of HCR grant billed in May 2020 £2k
- Adjustment –within accounts regarding 2017/18 (£1k)
- total fees per above (£49k +£19k) £68k

Audit opinion

Subject to satisfactory conclusion of the outstanding matters our anticipated audit report opinion will be unmodified including an Emphasis of Matter - this details a material uncertainty regarding the valuation of land and buildings due to COVID – 19.

Audit opinion to follow

Audit opinion to follow

Management letter of representation

Grant Thornton UK LLP

The Colmore Building

20 Colmore Circus

Birmingham

B4 6AT

XX October 2020

Dear Sirs

Warwick District Council
Financial Statements for the year ended 31 March 2020

This representation letter is provided in connection with the audit of the financial statements of Warwick District Council for the year ended 31 March 2020 for the purpose of expressing an opinion as to whether the financial statements are presented fairly, in all material respects in accordance with International Financial Reporting Standards and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 and applicable law.

We confirm that to the best of our knowledge and belief having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

Financial Statements

- i. We have fulfilled our responsibilities for the preparation of the Council's financial statements in accordance with International Financial Reporting Standards and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 ("the Code"); in particular the financial statements are fairly presented in accordance therewith.

- i. We have complied with the requirements of all statutory directions affecting the Council and these matters have been appropriately reflected and disclosed in the financial statements.
- ii. The Council has complied with all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance. There has been no non-compliance with requirements of any regulatory authorities that could have a material effect on the financial statements in the event of non-compliance.
- iii. We acknowledge our responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud.
- iv. Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable. We are satisfied that the material judgements used in the preparation of the financial statements are soundly based, in accordance with the Code and adequately disclosed in the financial statements.
- v. We confirm that we are satisfied that the actuarial assumptions underlying the valuation of pension scheme assets and liabilities for IAS19 Employee Benefits disclosures are consistent with our knowledge. We confirm that all settlements and curtailments have been identified and properly accounted for. We also confirm that all significant post-employment benefits have been identified and properly accounted for.
- vi. Except as disclosed in the financial statements:
 - a. there are no unrecorded liabilities, actual or contingent
 - b. none of the assets of the Council has been assigned, pledged or mortgaged
 - c. there are no material prior year charges or credits, nor exceptional or non-recurring items requiring separate disclosure.
- vii. Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards and the Code.
- viii. All events subsequent to the date of the financial statements and for which International Financial Reporting Standards and the Code require adjustment or disclosure have been adjusted or disclosed.

Management letter of representation

- i. We have considered the adjusted misstatements, and misclassification and disclosures changes schedules included in your Audit Findings Report. The financial statements have been amended for these misstatements, misclassifications and disclosure changes and are free of material misstatements, including omissions.
- ii. Actual or possible litigation and claims have been accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards.
- iii. We have no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the financial statements.
- iv. We have updated our going concern assessment and cashflow forecasts in light of the Covid-19 pandemic. We continue to believe that the Council's financial statements should be prepared on a going concern basis and have not identified any material uncertainties related to going concern on the grounds that current and future sources of funding or support will be more than adequate for the Council's needs. We believe that no further disclosures relating to the Council's ability to continue as a going concern need to be made in the financial statements

Information Provided

- i. We have provided you with:
 - a. access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;
 - b. additional information that you have requested from us for the purpose of your audit; and
 - c. access to persons within the Council via remote arrangements, in compliance with the nationally specified social distancing requirements established by the government in response to the Covid-19 pandemic. from whom you determined it necessary to obtain audit evidence.
- ii. We have communicated to you all deficiencies in internal control of which management is aware.

- i. All transactions have been recorded in the accounting records and are reflected in the financial statements.
- ii. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud
- iii. We have disclosed to you all information in relation to fraud or suspected fraud that we are aware of and that affects the Council, and involves:
 - a. management;
 - b. employees who have significant roles in internal control; or
 - c. others where the fraud could have a material effect on the financial statements.
- iv. We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the financial statements communicated by employees, former employees, analysts, regulators or others.
- v. We have disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing financial statements.
- vi. We have disclosed to you the identity of the Council's related parties and all the related party relationships and transactions of which we are aware.
- vii. We have disclosed to you all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements.

Annual Governance Statement

- i. We are satisfied that the Annual Governance Statement (AGS) fairly reflects the Council's risk assurance and governance framework and we confirm that we are not aware of any significant risks that are not disclosed within the AGS.

Narrative Report

- i. The disclosures within the Narrative Report fairly reflect our understanding of the Council's financial and operating performance over the period covered by the financial statements.

Management letter of representation

Approval

The approval of this letter of representation was minuted by the Council's Finance and Audit Scrutiny Committee at its meeting on X .

Yours faithfully

Name.....

Position.....

Date.....

Signed on behalf of the Council



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