

# The Audit Findings for Rugby Borough Council

Year ended 31 March 2023



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

Name: Avtar Sohal  
For Grant Thornton UK LLP  
Date: 20 September 2023

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

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# 1. Headlines

This table summarises the key findings and other matters arising from the statutory audit of Rugby Borough Council ('the Council') and the preparation of the Council's financial statements for the year ended 31 March 2023 for the attention of those charged with governance.

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## Financial Statements

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

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

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

We reviewed the pension fund asset against the requirements of IFRIC 14 and noted that the asset cannot be realised in the form of a refund from the pension fund or reduced payments to the pension fund and as a result the asset ceiling was capped at £nil, in line with the guidance from IFRIC 14. This resulted in a write down of the pension fund asset to £nil in the balance sheet.

Our audit work was completed on site and remotely during July-September. The statutory audit is a demanding process and in recent years the expectations upon auditors from regulators has continued to increase. The level of challenge now expected and the volume and range of audit evidence we are required to obtain and scrutinise is substantial with a consequential impact upon our requests on finance staff.

Our findings are summarised on pages 23 to 24. We have identified:

- A number of disclosure/presentation adjustments which do not impact on the authorities reported financial position
- There were no unadjusted misstatements

Audit adjustments are detailed in Appendix E.

The Audit and Ethics Committee is asked to confirm its agreement to management proposals not to amend for the unadjusted misstatements.

We have also raised one recommendation for management as a result of our audit work. This is set out in Appendix C. Our follow up of recommendations from the prior year's audit are detailed in Appendix D.

Our work is complete and there are no matters of which we are aware that would require modification of our audit opinion or material changes to the financial statements,

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

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# 1. Headlines

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## Value for Money (VFM) arrangements

Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to consider whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. Auditors are required to report in more detail on the Council's overall arrangements, as well as key recommendations on any significant weaknesses in arrangements identified during the audit.

Auditors are required to report their commentary on the Council's arrangements under the following specified criteria:

- Improving economy, efficiency and effectiveness;
- Financial sustainability; and
- Governance

We have completed all of our VFM work. As part of our work, we considered whether there were any risks of significant weakness in the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources. We identified a risk in respect of financial sustainability. On 29 June 2021 we identified a significant weakness in how the Authority plans and manages its resources to ensure it can continue to deliver its services. This was in relation to the Authority not being able to develop plans during 2020-21 to address predicted funding shortfalls in its Medium-Term Financial Strategy through to 31 March 2025. We recommended that the Authority should continue to review budgets and planned savings schemes as necessary to deliver a balanced financial position over the medium. The Authority has subsequently embedded its transformation programme, but savings and efficiencies generated from it have not been sufficient to address funding shortfalls. The latest Medium Term Financial Strategy prepared alongside the 2023-24 budget continues to project a significant shortfall of funding for its services over the medium term, which has been exacerbated by adverse economic conditions and inflation. Therefore the significant weakness in arrangements remains in place.

See Annual Auditors Report for further details.

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## Statutory duties

The Local Audit and Accountability Act 2014 ('the Act') also requires us to:

- report to you if we have applied any of the additional powers and duties ascribed to us under the Act; and
- to certify the closure of the audit.

We have not exercised any of our additional statutory powers or duties

We expect to certify the completion of the audit upon the completion of our work on the Council's VFM arrangements, which will be reported in our Annual Auditor's report in September 2023.

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## Significant matters

We did not encounter any significant difficulties or identify any significant matters arising during our audit. We have raised a recommendation in Appendix B in respect to ensure that quality review procedures are in place when preparing to reduce the number of amendments and errors reported.

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# 1. Headlines

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## National context – audit backlog

Nationally there have been significant delays in the completion of audit work and the issuing of audit opinions across the local government sector. Only 12% of local government bodies had received audit opinions in time to publish their 2021/22 accounts by the extended deadline of 30 November. There has not been a significant improvement over this last year, and the situation remains challenging. We at Grant Thornton have a strong desire and a firm commitment to complete as many audits as soon as possible and to address the backlog of unsigned opinions.

Over the course of the last year, Grant Thornton has been working constructively with DLUHC, the FRC and the other audit firms to identify ways of rectifying the challenges which have been faced by our sector, and we recognise the difficulties these backlogs have caused authorities across the country. We have also published a report setting out our consideration of the issues behind the delays and our thoughts on how these could be mitigated. Please see [About time? \(grantthornton.co.uk\)](https://www.grantthornton.co.uk/about-time/)

We would like to thank everyone at the Council for their support in working with us and we would like to take this opportunity to record our appreciation for the assistance provided by the finance team and other staff which enabled the smooth running of the audit.

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## National context – level of borrowing

All Councils are operating in an increasingly challenging national context. With inflationary pressures placing increasing demands on Council budgets, there are concerns as Councils look to alternative ways to generate income. We have seen an increasing number of councils look to ways of utilising investment property portfolios as sources of recurrent income. Whilst there have been some successful ventures and some prudently funded by councils' existing resources, we have also seen some councils take excessive risks by borrowing sums well in excess of their revenue budgets to finance these investment schemes.

The impact of these huge debts on Councils, the risk of potential bad debt write offs and the implications of the poor governance behind some of these decisions are all issues which now have to be considered by auditors across local authority audits. Rugby Borough Council have recently borrowed from PWLB, at a time where interest rates were lower than they are currently. We consider this a prudent way to finance their capital and investment plans with no indication of overborrowing. The Council also have a number properties which are leased to third parties for an additional source of recurrent income, which contributes to the financial strategy of the Council.

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# 2. Financial Statements

## Overview of the scope of our audit

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

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 reviewed the pension fund asset against the requirements of IFRIC 14 and noted that the asset cannot be realised in the form of a refund from the pension fund or reduced payments to the pension fund and as a result the asset ceiling was capped at £nil, in line with the guidance from IFRIC 14. This resulted in a write down of the pension fund asset to £nil in the balance sheet.

## Conclusion

We have substantially completed our audit of your financial statements and subject to outstanding queries being resolved, we anticipate issuing an unqualified audit opinion following the Audit and Ethics Committee meeting on 28 November 2023. These outstanding items included:

- Response from Pension find auditor and completion of procedures thereon
- Receipt of the signed financial statements
- Receipt of the signed letter or representation
- Update of our post balance sheet events review to the date of sign off
- Completion of work on revaluations of property, plant and equipment

All work in these areas is now complete and no material errors or adjustments have been identified.

## Acknowledgements

We would like to take this opportunity to record our appreciation for the assistance provided by the finance team and other staff.

## 2. Financial Statements



### Our approach to materiality

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

Materiality levels remain the same as reported in our audit plan June 2023

We set out in this table our determination of materiality for Rugby Borough Council.

### Council Amount (£) Qualitative factors considered

Materiality for the financial statements	£1,400,000	We determined that total expenditure in year was the most appropriate benchmark. Our risk assessment led us to set materiality at approximately 2% of prior year gross expenditure. We did not identify a requirement to change this upon receipt of draft financial statements.
Performance materiality	£980,000	Based on the internal control environment at the Council we determined that 75% of headline materiality would be an appropriate benchmark.
Trivial matters	£70,000	We decided that matters below 5% of materiality were trivial.
Materiality for Senior Officer Remuneration	£11,800	We identified senior management remuneration as a sensitive item and set a lower materiality of £11,800 for testing these items



## 2. Financial Statements: Significant risks

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

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

Risks identified in our Audit Plan	Commentary
<p><b>Management override of controls</b></p> <p>Under ISA (UK) 240, there is a non-rebuttable presumed risk that management override of controls is present in all entities. The Council faces external scrutiny of its spending and this could potentially place management under undue pressure in terms of how they report performance.</p> <p>We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk of material misstatement.</p>	<p>We have:</p> <ul style="list-style-type: none"> <li>• evaluated the design and implementation of management controls over journals</li> <li>• analysed the journals listing and determined the criteria for selecting high risk unusual journals</li> <li>• identified and tested unusual journals made during the year and the accounts production stage for appropriateness and corroboration</li> <li>• gained an understanding of the accounting estimates and critical judgements applied by management and considered their reasonableness</li> </ul> <p><b>Our audit work has not identified any issues in respect of management override of controls.</b></p>
<p><b>Valuation of Other Land and Buildings</b></p> <p>Assets were subject to a full valuation in 2022/23.</p> <p>This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved and the sensitivity of this estimate to changes in key assumptions.</p> <p>We therefore identified valuation of land and buildings as a significant risk, which was one of the most significant assessed risks of material misstatement, and a key audit matter</p>	<p>We:</p> <ul style="list-style-type: none"> <li>• evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to the evaluation experts and the scope of their work</li> <li>• evaluated the competence, capabilities and objectivity of the valuation experts</li> <li>• wrote to the valuers to confirm the basis on which the valuations were carried out</li> <li>• tested, on a sample basis, revaluations made during the year to ensure they have been input correctly into the Council's asset register</li> <li>• We challenged the data and assumptions used in the valuations and agreed them back to auditor obtained supporting data</li> </ul> <p><b>Our audit work has not found any material misstatements in respect of the Valuations of Other Land and Buildings.</b></p>



## 2. Financial Statements: Significant 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 and the sensitivity of the estimate to changes in key assumptions.

The methods applied in the calculation of the IAS 19 estimates are routine and commonly applied by all actuarial firms in line with the requirements set out in the Code of practice for local government accounting (the applicable financial reporting framework). We have therefore concluded that there is not a significant risk of material misstatement in the IAS 19 estimate due to the methods and models used in their calculation.

The source data used by the actuaries to produce the IAS 19 estimates is provided by administering authorities and employers. We do not consider this to be a significant risk as this is easily verifiable.

The actuarial assumptions used are the responsibility of the entity but should be set on the advice given by the actuary.

A small change in the key assumptions (discount rate, inflation rate, salary increase and life expectancy) can have a significant impact on the estimated IAS 19 liability.

The discount and inflation rates, where our consulting actuary has indicated that a 0.1% change in these two assumptions would have approximately £2.093m effect on the liability. Regarding these assumptions, we have therefore identified valuation of the Council's pension fund net liability as a significant risk.

### 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 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 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
- requested assurances from the auditor of Warwhickshire Pension Fund as to the controls surrounding the validity and accuracy of membership data post triennial valuation, 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 reviewed the pension fund asset against the requirements of IFRIC 14 and noted that the asset cannot be realised in the form of a refund from the pension fund or reduced payments to the pension fund and as a result the asset ceiling was capped at £nil, in line with the guidance from IFRIC 14. This resulted in a write down of the pension fund asset to £nil in the balance sheet.

**From the procedures carried out we are satisfied that the valuation of pension fund liability is free from material misstatement.**

## 2. Financial Statements: key judgements and estimates

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

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Land and Building valuations	Other land and buildings are not deemed specialised in nature and are required to be valued at existing use in value (EUV) at year end. The Council has engaged Godfrey Payton to complete the valuation of properties as at 31/3/2023 . All of the Authority's assets were revalued during 2022/23.	<p>We have:</p> <ul style="list-style-type: none"> <li>- evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work;</li> <li>- evaluated the competence, capabilities and objectivity of the valuation expert;</li> <li>- discussed with the valuer the basis on which the valuation was carried out to ensure that the requirements of the Code are met;</li> <li>- challenged the information and assumptions used by the valuer to assess completeness and consistency with our understanding; and</li> <li>- tested revaluations made during the year to see if they had been input correctly into the Council's asset register.</li> </ul> <p><b>Our audit work has not found any material misstatements in respect of the Valuations of Other Land and Buildings.</b></p>	<p>● [Light Purple]</p> <p><b>We consider management's process is appropriate and key assumptions are neither optimistic or cautious</b></p>

### Assessment






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

## 2. Financial Statements: key judgements and estimates





Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment																								
Net pension asset– £4,751k	<p>The Council's net pension asset at 31 March 2023 is £4,751k. This is in relation to the Council's obligations as a member employer of the Warwickshire Pension Fund, part of the Local Government Pension Scheme. The Council uses Hymans Robertson to provide actuarial valuations of their assets and liabilities derived from this scheme. A full actuarial valuation is required every three years.</p> <p>The latest full actuarial valuation was completed in 2023. As membership data is up to date at 31 March 2023, key assumptions such as life expectancy, discount rates, salary growth and investment return are estimated by the Actuary. Given the significant value of the net pension fund liability, small changes in assumptions can result in significant valuation movements. There has been a £23.21m net actuarial gain during 2022/23.</p>	<p>We have:</p> <ul style="list-style-type: none"> <li>Undertaken an assessment of management's expert;</li> <li>Reviewed and assessed the actuary's triennial valuation approach;</li> <li>Used PwC as auditors expert to assess the actuary and assumptions made by actuary, summarised below;</li> </ul> <table border="1" data-bbox="1028 651 1839 1046"> <thead> <tr> <th>Assumption</th> <th>Actuary Value</th> <th>PwC range</th> <th>Assessment</th> </tr> </thead> <tbody> <tr> <td>Discount rate</td> <td>4.75%</td> <td>4.75%</td> <td>●</td> </tr> <tr> <td>Pension increase rate</td> <td>2.95%</td> <td>2.95-3.00%</td> <td>●</td> </tr> <tr> <td>Salary growth</td> <td>3.45%</td> <td>2.95-3.95%</td> <td>●</td> </tr> <tr> <td>Life expectancy – Males currently aged 45/65</td> <td>21.9 years</td> <td>N/A</td> <td>●</td> </tr> <tr> <td>Life expectancy – Females currently aged 45/65</td> <td>26 years</td> <td>N/A</td> <td>●</td> </tr> </tbody> </table> <ul style="list-style-type: none"> <li>Determined the completeness and accuracy of the underlying information used to determine the estimate</li> <li>Reviewed the impact of any changes to valuation method</li> <li>Tested the reasonableness of the Council's share of LGPS pension assets.</li> <li>Tested the reasonableness of decrease in estimate</li> <li>Verified the adequacy of disclosure of estimate in the financial statements</li> </ul>	Assumption	Actuary Value	PwC range	Assessment	Discount rate	4.75%	4.75%	●	Pension increase rate	2.95%	2.95-3.00%	●	Salary growth	3.45%	2.95-3.95%	●	Life expectancy – Males currently aged 45/65	21.9 years	N/A	●	Life expectancy – Females currently aged 45/65	26 years	N/A	●	<p>● [Light Purple] We consider management's process is appropriate and key assumptions are neither optimistic or cautious</p>
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## 2. Financial Statements: Information Technology

This section provides an overview of results from our assessment of Information Technology (IT) environment and controls which included identifying risks from the use of IT related to business process controls relevant to the financial audit. This includes an overall IT General Control (ITGC) rating per IT system and details of the ratings assigned to individual control areas.

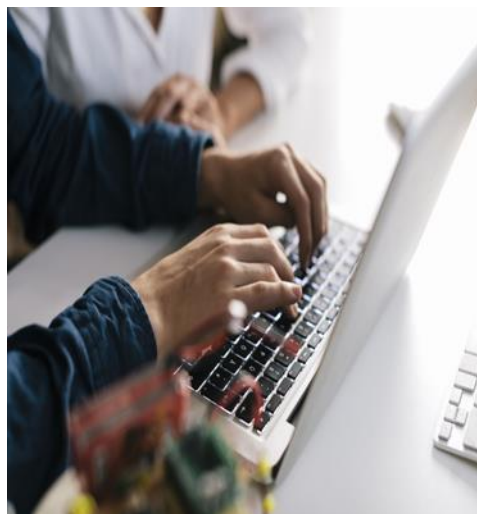
IT application	Level of assessment performed	Overall ITGC rating	ITGC control area rating		
			Security management	Technology acquisition, development and maintenance	Technology infrastructure
Agresso (financial reporting)	ITGC assessment (design and implementation effectiveness only)				
Civica (asset management)	ITGC assessment (design and implementation effectiveness only)				
Itrent (payroll)	ITGC assessment (design and implementation effectiveness only)				

### Assessment

-  Significant deficiencies identified in IT controls relevant to the audit of financial statements
-  Non-significant deficiencies identified in IT controls relevant to the audit of financial statements/significant deficiencies identified but with sufficient mitigation of relevant risk
-  IT controls relevant to the audit of financial statements judged to be effective at the level of testing in scope
-  Not in scope for testing

## 2. Financial Statements - other communication requirements

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



<b>Issue</b>	<b>Commentary</b>
<b>Matters in relation to fraud</b>	We have previously discussed the risk of fraud with the Audit and Ethics 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
<b>Matters in relation to related parties</b>	We are not aware of any related parties or related party transactions which have not been disclosed
<b>Matters in relation to laws and regulations</b>	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.
<b>Written representations</b>	A letter of representation has been requested from the Council, which is included in the Audit and Ethics Committee papers
<b>Confirmation requests from third parties</b>	We requested from management permission to send confirmation requests to the Authority's banking counterparties. This permission was granted and the requests were sent. All requested responses have been received.
<b>Accounting practices</b>	We have evaluated the appropriateness of the Council's accounting policies, accounting estimates and financial statement disclosures.
<b>Audit evidence and explanations/significant difficulties</b>	All information and explanations requested from management was provided

## 2. Financial Statements: other communication requirements



### Our responsibility

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

Issue	Commentary
Going concern	<p>In performing our work on going concern, we have had reference to Statement of Recommended Practice – Practice Note 10: Audit of financial statements of public sector bodies in the United Kingdom (Revised 2020). The Financial Reporting Council recognises that for particular sectors, it may be necessary to clarify how auditing standards are applied to an entity in a manner that is relevant and provides useful information to the users of financial statements in that sector. Practice Note 10 provides that clarification for audits of public sector bodies.</p> <p>Practice Note 10 sets out the following key principles for the consideration of going concern for public sector entities:</p> <ul style="list-style-type: none"> <li>the use of the going concern basis of accounting is not a matter of significant focus of the auditor's time and resources because the applicable financial reporting frameworks envisage that the going concern basis for accounting will apply where the entity's services will continue to be delivered by the public sector. In such cases, a material uncertainty related to going concern is unlikely to exist, and so a straightforward and standardised approach for the consideration of going concern will often be appropriate for public sector entities</li> <li>for many public sector entities, the financial sustainability of the reporting entity and the services it provides is more likely to be of significant public interest than the application of the going concern basis of accounting. Our consideration of the Council's financial sustainability is addressed by our value for money work, which is covered elsewhere in this report.</li> </ul> <p>Practice Note 10 states that if the financial reporting framework provides for the adoption of the going concern basis of accounting on the basis of the anticipated continuation of the provision of a service in the future, the auditor applies the continued provision of service approach set out in Practice Note 10. The financial reporting framework adopted by the Council meets this criteria, and so we have applied the continued provision of service approach. In doing so, we have considered and evaluated:</p> <ul style="list-style-type: none"> <li>the nature of the Council and the environment in which it operates</li> <li>the Council's financial reporting framework</li> <li>the Council's system of internal control for identifying events or conditions relevant to going concern</li> <li>management's going concern assessment.</li> </ul> <p>On the basis of this work, we have obtained sufficient appropriate audit evidence to enable us to conclude that:</p> <ul style="list-style-type: none"> <li>a material uncertainty related to going concern has not been identified</li> <li>management's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.</li> </ul>

## 2. Financial Statements: 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 I</p>
Matters on which we report by exception	<p>We are required to report on a number of matters by exception in a number of areas:</p> <ul style="list-style-type: none"> <li>• if the Annual Governance Statement does not comply with disclosure requirements set out in CIPFA/SOLACE guidance or is misleading or inconsistent with the information of which we are aware from our audit,</li> <li>• if we have applied any of our statutory powers or duties.</li> <li>• where we are not satisfied in respect of arrangements to secure value for money and have reported [a] significant weakness/es.</li> </ul> <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.</p> <ul style="list-style-type: none"> <li>• Note that work is not required as the Council does not exceed the threshold;</li> </ul>
Certification of the closure of the audit	<p>We expect to certify the completion of the audit upon the completion of our work on the Council's VFM arrangements, which will be reported in our Annual Auditor's report in September 2023.</p>



# 3. Value for Money arrangements (VFM)

## Approach to Value for Money work for 2022/23

The National Audit Office issued its guidance for auditors in April 2020. The Code requires auditors to consider whether the body has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

When reporting on these arrangements, the Code requires auditors to structure their commentary on arrangements under the three specified reporting criteria.



### Improving economy, efficiency and effectiveness

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



### Financial Sustainability

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



### Governance

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



## Potential types of recommendations

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



### Statutory recommendation

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



### Key recommendation

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



### Improvement recommendation

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



# 3. VFM: our procedures and conclusions

We have completed all of our VFM work. As part of our work, we considered whether there were any risks of significant weakness in the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources. We identified the risk set out in the table below.

Risk of significant weakness	Work performed to date
Financial sustainability	<p>In our 2020/21 VFM review (issued May 2022) we identified a significant weakness in the Council's arrangements to manage the underlying deficit in its finances that has been identified over the medium term. In our view, while good progress has been made the Council's financial position continues to be un-sustainable in the medium to long term. Therefore, this area remains a significant VFM risk throughout 2021/22 and 2022/23. The Council has begun to implement changes to address the Key Recommendation we made in 2020/21 (KR1) but further work is required to close the projected funding deficit. We note that the Council had moderate to large overspends on the revenue budget in both 2021/22 and 2022/23, that were partly covered by the unplanned use of reserves.</p> <p>The latest Medium Term Financial Strategy (MTFS) prepared alongside the 2023/24 budget, continues to project a significant shortfall of funding for its services over the medium term of £8.3m, which has been exacerbated by adverse economic conditions and inflation that followed the Council's emergence from the COVID-19 pandemic. Reserve balances have tended to be above the average for a Council of this size and this has enabled the Council to delay making potentially difficult funding decisions over the past two years. However, it is important to note that the use of reserves is a one-off measure and the level of financial risk now being covered by reserves is such that it could lead to their rapid depletion.</p> <p>We note that the Council has now embedded its transformation programme over the last two years, but at the time of writing this report, the level of savings and efficiencies generated from it have not yet been of sufficient magnitude to address the budget gap over the medium term up to 2025/26. Further the programme had not yet established clear workstreams and specific areas of focus that will enable it to contribute the savings required. While we are satisfied that the Council's financial future remains in its own hands for the moment, largely thanks to its reserves position, the Council needs to maintain a high level of focus and effort on cost control and service transformation in order to return to a sustainable financial position within a reasonable timeframe</p> <p>See combined Annual Auditors Report for 21/22 and 22/23 for more details.</p>

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# 5. 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 and consider that an objective reasonable and informed third party would take the same view. 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 F.

## Transparency

Grant Thornton publishes an annual Transparency Report, which sets out details of the action we have taken over the past year to improve audit quality as well as the results of internal and external quality inspections. For more details see [Grant Thornton International Transparency report 2023](#).

# 4. Independence and ethics

## Audit and non-audit services

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council. The following non-audit services were identified, as well as the threats to our independence and safeguards that have been applied to mitigate these threats.

Service	Fees £	Threats identified	Safeguards
<b>Audit related</b>			
Certification of Housing Benefit Claim	40,000	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 £40,000 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 Pooling of Housing capital receipts return	7,500	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 £7,500 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.
<b>Non-audit related</b>			
CFO Insights Subscription	6,000	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 £6,000 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.

These services are consistent with the Council's policy on the allotment of non-audit work to your auditors. All services have been approved by the Audit and Ethics Committee. None of the services provided are subject to contingent fees.

# 4. Independence and ethics

As part of our assessment of our independence we note the following matters:

Matter	Conclusion
Relationships with Grant Thornton	We are not aware of any relationships between Grant Thornton and the Council that may reasonably be thought to bear on our integrity, independence and objectivity
Relationships and Investments held by individuals	We have not identified any potential issues in respect of personal relationships with the Council or investments in the Council held by individuals
Employment of Grant Thornton staff	We are not aware of any former Grant Thornton partners or staff being employed, or holding discussions in respect of employment, by the Group as a director or in a senior management role covering financial, accounting or control related areas.
Business relationships	We have not identified any business relationships between Grant Thornton and the Council
Contingent fees in relation to non-audit services	No contingent fee arrangements are in place for non-audit services provided
Gifts and hospitality	We have not identified any gifts or hospitality provided to, or received from, a member of the Council, senior management or staff [that would exceed the threshold set in the Ethical Standard]

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 and consider that an objective reasonable and informed third party would take the same view. The firm and each covered person [and network firms] have complied with the Financial Reporting Council's Ethical Standard and confirm that we are independent and are able to express an objective opinion on the financial statements

# Appendices

- A. Communication of audit matters to those charged with governance
- B. Action plan – Audit of Financial Statements
- C. Audit Adjustments
- D. Fees and non-audit services
- E. Auditing developments

# A. Communication of audit matters to those charged with governance

Our communication plan	Audit Plan	Audit Findings
Respective responsibilities of auditor and management/those charged with governance	•	
Overview of the planned scope and timing of the audit, form, timing and expected general content of communications including significant risks	•	
Confirmation of independence and objectivity	•	•
A statement that we have complied with relevant ethical requirements regarding independence. Relationships and other matters which might be thought to bear on independence. Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged. Details of safeguards applied to threats to independence	•	•
Significant findings from the audit		•
Significant matters and issue arising during the audit and written representations that have been sought		•
Significant difficulties encountered during the audit		•
Significant deficiencies in internal control identified during the audit		•
Significant matters arising in connection with related parties		•
Identification or suspicion of fraud involving management and/or which results in material misstatement of the financial statements		•
Non-compliance with laws and regulations		•
Unadjusted misstatements and material disclosure omissions		•
Expected modifications to the auditor's report, or emphasis of matter		•

ISA (UK) 260, as well as other ISAs (UK), prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table here.

This document, the Audit Findings, outlines those key issues, findings and other matters arising from the audit, which we consider should be communicated in writing rather than orally, together with an explanation as to how these have been resolved.

## Respective responsibilities

As auditor we are responsible for performing the audit in accordance with ISAs (UK), 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.

## Distribution of this Audit Findings report

Whilst we seek to ensure our audit findings are distributed to those individuals charged with governance, we are also required to distribute our findings to those members of senior management with significant operational and strategic responsibilities. We are grateful for your specific consideration and onward distribution of our report to all those charged with governance.

## B. Action plan

We set out here our recommendations for the Council which we have identified as a result of issues identified during our 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
<p>● Medium</p>	<p>During the audit we noted several disclosure errors in the financial statements that were communicated to management and corrected. Upon reflection we noted that these deficiencies occurred due to weakness in the financial statements' preparation and review processes. These are detailed in Appendix C</p>	<p>The Council should ensure they do a thorough quality check of the financial statements ahead of publication and submission for audit. Council should embed more thorough quality checks on the draft accounts ahead of publishing the statements and presenting for audit</p>
<p>● Medium</p>	<p>As discussed with management, the client extracted the report for certain Housing benefit account codes a few days earlier than 31st March. Hence this is a control point that will be raised in the action plan as due to this there may be some gaps in the actual provisioning required.</p>	<p>Council should draw time sensitive information on 31 March to avoid differences arising as a result of timing differences.</p>
<p>● Medium</p>	<p>For the NNDR And Council Tax Substantive Analytical Procedure, we shared a sample of 25 for NNDR and Council Tax applicants to be agreed to source documentation. But out of total 25 each client not able to share source documents for 2 of the Council Tax and 15 for NNDR SAP. Post discussion with the Revenue Team, it was mentioned that the support documentation are too old to retain and cannot be retrieved.</p>	<p>Council should retain electronic copies of information to allow for the retrieval of information for audit purposes.</p>
<p>● Medium</p>	<p>We found that the CEO most recent annual declaration was last completed in April 2021 compared to the rest of the leadership team, who submitted in 2023. The Council did confirm that there were no further disclosures or changes of declarations for the CEO since 2021, however, this should be kept to date.</p>	<p>Management and Council should complete annual declarations of interest</p>

### Key

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

## B. Action plan

We set out here our recommendations for the Council which we have identified as a result of issues identified during our 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
<p>● Medium</p>	<p>The Minimum Revenue Provision is 1.75% of opening Capital Financing Requirement (excluding HRA Items). We have checked the calculations as accurate and whilst this is below 2%, it is only just below this level.</p>	<p>The minimum revenue provision should be set at 2% of CFR to avoid not having sufficient funds available for capital expenditure / capital finance repayments in future.</p>
<p>● Medium</p>	<p>During our completeness and inspection procedures we noted that the earlier version of the Financial instrument note shared has information related to debtors and creditors which are not correct and include some non-financial instruments as well. Accordingly, the Council removed the £62k from Long-term debtors, £1,716k from short term debtors , and £661k from the Short-term creditors . Accordingly Correct numbers have now been revised by the client post discussion.</p> <p>Also, for the debtors and creditors of PY numbers those have been updated as earlier they include elements which are not Financial instruments as well. Accordingly, those have been adjusted as well for correct disclosure.</p> <p>Accordingly, PY Long term debtors of 49k (Being Employee vehicle loans) , 1.5million of rent payers (being stat dues as discussed with client) have been reduced from PY signed numbers to represent the correct disclosure.</p>	<p>Council should review its financial statements in detail to ensure errors do not occur in the financial statements</p>
<p>● Medium</p>	<p>Our reviews of the valuation reports and the fixed asset register highlighted a number of discrepancies, due to either the asset register not being fully updated for valuations, e.g. dates and or errors, whereby management has not appropriately rechecked the accuracy of data received or applied its own internal controls to verify correct and appropriate input and update of the register and financial statements</p>	<p>Council should review its fixed asset register in detail to ensure errors do not occur in the fixed asset register</p>

Key

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



# C. Audit Adjustments

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

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £'000	Impact on total net expenditure £'000	Impact on general fund £'000
Fees and Charges Income adjusted to exclude various incorrect account codes the amounts to a classification adjustment	0	0	0	0
<b>Overall impact</b>	<b>£0</b>	<b>£0</b>	<b>£0</b>	<b>£0</b>

## Disclosure misstatement

The property, plant and equipment note column for revaluations for council dwellings for 2023 does not cast by £332,000. This is because the value at current cost in 2022/23 line is stated at £195,917,000 rather than £196,249,000.

# C. Audit Adjustments

## Misclassification and disclosure changes

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

Disclosure/issue /Omission	Auditor recommendations	Adjusted?
Note 6 & 7	EFA and MIRS adjustments were required resulting in an adjustment to £6,779k, from £7.4m, Other Income and expenditure section for "Adjustment of capital purposes", and an adjustment for other difference to £2.02m from £2.6m. Also, for Note 7 "total adjustment" numbers had to be updated.	✓
Note 12	Other Revenue Grants & Section 106 Funding included £329k which should not have been included in the Grant income..	✓
Note 13	Council dwellings were included at £197,930k for the 21/22 financial year instead of at £195,917k for the 22/23 financial year.	✓
Note 16	The note on intangible assets was originally omitted from the financial statements.	✓
Note 17	The financial instruments note was incorrectly prepared which meant that some of the balances were incorrect and included non-financial instruments. The Council removed the £62k from Long-term debtors, £1,716k from short term debtors, and £661k from the Short-term creditors. Prior year disclosures were also amended accordingly.	✓
Note 25	The cash flow statement movement of debtors should include £9,005k and the movement for creditors should be £2,770k. The cash flow statement was rolled forward from the prior year and the 2021/2022 has not been adjusted for a late adjustment between debtors and creditors.	✓
Note 25 & 27	The Collection Fund movement was incorrect and should be £2,627k rather than the £4,123k as stated.	✓
Note 29	Other employees over £50k disclosure was incorrect should be £50-55k:2, £55-60k: 2, £60-65k: 1.	✓
Note 34	The return on plan assets is incorrectly stated as (£133k), whereas it should be stated at (£4,751k).	✓
Note 34	The IAS19 disclosure of the asset split was omitted from the disclosure note. Also, the pension fund asset was reduced to £nil after the IFRIC 14 consideration.	✓
HRA note 3	Major Repairs Reserve the correct balance brought forward figure is (£3,805k), with Amount transferred during the year amounting to (£3,439k), Appropriations amounting to 0 and Capital Financing amounting to £2,183k resulting in a balance carried forward of (£5,061k).	✓
HRA note 8	The figure was excluded from the draft accounts. The correct figures should be Write-off/Write on £7k and a provision made in the year of (£80k) resulting in a balance carried forward of (£555k).	✓

## D. Fees and non-audit services

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

	Planned fee 2022/23	Final Fee 2022/23
Rugby Borough Council Audit	£68,176	£78,176
<b>Total audit fees (excluding VAT)</b>	<b>£68,176</b>	<b>£78,176</b>

We have proposed a fee variation of £10,00 in respect of increased time taken to undertake the audit given delays in receiving auditable information for PPE, adjustments made to the financial statements and application of IFRIC 14 in respect of IAS19. The fee variation is subject to approval PSAA approval and therefore not reflected in the audited financial statements for the year ended 31 March 2023. See following page for details

The fees reconcile to the financial statements.

Fees per financial statements	67,000
Under accrue of fees	1,176
Fee variation	10,000
<b>Total fees per above</b>	<b>68,176</b>

<b>Non-audit fees for other services</b>	<b>Proposed fee</b>	<b>Final fee</b>
<b>Audit Related Services</b>		
Certification of Housing Benefit subsidy claim (HBAP)	£40,000	TBC
Certification of Pooling of Housing Capital Receipts return	£7,500	TBC
<b>Non-Audit Related Services</b>		
CFO Insights (2022/23)	£6,000	£6,000
<b>Total non-audit fees (excluding VAT)</b>	<b>£53,500</b>	<b>£TBC</b>

None of the above services were provided on a contingent fee basis

This covers all services provided by us and our network to the Authority, its directors and senior management and its affiliates, and other services provided to other known connected parties that may reasonably be thought to bear on our integrity, objectivity or independence. (The FRC Ethical Standard (ES 1.69))

## D. Fees and non-audit services

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

Audit fees	Final fee
Scale fee published	£49,826
Additional work on Value for Money (VfM) under new NAO Code	£9,000
Increased audit requirements of revised ISAs 540	£2,100
Enhanced audit procedures on journals testing	£3,000
Payroll – Changes of Circumstances	£500
Collection Fund – Reliefs Testing	£750
ISA 315	£3,000
Other – delays in completing PPE due to delays from Valuer	£4,000
Other – errors in relation to the preparation of accounts and amendments	£3,000
Other – additional work on IFRIC 14 considerations not applied to the financial statements in respect of IAS19	£3,000
<b>Total audit fees (excluding VAT)</b>	<b>£78,176</b>

# E. Auditing developments

## Revised ISAs

There are changes to the following ISA (UK):

ISA (UK) 315 (Revised July 2020) 'Identifying and Assessing the Risks of Material Misstatement'

**This impacts audits of financial statement for periods commencing on or after 15 December 2021.**

ISA (UK) 220 (Revised July 2021) 'Quality Management for an Audit of Financial Statements'

ISA (UK) 240 (Revised May 2021) 'The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements'

A summary of the impact of the key changes on various aspects of the audit is included below:

These changes will impact audit for audits of financial statement for periods commencing on or after 15 December 2022.

Area of change	Impact of changes
Risk assessment	The nature, timing and extent of audit procedures performed in support of the audit opinion may change due to clarification of: <ul style="list-style-type: none"> <li>the risk assessment process, which provides the basis for the assessment of the risks of material misstatement and the design of audit procedures</li> <li>the identification and extent of work effort needed for indirect and direct controls in the system of internal control</li> <li>the controls for which design and implementation needs to be assess and how that impacts sampling</li> <li>the considerations for using automated tools and techniques.</li> </ul>
Direction, supervision and review of the engagement	Greater responsibilities, audit procedures and actions are assigned directly to the engagement partner, resulting in increased involvement in the performance and review of audit procedures.
Professional scepticism	The design, nature, timing and extent of audit procedures performed in support of the audit opinion may change due to: <ul style="list-style-type: none"> <li>increased emphasis on the exercise of professional judgement and professional scepticism</li> <li>an equal focus on both corroborative and contradictory information obtained and used in generating audit evidence</li> <li>increased guidance on management and auditor bias</li> <li>additional focus on the authenticity of information used as audit evidence</li> <li>a focus on response to inquiries that appear implausible</li> </ul>
Definition of engagement team	The definition of engagement team when applied in a group audit, will include both the group auditors and the component auditors. The implications of this will become clearer when the auditing standard governing special considerations for group audits is finalised. In the interim, the expectation is that this will extend a number of requirements in the standard directed at the 'engagement team' to component auditors in addition to the group auditor. <ul style="list-style-type: none"> <li>Consideration is also being given to the potential impacts on confidentiality and independence.</li> </ul>
Fraud	The design, nature timing and extent of audit procedures performed in support of the audit opinion may change due to: <ul style="list-style-type: none"> <li>clarification of the requirements relating to understanding fraud risk factors</li> <li>additional communications with management or those charged with governance</li> </ul>
Documentation	The amendments to these auditing standards will also result in additional documentation requirements to demonstrate how these requirements have been addressed.

