The Annual Audit Letter For Warwick District Council

Year ended 31 March 2020

January 2021

Contents

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Executive Summary

Purpose

Our Annual Audit Letter (Letter) summarises the key findings arising from the work that we have carried out at Warwick District Council (the Council) for the year ended 31 March 2020.

This Letter is intended to provide a commentary on the results of our work to the Council and external stakeholders, and to highlight issues that we wish to draw to the attention of the public. In preparing this Letter, we have followed the National Audit Office (NAO)'s Code of Audit Practice and Auditor Guidance Note (AGN) 07 – 'Auditor Reporting'. We reported the detailed findings from our audit work to the Council's Finance and Audit Scrutiny Committee, as those charged with governance, in our Audit Findings Report on 30 September 2020 and confirmed that we had completed the outstanding work prior to issuing our opinion in our Progress Report on 9 December 2020.

Respective responsibilities

We have carried out our audit in accordance with the NAO's Code of Audit Practice, which reflects the requirements of the Local Audit and Accountability Act 2014 (the Act). Our key responsibilities are to:

- give an opinion on the Council's financial statements (section two)
- assess the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources (the value for money conclusion) (section three).

In our audit of the Council's financial statements, we comply with International Standards on Auditing (UK) (ISAs) and other guidance issued by the NAO.

Our work

Materiality	We determined materiality for the audit of the Council's financial statements to be £1,200,000, which is 1.4**%** of the Council's gross operating expenditure.
Financial Statements opinion	We gave an unqualified opinion on the Council's financial statements on 21 November 2020. We included an emphasis of matter paragraph in our report in respect of the uncertainty over valuations of the Council's land and buildings and investment properties and the Council's share of the pooled property assets of Warwickshire Pension Fund given the Coronavirus pandemic. This does not affect our opinion that the statements give a true and fair view of the Council's financial position and its income and expenditure for the year.
Whole of Government Accounts (WGA)	We completed work on the Council's consolidation return following guidance issued by the NAO.
Use of statutory powers	We did not identify any matters which required us to exercise our additional statutory powers.
Value for Money arrangements	We were satisfied that the Council put in place proper arrangements to ensure economy, efficiency and effectiveness in its use of resources. We reflected this in our audit report to the Council on 21 November 2020.
Certification of Grants	We carry out work to certify the Council's 2019-20 Housing Benefit subsidy claim on behalf of the Department for Work and Pensions and Pooled Capital Receipts Return on behalf of the Ministry of Housing, Communities & Local Government (MHCLG). Our work on the claim and return is not yet complete and will be finalised by 31 January 2021. We will report the results of this work to the Finance and Audit Scrutiny Committee.
Certificate	We certified that we have completed the audit of the financial statements of Warwick District Council in accordance with the requirements of the Code of Audit Practice on 21 November 2020.

Executive Summary (continued)

Working with the Council

The outbreak of the Covid-19 coronavirus pandemic has had a significant impact on the normal operations of the Council. As a key body in the frontline response to the pandemic, the Council has worked closely with key partners to provide support to businesses, support to individuals, establish shielding hubs and reassign staff to areas of need.

Authorities were still required to prepare financial statements in accordance with the relevant accounting standards and the Code of Audit Practice, albeit to an extended deadline for the preparation of the financial statements up to 31 August 2020 and the date for audited financial statements to 30 November 2020.

Restrictions for non-essential travel has meant both Council and audit staff have had to adapt to new remote access working arrangements. This has been driven primarily by the use of technology and regular communication between the teams. We have both utilised video calling, screen sharing and other means to the fullest of our ability in order to carry out audit procedures and verify the completeness and accuracy of information.

Due to remote working and methods of reviewing source reports (for example screensharing) certain audit procedures have taken longer than prior years. We would like to extend our thanks to the Finance team for their continued support during a time where they are facing additional pressures to support the local community the council serves, for example the payment of business rate grants. We continue to work closely with your finance team consider how we can all take the positive experiences from this period of remote working and integrate into our working arrangements going forward.

Grant Thornton UK LLP
January 2021

Audit of the Financial Statements

Our audit approach

Materiality

In our audit of the Council's financial statements, we use the concept of materiality to determine the nature, timing and extent of our work, and in evaluating the results of our work. We define materiality as the size of the misstatement in the financial statements that would lead a reasonably knowledgeable person to change or influence their economic decisions.

We determined materiality for the audit of the Council's financial statements to be £1,200,000, which is 1.4**%** of the Council's gross operating expenditure. 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.

We also set a lower level of specific materiality of £25,000 for senior officer remuneration disclosures. We consider the disclosures of senior manager's remuneration to be sensitive as we believe these disclosures are of specific interest to a reader of the accounts.

The scope of our audit

Our audit involves obtaining sufficient evidence about the amounts and disclosures in the financial statements to give reasonable assurance that they are free from material misstatement, whether caused by fraud or error. This includes assessing whether:

- the accounting policies are appropriate, have been consistently applied and adequately disclosed;
- the significant accounting estimates made by management are reasonable; and
- the overall presentation of the financial statements gives a true and fair view.

We also read the remainder of the financial statements and the narrative report, annual governance statement and published alongside the financial statements to check it is consistent with our understanding of the Council and with the financial statements included in the Annual Report on which we gave our opinion.

We carry out our audit in accordance with ISAs (UK) and the NAO Code of Audit Practice. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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

We identified key risks and set out overleaf the work we performed in response to these risks and the results of this work.

Audit of the Financial Statements

Significant Audit Risks

These are the risks which had the greatest impact on our overall strategy and where we focused more of our work.

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
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. This includes 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.	We worked with management to understand the implications the response to the Covid-19 pandemic has on the organisation's ability to prepare the financial statements and update financial forecasts and assessed the implications for our materiality calculations. We liaised with other audit suppliers, regulators and government departments to co-ordinate practical cross sector responses to issues as and when they arose. We have evaluated: • the adequacy of the disclosures in the financial statements that arose in light of the Covid-19 pandemic. • whether sufficient audit evidence could be obtained in the absence of physical verification of assets through remote technology • whether sufficient audit evidence could be obtained to corroborate significant management estimates such as asset valuations and recovery of receivable balances, and • management's assumptions that underpin the revised financial forecasts and the impact on management's going concern assessment.	Our audit work has not identified any specific issues in respect of Covid-19. However, • In their report, the Council's external valuer confirmed that as a result of the Covid-19 pandemic and the subsequent lockdown and impact on market activity, less certainty – and a higher degree of caution – should be attached to their valuations than would normally be the case. Their valuations are reported on the basis of 'material valuation uncertainty'. • Similarly, two of the Warwickshire Pension Fund's investment managers, Threadneedle and Schroders, have highlighted valuation material uncertainty disclosures associated with pooled property funds as a result of Covid-19. As a result we have included Emphasis of Matters paragraphs highlighting these matters within our auditor's report. These do not affect our opinion that the statements give a true and fair view of the Council's financial position and the income and expenditure for the year but are added to indicate a matter which is disclosed appropriately but which we consider is fundamental to a readers' understanding of the financial statements. The Council has also updated its disclosure of post balance sheet events, to include information relating to funding received since 1 April 2020 and other significant events.

Audit of the Financial Statements

Significant Audit Risks (continued)

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
The **Valuation of Property, Plant and Equipment (PP&E)** **Council Housing - £402.119m** **HRA Land and Buildings – £8.016m** **Land and Buildings – Other - £73.262m** **Investment property - £10.234m** **Surplus Assets - £0.275m** The Council revalues its council dwellings and operational land and buildings on a rolling five-yearly basis and investment property annually. These valuations represent a significant estimate by management in the financial statements due to the size of the balances involved and the sensitivity of this estimate to changes in key assumptions. Additionally, management need to ensure the carrying value of land and buildings in the Council's 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 one of the most significant assessed risks of material misstatement.	As part of our audit work we have: • evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work • evaluated the competence, capabilities and objectivity of management's experts (valuers) who carried out your PP&E valuations; • communicated with the valuer about the basis on which the valuation is carried out and where necessary challenged the key assumptions • reviewed and challenged 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	Last year we reported that the Council had improved its arrangements for instructing the valuer and we have identified no concerns over the competence, capabilities and objectivity of the valuation expert used by the Council. We did identify some further improvement areas and acknowledge that the Council has continued to make progress this year in relation to its overall PP&E revaluation process and improved quality control procedures to ensure valuations have been carried our as per instructions to the valuer. Overall, we are satisfied that there are no indication of material misstatements however it is possible to improve the process further and, in particular, eliminate duplication of effort in the valuation process. As noted on page 6, the Council's external valuer confirmed that as a result of the Covid-19 pandemic and the subsequent lockdown and impact on market activity, less certainty – and a higher degree of caution – should be attached to their valuations than would normally be the case. Their valuations are reported on the basis of 'material valuation uncertainty'. We have therefore included an Emphasis of Matter paragraph in respect of the valuation of land and buildings and investment properties within our Independent auditor's report. This highlights the Council's disclosures to users of the financial statements. Our opinion is not modified in respect of this matter.

Audit of the Financial Statements

Significant Audit Risks- continued

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
Valuation of pension fund net liability **Net pension liability – £40.891m** The Authority's pension fund net liability, as reflected in its balance sheet as the net defined benefit liability, represents a significant estimate in the financial statements. The pension fund net liability is considered a significant estimate due to the size of the numbers involved (£40.891 million in the Authority's balance sheet as at 31 March 2020) and the sensitivity of the estimate to changes in key assumptions. We therefore identified valuation of the Authority's pension fund net liability as a significant risk, which was one of the most significant assessed risks of material misstatement.	As part of our audit work we have: • updated our understanding of the processes and controls put in place by management to ensure that the Authority's pension fund net liability is not materially misstated and evaluated 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 Authority's pension fund valuation; • assessed the accuracy and completeness of the information provided by the Authority 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; • obtained assurances from the auditor of Warwickshire Pension Fund as to the controls surrounding the validity and accuracy of membership data; contributions data and benefits data sent to the actuary by the pension fund and the fund assets valuation in the pension fund financial statements.	Our audit work has not identified any issues in respect of valuation of the pension fund net liability. The Authority's net pension liability at 31 March 2020 is £40.891m (PY £48.466m). A full actuarial valuation is required every three years. The latest full actuarial valuation was completed in 2019. A roll forward approach is used in intervening periods which utilises key assumptions such as life expectancy, discount rates, salary growth and investment returns. We have compared the assumptions used by the Authority's actuary against industry benchmarks. Based on the work performed we are able to conclude that management's assumptions overall are reasonable. There has been a £7.575m net actuarial gain during 2019/20. The pension fund auditor has included an emphasis of matter in their audit report on the accounts of Warwickshire Pension Fund (WPF) to reflect a material valuation uncertainty given by the valuers on the Pooled Property Fund (as a result of the impact of Covid-19). At £217m in total, these investments accounts for approximately 10.67% of the total WPF assets. The Council has estimated the proportion of Property Fund Investments attributable to the Council is £11.645m. Therefore the Council have made appropriate disclosures explaining this uncertainty, which we have drawn to a reader's attention in our auditor's report by way of an Emphasis of Matter paragraph. Our opinion is not modified in respect of this matter.

Audit of the Financial Statements

Significant Audit Risks (continued)

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Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
Improper revenue recognition Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue. This presumption can be rebutted as we have concluded 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 Authority, 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	As noted, we did 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.
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 Authority 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.	As part of our audit work we: • 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.

Item 4 / Page 12

Audit of the Financial Statements

Audit opinion

We gave an unqualified opinion on the Council's financial statements on 21 November 2020.

Preparation of the financial statements

The Council presented us with draft financial statements in accordance with the national deadline and pandemic lockdown restrictions that existed at the time, and provided a good set of working papers to support them.

The finance team responded promptly and efficiently to our queries remotely during the course of the audit. Due to remote working and methods of reviewing source reports (for example screensharing) certain audit procedures have taken longer than prior years.

We would like to extend our thanks to the Finance team for their continued support during a time where they are facing additional pressures to support the local community the council serves, for example the payment of business rate grants. We continue to work closely with your finance team consider how we can all take the positive experiences from this period of remote working and integrate into our working arrangements going forward.

Issues arising from the audit of the financial statements

We reported the key issues from our audit to the Council's Finance and Audit Scrutiny Committee on 30 September 2020 and confirmed that we had completed the outstanding work prior to issuing our opinion in our Progress Report on 9 December 2020.

Annual Governance Statement and Narrative Report

We are required to review the Council's Annual Governance Statement and Narrative Report. The Council published them on its website within the Statement of Accounts in line with the national deadlines.

Both documents were prepared in line with the CIPFA Code and relevant supporting guidance. We confirmed that both documents were consistent with the financial statements prepared by the Council and with our knowledge of the Council.

Whole of Government Accounts (WGA)

We carried out work on the Council's Data Collection Tool in line with instructions provided by the NAO . We issued an assurance statement which confirmed the Council was below the audit threshold for undertaking detailed testing.

Certificate of closure of the audit

We certified that we had completed the audit of the financial statements of Warwick District Council in accordance with the requirements of the Code of Audit Practice on 21 November 2020

Certification of Grants

We have started our work to certify the Council's:

- 2019-20 Housing Benefit Subsidy claim on behalf of the Department for Work and pensions (DWP), and
- 2019-20 CFB06 return (Certification of Pooled Housing Capital Receipts Return) on behalf of the Ministry of Housing, Communities & Local Government (MHCLG).

Our work on the claim and return is not yet complete and will be finalised by 31 January 2021. We will report the results of this work to the Council's Finance and Audit Scrutiny Committee.

Value for Money

Background

We carried out our review in accordance with the NAO Code of Audit Practice, following the guidance issued by the NAO in April 2020 which specified the criterion for auditors to evaluate:

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

Key findings

Our first step in carrying out our work was to perform a risk assessment and identify the risks where we concentrated our work. The risks we identified and the work we performed are set out below and overleaf. As part of our Audit Findings report agreed with the Council in November 2020, we agreed recommendations to address our findings.

Overall Value for Money conclusion

We are satisfied that in all significant respects the Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2020.

Significant Risk - what we said in our Audit Plan
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.

Value for Money (continued)

How we responded to the risk

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	**4,152**	**17,586**	**20,365**

The 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 then 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.

The identification and monitoring of savings plans is an integral part of the Council's financial management processes. As such, in December 2020 an updated savings plan was presented to the Executive which is being incorporated into the February 2021 budget..

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.

Value for Money (continued)

How we responded to the risk (continued)

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.

As part the audit we discussed the contract extension with relevant officers of the Council and reviewed reports to support the decision. We also sought assurance that appropriate legal advice was taken by the council throughout the contract negotiation period and prior to offering the 18 month extension. We are satisfied 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.

Subsequent to the completion of our audit we are aware that the Waste Management contract was discussed in detail at the November 2020 cabinet meeting. A number of decisions surrounding the waste management contract were made including, a change in the method of collection, to join the Materials Recycling Facility project with other local authorities and to enter into a joint contract and procurement exercise with Stratford District Council to commence August 2022.

Findings and conclusions

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 August 2020 update of the 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. The identification and monitoring of savings plans is an integral part of the Council's financial management processes. As such, in December 2020 an updated savings plan was presented to the Executive which is being incorporated into the February 2021 budget.

We are satisfied that the Council has sought appropriate legal advice regarding the waste management contract extension. The Council should use the agreed waste management contract extension period to revisit the original tender exercise and update where necessary. 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.

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

A. Reports issued and fees

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

Fees

	2019/20 Planned £	2019/20 Actual Fees (Proposed) £	2018/19 Actual Fees £
Statutory audit scale fee	41,290	41,290	41,290
Additional proposed audit fees at planning stage	7,500	7,500	-
Total proposed audit fee at planning (excluding VAT)	48,790	48,790	41,290
Further additional fees proposed at completion		8,500	4,500
Total fees (excluding VAT)	**48,790**	**57,290**	**45,790**

Audit fee variation

The Audit Plan dated March 2020 included £7,500 of proposed addition fees to the scale fee to take account of the additional scepticism required on the audit and the raising of the bar by our regulator. This is reflected in the total proposed audit fees at planning above of £48,790.

We issued an Audit Plan addendum in April 2020 to take into account the additional audit risks posed by Covid-19. Since the presentation of both papers we have now reflected on the additional time taken to discharge our responsibilities as a result of Covid-19. The impact of Covid-19 on the audit of the financial statements for 2019/20 has been multifaceted including an additional significant risk being added to our Audit Plan and the move to remote working impacting upon delivery. To date, we estimate that the issues highlighted are increasing the time taken on audits by an average of 25%, in some cases higher. We understand from discussions with the ICAEW that this is similar to other firms. We have looked to mitigate this as far as possible through reduced travel time and travel costs and will absorb some of the remaining overrun ourselves. However, it is unlikely that this will be sufficient to cover the full additional cost. As a result of this extra work we are proposing a further increase in fees of £8,500 (17.5%) in addition to those proposed at the planning stage of the audit. This further charge has not been entered into lightly but reflects only a proportion of the significant additional work we have had to undertake this year to discharge our responsibilities. This brings the total proposed audit fee up to £57,290.

We have been discussing this issue with PSAA over the last few months and note these issues are similar to those experienced in the commercial sector and NHS. In both sectors there has been a recognition that audits will take longer with local government and commercial audit deadlines being extended by 4 months and NHS deadline by a month. The FRC has also issued guidance to companies and auditors setting out its expectation that audit standards remain high and of additional work needed across all audits. The link attached https://www.frc.org.uk/covid-19-guidance-and-advice (see guidance for auditors) sets out the expectations of the FRC.

Please note that these proposed additional fees are subject to approval by PSAA in line with the Terms of Appointment.

Item 4 / Page 17

A. Reports issued and fees continued

Fees for non-audit services

Service	Fees £
Audit related services	
- Housing benefit (Subsidy) Assurance Process	14,250
- Certification of pooled Housing capital receipts return	2,300
- Additional HBAP 2017/18 module x (billed in 2019/20)	2,850
Total for audit related services (excluding VAT)	*19,400*
Non-Audit related services	0

Non-audit services

- For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council. The table above summarises all non-audit services which were identified.
- We have considered whether non-audit services might be perceived as a threat to our independence as the Council's auditor and have ensured that appropriate safeguards are put in place.

The above non-audit services are consistent with the Council's policy on the allotment of non-audit work to your auditor.

Reports issued

Report	Date issued	Date presented to Audit & Finance Scrutiny Committee
Audit Plan and Audit Plan Addendum	17 March 2020 and 28 April 2020	27 May 2020
Audit Findings Report	22 September 2020	30 September 2020
Annual Audit Letter	January 2021	10 February 2021

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