

The Audit Findings for Rugby Borough Council

Year ended 31 March 2022

Rugby Borough Council
December 2022



Contents



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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 & Ethics Committee.

Avtar Sohal

Name : Avtar Sohal

For Grant Thornton UK LLP

Date : 1 December 2022

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 2022 for those charged with governance.

Financial Statements

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

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

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

Our audit work was completed on site/remotely during July-November. Our findings are summarised on pages 5 to 16. We have identified 3 adjustments to the financial statements that have resulted in a £508k adjustment to the Council's Comprehensive Income and Expenditure Statement. Audit adjustments are detailed in Appendix C. We have also raised recommendations for management as a result of our audit work in Appendix A. Our follow up of recommendations from the prior year's audit are detailed in Appendix B.

Our work is substantially complete and there are no matters of which we are aware that would require modification of our audit opinion, subject to the following outstanding matters;

- Completion of our testing of a sample of other land and buildings, surplus assets, investment properties and council dwellings
- Receipt of management representation letter – see appendix F; and
- Review of the final set of financial statements.

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

Our anticipated audit report opinion will be unmodified.

1. Headlines

Value for Money (VFM) arrangements

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

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

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

We have not yet completed all of our VFM work and so are not in a position to issue our Auditor's Annual Report. An audit letter explaining the reasons for the delay was communicated to the Chair of the Audit and Ethics Committee on 21 September 2022. A copy of this letter is attached in the Appendix G to this report. We expect to issue our Auditor's Annual Report by 31 March 2023. This is in line with the National Audit Office's revised deadline, which requires the Auditor's Annual Report to be issued no more than three months after the date of the opinion on the financial statements.

As part of our work, we considered whether there were any risks of significant weakness in the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources. We identified a risk in respect of the medium term financial sustainability of the Council. Our work on this risk is underway and an update is set out in the value for money arrangements section of this report.

Statutory duties

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

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

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

We expect to certify the completion of the audit upon the completion of our work on the Council's VFM arrangements, which will be reported in our Annual Auditor's report by 31 March 2023.

Significant Matters

We did not encounter any significant difficulties or identify any significant matters arising during our audit.

Management's assumptions and estimates

The revised auditing standard in relation to estimates has led to heightened scrutiny over the estimates in the accounts, particularly property and pension valuations.

For property valuations in particular, there has been significant enquiry and challenge with the Council's valuer over the inputs and assumptions applied, as discussed on page 8. Our work in this area is still ongoing.

2. Financial Statements

Overview of the scope of our audit

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

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

Audit approach

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

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

Conclusion

We have substantially completed our audit of your financial statements and subject to outstanding queries being resolved, we anticipate issuing an unqualified audit opinion following the Audit and Ethics Committee meeting on 1st December 2022. These outstanding items include:

- Completion of our testing of a sample of other land and buildings, surplus assets, investment properties and council dwellings
- Receipt of management representation letter – see appendix F; and
- Review of the final set of financial statements.

Acknowledgements

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

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 on 30 June 2022

We detail in the table our determination of materiality for Rugby Borough Council.

Council Amount (£) Qualitative factors considered

Materiality for the financial statements	£1,300,000	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	£910,000	Based on the internal control environment at the Council we determined that 70% of headline materiality would be an appropriate benchmark.
Trivial matters	£60,000	We decided that matters below 5% of materiality were trivial.
Materiality for Senior Officer Remuneration	£11,600	We identified senior management remuneration as a sensitive item and set a lower materiality of £11,600 for testing these items which is approximately 2% of expenditure.



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

Fraud in revenue recognition (rebutted)

Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the Council, we determined that the risk of fraud arising from revenue recognition could 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 Rugby Borough Council, mean that all forms of fraud are seen as unacceptable.

Therefore we did not consider this to be a significant risk for Rugby Borough Council.

There were no changes to our assessment as reported in the audit plan that we need to bring to your attention.

Whilst not a significant risk, as part of our audit work we have undertaken work on material revenue items. Our work has not identified any matters that would indicate our rebuttal was incorrect.

The expenditure cycle includes fraudulent transactions (rebutted)

Having considered the risk factors set out in Practice Note 10 and the nature of expenditure at the Council, we determined that the risk of fraud arising from revenue recognition could be rebutted, because:

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

Therefore we did not consider this to be a significant risk for Rugby Borough Council.

There were no changes to our assessment as reported in the audit plan that we need to bring to your attention.

Whilst not a significant risk, as part of our audit work we have undertaken work on material expenditure items. Our work has not identified any matters that would indicate our rebuttal was incorrect.

2. Financial Statements - Significant risks

Risks identified in our Audit Plan

Commentary

Management override of controls

Under ISA (UK) 240, there is a non-rebuttable presumed risk that management override of controls is present in all entities. The Council faces external scrutiny of its spending and this could potentially place management under pressure in terms of how they report performance.

We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk of material misstatement.

We have:

- evaluated the design effectiveness of management controls over journals
- analysed the journals listing and determined the criteria for selecting high risk unusual journals
- identified and tested unusual journals made during the year and the accounts production stage for appropriateness and corroboration
- gained an understanding of the accounting estimates and critical judgements applied by management and considered their reasonableness

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

Valuation of land and buildings and investment properties

The Council revalues its Land and Buildings (including HRA dwellings) on a 5 year cyclical basis and its investment properties annually. 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.

In the intervening years, to ensure the carrying value in the Authority financial statements is not materially different from the current value or the fair value at the financial statements date, the Authority seeks assurance from its valuation expert to ensure that there is no material difference. This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved (£227.87m) and the sensitivity of this estimate to changes in key assumptions.

We therefore identified valuation of land and buildings and investment properties as a significant risk.

We:

- 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
- evaluated the competence, capabilities and objectivity of the valuation experts
- wrote to the valuers to confirm the basis on which the valuations were carried out
- tested, on a sample basis, revaluations made during the year to ensure they have been input correctly into the Council's asset register
- We challenged the data and assumptions used in the valuations and agreed them back to auditor obtained supporting data

Our audit work on the valuation of the Council's land and buildings and investment properties is ongoing at the time of writing this report. To date, we have the following matter to report to you:

- For Council Dwellings a social discount factor is applied to the valuation. Our testing has identified that the discount factor has been incorrectly applied twice to the dwelling valuations. Officers have agreed to amend the accounts for this issue and the amendment is reflected in appendix C of this report.

We will report our final conclusions to members on completion of our outstanding procedures

Also refer to the detailed assessment of the estimation process as described on pages 10 and 11 of the report

2. Financial Statements - Significant risks

Risks identified in our Audit Plan

Commentary

Valuation of the net defined benefit pension fund liability

The Council's pension fund net liability, as reflected in its balance sheet as the net defined benefit liability, represents a significant estimate in the financial statements.

The pension fund net liability is considered a significant estimate due to the size of the numbers involved (£40.41m in the Council's balance sheet) and the sensitivity of the estimate to changes in key assumptions.

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

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

The actuarial assumptions used are the responsibility of the entity but should be set on the advice given by the actuary. A small change in the key assumptions (discount rate, inflation rate, salary increase and life expectancy) can have a significant impact on the estimated IAS 19 liability. We have therefore concluded that there is a significant risk of material misstatement in the IAS 19 estimate due to the assumptions used in their calculation. With regard to these assumptions we have therefore identified valuation of the Council's pension fund net liability as a significant risk.

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 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.

As part of our substantive approach, we obtain assurances from the auditor of Warwickshire Pension Fund as to the controls surrounding the validity and accuracy of membership data; contributions data and benefits data sent to the actuary by the pension fund and the fund assets valuation in the pension fund financial statements. At the time of writing this report, this assurance is outstanding, however we do not foresee any further matters that would impact on our audit.

2. Financial Statements – key judgements and estimates

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

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Land and Building valuations – £29.773m	<p>Other land and buildings comprises of specialised assets, which are required to be valued at depreciated replacement cost (DRC) at year end, reflecting the cost of a modern equivalent asset necessary to deliver the same service provision and assets not specialised in nature, and are required to be valued at existing use in value (EUV) at year end.</p> <p>The Council has engaged Godfrey Payton to complete the valuation of the majority of assets in April 2021 with car parks being valued as at the year end. Assets are revalued on a four year cyclical basis and by value around 50% of the Council's other land and buildings were revalued during 2021/22. The four yearly cyclical basis is allowable under the CIPFA Code, providing the carrying amount of non-valued assets is not materially different from the current value at the year-end.</p> <p>In reporting a valuation for land and buildings, the valuer has considered a range of relevant sources of information, including, for EUV assets: relevant market data; current and prospective lease terms and income; for DRC assets: build costs and internal floor areas; and for both EUV and DRC assets: condition assessments from inspections carried out and other relevant industry guidance. Management maintain regular dialogue with the valuer and review the valuation certificates provided and challenge where required.</p> <p>The valuation of properties valued by the valuer has resulted in a net decrease of £115k.</p> <p>Management have considered the year end value of non-valued properties, and the potential valuation change in the assets revalued in April 2021, to determine whether there has been a material change in the total value of these properties. This has been confirmed by the valuer in their report.</p>	<ul style="list-style-type: none"> We are satisfied that management's expert, is competent, capable and objective We have documented and are satisfied with our understanding of the Council's processes and controls over property valuations We have validated sources of information used by management and the valuer for a selection of assets – work is ongoing We have analysed the method, data and assumptions used by management to derive the estimate - work is ongoing We have reviewed and are satisfied with management's assessment that assets not valued are not materially misstated - work is ongoing The estimate is adequately disclosed in the financial statements. 	TBC

Assessment

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

2. Financial Statements - key judgements and estimates

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Land and Buildings – Council Dwellings - £197.411m	<p>The Council owns 3,676 dwellings and is required to revalue these properties in accordance with DCLG's Stock Valuation for Resource Accounting guidance. The guidance requires the use of beacon methodology, in which a detailed valuation of representative property types is then applied to similar properties. The Council has engaged Godfrey Payton to complete the valuation of these properties. A full revaluation was undertaken in 2020 and a desktop valuation in January 2022.</p> <p>The year end valuation of Council Housing was £197.411m.</p>	<ul style="list-style-type: none"> We are satisfied that management's expert, is competent, capable and objective The housing stock was revalued in full in the prior period. The stock base has been split into geographical areas and beacon properties selected to represent the groupings For a sample of housing assets, we have agreed the beacon assigned to the property system and comparable market data – work is ongoing We have considered the completeness and accuracy of the underlying information used to determine the estimate - work is ongoing 	TBC

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
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2. Financial Statements - key judgements and estimates

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment																								
Net pension liability – £40.4m	<p>The Council's total net pension liability at 31 March 2022 is £40.4m (PY £53.6m), comprising the Warwickshire Local Government pension scheme and unfunded defined benefit pension scheme obligations. The Council uses Hymans Robertson to provide actuarial valuations of the Council's assets and liabilities derived from these schemes. A full actuarial valuation is required every three years.</p> <p>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 return. Given the significant value of the net pension fund liability, small changes in assumptions can result in significant valuation movements. There has been a £20.6m net actuarial gain during 2021/22.</p>	<ul style="list-style-type: none"> Undertaken an assessment of management's expert; Reviewed and assessed the actuary's roll forward approach taken; Use of PwC as auditors expert to assess actuary and assumptions made by actuary, summarised below; <table border="1"> <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>2.7%</td> <td>2.7 % to 2.75%</td> <td>●</td> </tr> <tr> <td>Pension increase rate</td> <td>3.2%</td> <td>3.15% to 3.30%</td> <td>●</td> </tr> <tr> <td>Salary growth</td> <td>4.0%</td> <td>CPI to CPI + 1%</td> <td>●</td> </tr> <tr> <td>Life expectancy – Males currently aged 45 / 65</td> <td>22.7 / 21.6 years</td> <td>21.4 to 24.3 years & 20.1 to 22.7 years</td> <td>●</td> </tr> <tr> <td>Life expectancy – Females currently aged 45 / 65</td> <td>25.9 / 24.1 years</td> <td>24.8 to 26.7 years & 22.9 to 24.9 years</td> <td>●</td> </tr> </tbody> </table> <ul style="list-style-type: none"> Completeness and accuracy of the underlying information used to determine the estimate Impact of any changes to valuation method Reasonableness of the Council's share of LPS pension assets. Reasonableness of decrease in estimate Adequacy of disclosure of estimate in the financial statements. 	Assumption	Actuary Value	PwC range	Assessment	Discount rate	2.7%	2.7 % to 2.75%	●	Pension increase rate	3.2%	3.15% to 3.30%	●	Salary growth	4.0%	CPI to CPI + 1%	●	Life expectancy – Males currently aged 45 / 65	22.7 / 21.6 years	21.4 to 24.3 years & 20.1 to 22.7 years	●	Life expectancy – Females currently aged 45 / 65	25.9 / 24.1 years	24.8 to 26.7 years & 22.9 to 24.9 years	●	<p>We consider management's process is appropriate and key assumptions are neither optimistic or cautious</p>
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Assessment

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- Light Purple** We consider management's process is appropriate and key assumptions are neither optimistic or cautious

2. Financial Statements - key judgements and estimates

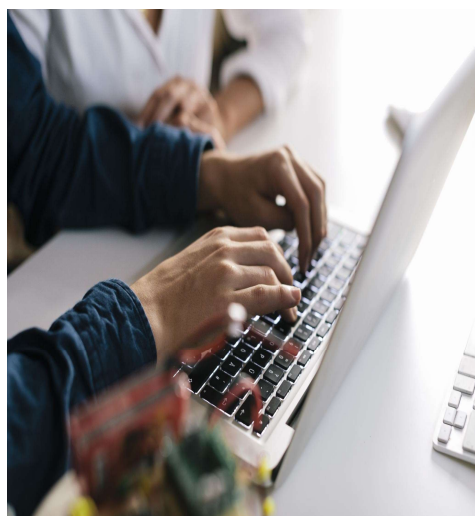
Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Depreciation and Useful Economic Lives of Fixed Assets	<p>Management set out to depreciate items of property, plant and equipment over their remaining useful lives in a manner consistent with the consumption of economic or service deliver benefits. Appropriate componentisation is used in calculating depreciation. Freehold land is considered to have an infinite life and is not depreciated. Assets under construction are also not depreciated in line with the CIPFA Code.</p> <p>Depreciation for the year 2021/22 was estimated to be £5.247m (£5.063m in 20/21).</p> <p>Depreciation is calculated in reference to management's assessment of the expected useful life of each asset.</p>	<p>We have:</p> <ul style="list-style-type: none"> • Evaluated management's processes around depreciation • Evaluated the application of the accounting policy to ensure it has been applied consistently and appropriately • Assessed the reasonableness of the depreciation charge in year. 	We consider management's process is appropriate and key assumptions are neither optimistic or cautious

Assessment

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

2. Financial Statements - other communication requirements

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



Issue	Commentary
Matters in relation to fraud	We have previously discussed the risk of fraud with the Audit and Ethics Committee and through discussion with management been made aware of one instance relating 2020/21. 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 We have confirmed that the matter identified is clearly immaterial and therefore no risk of material misstatement exists. We have followed up on our discussions and are satisfied that management have investigated the matter thoroughly and measures are being implemented to prevent recurrence.
Matters in relation to related parties	We are not aware of any related parties or related party transactions which have not been disclosed
Matters in relation to laws and regulations	You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work.
Written representations	A letter of representation has been requested from the Council, which is included in the Audit and Ethics Committee papers
Confirmation requests from third parties	We requested from management permission to send confirmation requests to bodies with which the Council hold cash and cash equivalent balances, investments and borrowings. This permission was granted and the requests were sent.
Accounting practices	We have evaluated the appropriateness of the Council's accounting policies, accounting estimates and financial statement disclosures.
Audit evidence and explanations/ significant difficulties	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"> the use of the going concern basis of accounting is not a matter of significant focus of the auditor's time and resources because the applicable financial reporting frameworks envisage that the going concern basis for accounting will apply where the entity's services will continue to be delivered by the public sector. In such cases, a material uncertainty related to going concern is unlikely to exist, and so a straightforward and standardised approach for the consideration of going concern will often be appropriate for public sector entities for many public sector entities, the financial sustainability of the reporting entity and the services it provides is more likely to be of significant public interest than the application of the going concern basis of accounting. Our consideration of the Council's financial sustainability is addressed by our value for money work, which is covered elsewhere in this report. <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"> the nature of the Council and the environment in which it operates the Council's financial reporting framework the Council's system of internal control for identifying events or conditions relevant to going concern management's going concern assessment. <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"> a material uncertainty related to going concern has not been identified management's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

2. Financial Statements - other responsibilities under the Code

Issue	Commentary
Other information	<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/Inconsistencies have been identified but have been adequately rectified by management. We plan to issue an unmodified opinion in this respect – refer to appendix E</p>
Matters on which we report by exception	<p>We are required to report on a number of matters by exception in a number of areas:</p> <ul style="list-style-type: none"> • if the Annual Governance Statement does not comply with disclosure requirements set out in CIPFA/SOLACE guidance or is misleading or inconsistent with the information of which we are aware from our audit, • if we have applied any of our statutory powers or duties. • where we are not satisfied in respect of arrangements to secure value for money and have reported [a] significant weakness/es. <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> <p>The NAO sets a threshold within its group instructions below which detailed procedures are not required. As in previous years, the Council is below the threshold and therefore we are not required to carry out detailed audit work over the WGA return.</p>
Certification of the closure of the audit	<p>We intend to delay the certification of the closure of the 2021/22 audit of Rugby Borough Council in the audit report due to the need for us to complete our VFM work.</p>



3. Value for Money arrangements

Approach to Value for Money work for 2021/22

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

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

We have not yet completed all of our VFM work and so are not in a position to issue our Auditor's Annual Report. An audit letter explaining the reasons for the delay was sent to the Chair of the Audit and Ethics Committee on 21st September 2022. A copy of this letter is attached Appendix G to this report.

We expect to issue our Auditor's Annual Report by 31 March 2023. This is in line with the National Audit Office's revised deadline, which requires the Auditor's Annual Report to be issued no more than three months after the date of the opinion on the financial statements.



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

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. 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

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

Details of fees charged are detailed in Appendix D.

Transparency

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

5. 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
Audit related			
Certification of Housing Benefit Claim	19,600	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 £19,600 in comparison to the total fee for the audit of £63,925 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	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 of £63,925 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.
Non-audit related			
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 of £63,925 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.




Appendices

A. Action plan – Internal Control

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

Assessment	Issue and risk	Recommendations
	<p>With respect to the Agresso system and journal control environment, we have noted that:</p> <ul style="list-style-type: none"> A Senior ICT Officer has an involvement in administering the automatic postings. E.g. administering the automatic postings, when requested by Finance staff, posting interface files. Our review under the journal entries - shows that the Senior ICT officer has also posted/initiated 3 journal transactions in the year. 	<p>Where individuals with privileged IT access levels are also involved in business processes and the posting of journal entries, this increases the risk of management override of controls. However, we acknowledge that in certain circumstances and where teams are limited in numbers, this is necessary. Likewise, risk of transactions being posted that cannot be identified to an individual, increasing the potential for fraud or error.</p> <p>We would recommend that management review the role of senior ICT staff in business processes related to financial reporting</p> <p>Management response</p> <p>As explained during the audit, the senior ICT officer did not enter any journals in 2021/22 but the user_id is logged against journal transactions because the process that posts the approved journals runs under his user_id. This has been explained to GT together with how it can be observed who initiated/entered any journal and who approved the journal.</p>
	<p>We have identified some deficiencies in the IT control environment as follows:</p> <ul style="list-style-type: none"> Whilst all changes to IT systems are tested, it is not as part of a formal documented process. The Council's IT Risk Register is outdated, being from 2018 and covers aspects and actions from 2016/17. This indicates that risks are either not being addressed timely or the Council is not regularly reviewing its IT risk register. 	<p>None of the identified deficiencies are significant in nature however we would recommend that management review points noted as part of a wholistic review of the IT control environment and where best practice improvements can be implemented these are addressed.</p> <p>Management response</p> <p>IT procedure notes will be reviewed and updated to include the expectation of formal testing, and the Council's IT risk register will be brought up to date and periodically reviewed and updated.</p>

Controls

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

B. Follow up of prior year recommendations

We identified the following issues in the audit of Rugby Borough Council's 2020/21 financial statements, which resulted in 2 recommendations being reported in our 2020/21 Audit Findings report.

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
✓	<p>In regard to the Agresso system and journal control environment, we have noted that:</p> <ul style="list-style-type: none"> • A Senior ICT Officer has some role involvement in business processes. E.g. administering the automatic postings, when requested by Finance staff, posting interface files. • Our review under the journal entries - shows that the Senior ICT officer has also posted a journal transaction in the year. • The Agresso system includes a 'dummy user' set up in the ledger. Review shows that there have only been 4 transactions in the year posted by the 'dummy user' account. 	<p>The "dummy user" is used by the system to progress workflows in Agresso. Each workflow has steps which are clearly assigned and authorised by individual officers.</p> <p>The senior ICT officer privileges to post journals entries remains necessary for resilience. However, governance and an auditable authority process will be introduced should the senior ICT officer be required to post journal entries and each request will be authorised by Senior Finance officers.</p>
✓	<p>We have identified some deficiencies in the IT control environment as follows:</p> <ul style="list-style-type: none"> • Not all those responsible for creating new user accounts (system/administrators) are within the IT function i.e. these can be created by those in finance. • There is no process of automated notification from the HR system to ensure all users listed as leavers are communicated to IT for removal. • There is not always formal documented investigation of security violations. • There is no documented change management policy or procedure or no formal request process for program changes. • Whilst all changes to IT systems are tested, it is not as part of a formal documented process. Further, change approvers are not clearly separate from change developers / testers. • Developers have access to change and interact with the live system. • Post implementation reviews occur, but they are not formally documented or evaluated. • Although underpinned by a robust IT control environment, there is no dedicated sub-section within the control environment for cyber security. 	<p>IT procedure notes and the control environment will be reviewed and updated to include the expectation of formal testing</p>

Assessment

✓ Action completed

X Not yet addressed

B. Follow up of prior year recommendations

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
✓	As a result of our audit procedures performed on the bad debt provision (excluding provisions for statutory debts) we have noted that the Authority do not utilise forward looking information or considerations in their calculation of expected credit losses. This is not in line with IFRS 9 and there is a risk that the provision is understated if based only a previous experience of default.	<p>The bad debt provision was calculated on the old basis but still represents a reasonable estimate of the likely level of default. However, IFRS9 does require a different approach in calculating expected losses from default and this will be adopted for future financial statements.</p> <p>A training session on the impact of IFRS9 has been presented to the finance team and attendance was mandated.</p> <p>A review of relevant working papers for the year end will be undertaken to ensure compliance with IFRS9</p>

Assessment

- ✓ Action completed
- X Not yet addressed

C. Audit Adjustments

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

Impact of adjusted misstatements

All adjusted misstatements are set out in detail below along with the impact on the key statements and the reported net expenditure for the year ending 31 March 2022.

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000
Adjustment due to the double counting of the social housing discount value in the revaluation of Council Dwellings	Cr (Surplus)/Deficit on revaluation of PPE £508k	Dr Property, Plant & Equipment £508k Cr Revaluation Reserve £508k.	(£508k)
Adjustment of Investments to correct their classification between long term (over 12 months) and short term (less than 12 months)	-	Dr L/T Investments £23,505k Dr L/T Advances £2,266k Cr S/T Investments £25,771k	-
Correction of the Short Term Debtors and Creditors balances in the balances sheet to correct negative balances included within creditors which should be included in debtors.	-	Dr Creditors £590k Cr Debtors £590k	-
Overall impact	(£508k)	£0	(£508k)

Impact of unadjusted misstatements

The table below provides details of adjustments identified during the 2022/23 audit which have not been made within the final set of financial statements. The Audit and Ethics Committee is required to approve management's proposed treatment of all items recorded within the table below.

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000	Reason for not adjusting
Cut-off testing identified 2 invoices for income raised in May 2022 were for income relating to 21/22, but there was no accrual for the income, the items were for S106 and capital contributions and would not have impacted the Provision of services for 2021/22. The total value of these items were £58.7k. We have extrapolated this error across the sample population to arrive at a projected adjustment.	-	Dr Debtors £173k Cr Capital Grants Unapplied £173k	-	This is an extrapolated error. As both are capital contributions, these would be carried forward, as unspent at 31 March 2022. Therefore there would be no impact on cost of services.
Overall impact	-	£173k	-	

C. Audit Adjustments



Impact of prior year unadjusted misstatements

Our audit work in 2020/21 did not identify any unadjusted misstatements.

Misclassification and disclosure changes

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

Disclosure omission	Auditor recommendations	Adjusted?
Note 24 Capital Commitments Note includes commitments of £2.8m that do not meet the definition for committed capital expenditure	These capital commitments should be removed from the note.	✓
The revaluation table in Note 19 Property, Plant and Equipment is incorrect and does not show the correct value for Surplus Non-Operational Assets or the correct periods of revaluation	That the table is updated to be consistent with other capital notes in the accounts and details correctly the periods that assets have been revalued in.	✓
Other disclosures	We identified a number of minor improvements required to other disclosures, none of which we consider merit reporting separately to Those Charged With Governance	✓

D. Fees

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

Audit fees	Proposed fee	Final fee
Council Audit	£63,925	£71,425
Total audit fees (excluding VAT)	£63,925	£71,425

We have proposed a fee variation of £7,500 in respect of increased time taken to undertake the audit given delays in receiving auditable information and adjustments made to the financial statements. The fee variation is subject to approval PSAA approval and therefore not reflected in the audited financial statements for the year ended 31 March 2022.

Non-audit fees for other services	Proposed fee	Final fee
Audit Related Services		
Certification of Housing Benefit subsidy claim (HBAP)	£19,600**	TBC
Certification of Pooling of Housing Capital Receipts return	£6,000**	TBC
Non-Audit Related Services		
CFO Insights (2022/23)	£6,000	£6,000
Total non-audit fees (excluding VAT)	£31,600	£TBC

** These are proposed fees as the work in respect of these grant claims is either incomplete or has not yet commenced. Therefore we are not in a position to confirm final fees as at the time of writing.

E. Audit opinion

Our audit opinion is included below.

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

Independent auditor's report to the members of Rugby Borough Council

Report on the Audit of the Financial Statements

Opinion on financial statements

We have audited the financial statements of Rugby Borough Council (the 'Authority') for the year ended 31 March 2022, which comprise the Comprehensive Income and Expenditure Statement, the Movement in Reserves Statement, the Balance Sheet, the Cash Flow Statement, the Housing Revenue Account Income and Expenditure Statement, the Movement on the Housing Revenue Account Statement, the Collection Fund Statement and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of practice on local authority accounting in the United Kingdom 2021/22.

In our opinion, the financial statements:

- give a true and fair view of the financial position of the Authority as at 31 March 2022 and of its expenditure and income for the year then ended;
- have been properly prepared in accordance with the CIPFA/LASAAC Code of practice on local authority accounting in the United Kingdom 2021/22; and
- have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law, as required by the Code of Audit Practice (2020) ("the Code of Audit Practice") approved by the Comptroller and Auditor General. Our responsibilities under those standards are further described in the 'Auditor's responsibilities for the audit of the financial statements' section of our report.

We are independent of the Authority in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

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

In our evaluation of the Chief Officer - Finance and Performance's conclusions, and in accordance with the expectation set out within the CIPFA/LASAAC Code of practice on local authority accounting in the United Kingdom 2021/22 that the Authority's financial statements shall be prepared on a going concern basis, we considered the inherent risks associated with the continuation of services provided by the Authority. In doing so we had regard to the guidance provided in Practice Note 10 Audit of financial statements and regularity of public sector bodies in the United Kingdom (Revised 2020) on the application of ISA (UK) 570 Going Concern to public sector entities. We assessed the reasonableness of the basis of preparation used by the Authority and the Authority's disclosures over the going concern period.

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

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

E. Audit opinion

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

Other information

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

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

We have nothing to report in this regard.

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

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

We have nothing to report in this regard.

Opinion on other matters required by the Code of Audit Practice

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

Matters on which we are required to report by exception

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

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

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

Responsibilities of the Authority, the Chief Officer - Finance and Performance and Those Charged with Governance for the financial statements

As explained in the Statement of Responsibilities set out on page 8, the Authority is required to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the Chief Officer - Finance and Performance.

E. Audit opinion

The Chief Officer - Finance and Performance is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of practice on local authority accounting in the United Kingdom 2021/22, for being satisfied that they give a true and fair view, and for such internal control as the Chief Officer - Finance and Performance determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

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

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

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

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the Authority and determined that the most significant, which are directly relevant to specific assertions in the financial statements, are those related to the reporting frameworks (international accounting standards as interpreted and adapted by the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2020/21, The Local Audit and Accountability Act 2014, the Accounts and Audit Regulations 2015, The Local Government Act 2003, The Local Government Act 1972, The Local Government Finance Act 1988, The Local Government Finance Act 1992, The Local Government and Housing Act 1989 and The Local Government Finance Act 2012.
- We enquired of senior officers and the Audit and Ethics Committee, concerning the Authority's policies and procedures relating to:
 - the identification, evaluation and compliance with laws and regulations;
 - the detection and response to the risks of fraud; and
 - the establishment of internal controls to mitigate risks related to fraud or non-compliance with laws and regulations.
- We enquired of senior officers, internal audit and the Audit and Ethics Committee, whether they were aware of any instances of non-compliance with laws and regulations or whether they had any knowledge of actual, suspected or alleged fraud. We have followed up on any matters identified through inquiries performed to understand the impact on our audit procedures and our auditor's report, if any.

E. Audit opinion

- We assessed the susceptibility of the Authority's financial statements to material misstatement, including how fraud might occur, by evaluating officers' incentives and opportunities for manipulation of the financial statements. This included the evaluation of the risk of management override of controls. We determined that the principal risks were in relation to:
 - The use of journal entries;
 - Estimates and the use of unsupported or favourable assumptions which demonstrate indications of potential management bias;
- Our audit procedures involved:
 - evaluation of the design effectiveness of controls that the Chief Officer – Finance and Performance has in place to prevent and detect fraud;
 - journal entry testing, with a focus on unusual journals with specific risk characteristics and large value journals.
 - challenging assumptions and judgements made by management in its significant accounting estimates in respect of land and buildings, investment property, defined benefit pensions liability valuations and provisions.
 - assessing the extent of compliance with the relevant laws and regulations as part of our procedures on the related financial statement item.
- These audit procedures were designed to provide reasonable assurance that the financial statements were free from fraud or error. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error and detecting irregularities that result from fraud is inherently more difficult than detecting those that result from error, as fraud may involve collusion, deliberate concealment, forgery or intentional misrepresentations. Also, the further removed non-compliance with laws and regulations is from events and transactions reflected in the financial statements, the less likely we would become aware of it.
- The team communications in respect of potential non-compliance with relevant laws and regulations, including the potential for fraud in revenue and expenditure recognition, and the significant accounting estimates related to land and buildings, investment property, defined benefit pensions liability valuations and provisions.

- Assessment of the appropriateness of the collective competence and capabilities of the engagement team included consideration of the engagement team's:
 - understanding of, and practical experience with audit engagements of a similar nature and complexity through appropriate training and participation
 - knowledge of the local government sector
 - understanding of the legal and regulatory requirements specific to the Authority including:
 - the provisions of the applicable legislation
 - guidance issued by CIPFA, LASAAC and SOLACE
 - the applicable statutory provisions.
- In assessing the potential risks of material misstatement, we obtained an understanding of:
 - the Authority's operations, including the nature of its income and expenditure and its services and of its objectives and strategies to understand the classes of transactions, account balances, expected financial statement disclosures and business risks that may result in risks of material misstatement.
 - the Authority's control environment, including the policies and procedures implemented by the Authority to ensure compliance with the requirements of the financial reporting framework.

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

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

Under the Code of Audit Practice, we are required to report to you if, in our opinion, we have not been able to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2022.

E. Audit opinion

Our work on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources is not yet complete. The outcome of our work will be reported in our commentary on the Authority's arrangements in our Auditor's Annual Report. If we identify any significant weaknesses in these arrangements, these will be reported by exception in a further auditor's report. We are satisfied that this work does not have a material effect on our opinion on the financial statements for the year ended 31 March 2022.

Responsibilities of the Authority

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

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

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

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

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

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

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

We cannot formally conclude the audit and issue an audit certificate for Rugby Borough Council for the year ended 31 March 2022 in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice until we have completed:

- our work on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources and issued our Auditor's Annual Report'
- the work necessary to issue our Whole of Government Accounts (WGA) Component Assurance statement for the Authority for the year ended 31 March 2022.

We are satisfied that this work does not have a material effect on the financial statements for the year ended 31 March 2022.

Use of our report

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

Avtar Sohal, Key Audit Partner

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

Birmingham

Date:

F. Management Letter of Representation

Rugby Borough Council

Financial Statements for the year ended 31 March 2022

This representation letter is provided in connection with the audit of the financial statements of Rugby Borough Council for the year ended 31 March 2022 for the purpose of expressing an opinion as to whether the Council financial statements are presented fairly, in all material respects in accordance with International Financial Reporting Standards, and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2021/22 and applicable law.

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

Financial Statements

- i. We have fulfilled our responsibilities for the preparation of the Council's financial statements in accordance with International Financial Reporting Standards and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2021/22 ("the Code"); in particular the financial statements are fairly presented in accordance therewith.
- ii. We have complied with the requirements of all statutory directions affecting the Council and these matters have been appropriately reflected and disclosed in the financial statements.
- iii. The Council has complied with all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance. There has been no non-compliance with requirements of any regulatory authorities that could have a material effect on the financial statements in the event of non-compliance.
- iv. We acknowledge our responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud.
- v. Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable. Such accounting estimates include Revaluation of Council Dwellings, Land & Buildings and the Net Pension Liability. We are satisfied that the material judgements used in the preparation of the financial statements are soundly based, in accordance with the Code and adequately disclosed in the financial statements. We understand our responsibilities includes identifying and considering alternative, methods, assumptions or source data that would be equally valid under the financial reporting framework, and why these alternatives were rejected in favour of the estimate used. We are satisfied that the methods, the data and the significant assumptions used by us in making accounting estimates and their related disclosures are appropriate to achieve recognition, measurement or disclosure that is reasonable in accordance with the Code and adequately disclosed in the financial statements.

- vi. We confirm that we are satisfied that the actuarial assumptions underlying the valuation of pension scheme assets and liabilities for IAS19 Employee Benefits disclosures are consistent with our knowledge. We confirm that all settlements and curtailments have been identified and properly accounted for. We also confirm that all significant post-employment benefits have been identified and properly accounted for.
- vii. Except as disclosed in the financial statements:
 - a. there are no unrecorded liabilities, actual or contingent
 - b. none of the assets of the Council has been assigned, pledged or mortgaged
 - c. there are no material prior year charges or credits, nor exceptional or non-recurring items requiring separate disclosure.
- viii. Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards and the Code.
- ix. All events subsequent to the date of the financial statements and for which International Financial Reporting Standards and the Code require adjustment or disclosure have been adjusted or disclosed.
- x. We have considered the adjusted misstatements, and misclassification and disclosures changes schedules included in your Audit Findings Report. The Council's financial statements have been amended for these misstatements, misclassifications and disclosure changes and are free of material misstatements, including omissions.
- xi. We have considered the unadjusted misstatements schedule included in your Audit Findings Report. We have not adjusted the financial statements for these misstatements brought to our attention as they are immaterial to the results of the Council and its financial position at the year-end. The financial statements are free of material misstatements, including omissions.
- xii. Actual or possible litigation and claims have been accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards.
- xiii. We have no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the financial statements.
- xiv. The prior period adjustments disclosed in Note 6 to the financial statements are accurate and complete. There are no other prior period errors to bring to your attention.
- xv. We have updated our going concern assessment. We continue to believe that the Council's financial statements should be prepared on a going concern basis and have not identified any material uncertainties related to going concern on the grounds that :

F. Management Letter of Representation

- a. the nature of the Council means that, notwithstanding any intention to cease its operations in their current form, it will continue to be appropriate to adopt the going concern basis of accounting because, in such an event, services it performs can be expected to continue to be delivered by related public authorities and preparing the financial statements on a going concern basis will still provide a faithful representation of the items in the financial statements
- b. the financial reporting framework permits the entry to prepare its financial statements on the basis of the presumption set out under a) above; and
- c. the Council's system of internal control has not identified any events or conditions relevant to going concern.

We believe that no further disclosures relating to the Council's ability to continue as a going concern need to be made in the financial statements

- i. We have considered whether accounting transactions have complied with the requirements of the Local Government Housing Act 1989 in respect of the Housing Revenue Account ring-fence.
- ii. The Council has complied with all aspects of ring-fenced grants that could have a material effect on the Council's financial statements in the event of non-compliance.

Information Provided

- xvi. We have provided you with:
 - a. access to all information of which we are aware that is relevant to the preparation of the Council's financial statements such as records, documentation and other matters;
 - b. additional information that you have requested from us for the purpose of your audit; and
 - c. access to persons within the Council via remote arrangements from whom you determined it necessary to obtain audit evidence.
- xvii. We have communicated to you all deficiencies in internal control of which management is aware.
- xviii. All transactions have been recorded in the accounting records and are reflected in the financial statements.
- xix. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.

- xx. We have disclosed to you all information in relation to fraud or suspected fraud that we are aware of and that affects the Council and involves:
 - a. management;
 - b. employees who have significant roles in internal control; or
 - c. others where the fraud could have a material effect on the financial statements.

- xxi. We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the financial statements communicated by employees, former employees, analysts, regulators or others.

- xxii. We have disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing financial statements.

- xxiii. We have disclosed to you the identity of the Council's related parties and all the related party relationships and transactions of which we are aware.

- xxiv. We have disclosed to you all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements.

Annual Governance Statement

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

Narrative Report

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

Approval

The approval of this letter of representation was minuted by the Council's Audit and Ethics Committee at its meeting on 1 December 2022.

G. Audit letter in respect of delayed VFM work

Mr P Dudfield
Chair of Audit and Ethics Committee
Rugby Borough Council
Town Hall
Evreux Way
Rugby
CV21 2RR
21 September 2022

Dear Paul,

The original expectation under the approach to VFM arrangements work set out in the 2020 Code of Audit Practice was that auditors would follow an annual cycle of work, with more timely reporting on VFM arrangements, including issuing their commentary on VFM arrangements for local government by 30 September each year at the latest. Unfortunately, due to the on-going challenges impacting on the local audit market, including the need to meet regulatory and other professional requirements, we have been unable to complete our work as quickly as would normally be expected. The National Audit Office has updated its guidance to auditors to allow us to postpone completion of our work on arrangements to secure value for money and focus our resources firstly on the delivery of our opinions on the financial statements. This is intended to help ensure as many as possible could be issued in line with national timetables and legislation.

As a result, we have therefore not yet issued our Auditor's Annual Report, including our commentary on arrangements to secure value for money. We now expect to publish our report no later than 31 January 2023.

For the purposes of compliance with the 2020 Code, this letter constitutes the required audit letter explaining the reasons for delay.

Yours sincerely

Avtar Sohal

Director



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