



Annual Audit Letter

Year ending 31 March 2018

Rugby Borough Council
August 2018



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Executive Summary

Purpose

Our Annual Audit Letter (Letter) summarises the key findings arising from the work that we have carried out at Rugby Borough Council (the Council) for the year ended 31 March 2018.

This Letter is intended to provide a commentary on the results of our work to the Council and external stakeholders, and to highlight issues that we wish to draw to the attention of the public. In preparing this Letter, we have followed the National Audit Office (NAO)'s Code of Audit Practice and Auditor Guidance Note (AGN) 07 – 'Auditor Reporting'. We reported the detailed findings from our audit work to the Council's Audit and Ethics Committee, as those charged with governance, in our Audit Findings Report on 30 July 2018.

Our work

Materiality	We determined materiality for the audit of the Council's financial statements to be £1.117m, which is 2% of the Council's gross revenue expenditure.
Financial Statements opinion	We gave an unqualified opinion on the Council's financial statements on 31 July 2018.
Whole of Government Accounts (WGA)	We completed work on the Council's consolidation return following guidance issued by the NAO.
Use of statutory powers	We did not identify any matters which required us to exercise our additional statutory powers.
Value for Money arrangements	We were satisfied that the Council put in place proper arrangements to ensure economy, efficiency and effectiveness in its use of resources. We reflected this in our audit report to the Council on 31 July 2018.
Certification of Grants	We completed work on the Council's 2016-17 Housing Benefit subsidy claim and Pooling of Housing Capital Receipts 2016PO16 return. We also carry out work to certify the Council's 2017-18 Housing Benefit subsidy claim on behalf of the Department for Work and Pensions. Our work on this claim is not yet complete and will be finalised by 30 November 2018. We will report the results of this work to the Audit and Ethics Committee in our Annual Certification Letter.
Certificate	We certify that we have completed the audit of the accounts of Rugby Borough Council in accordance with the requirements of the Code of Audit Practice.

Working with the Council

- An efficient audit – we delivered an efficient audit with you in July, delivering the accounts before the deadline, releasing your finance team for other work.
- Understanding your operational health – through the value for money conclusion we provided you with assurance on your operational effectiveness.
- Sharing our insight – we provided regular audit committee updates covering best practice. We also shared our thought leadership reports

We would like to record our appreciation for the assistance and co-operation provided to us during our audit by the Council's staff.

Respective responsibilities

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

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

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

Audit of the Accounts

Our audit approach

Materiality

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

We determined materiality for the audit of the Council's accounts to be £1.117m, which is 2% of the Council's gross revenue expenditure. We used this benchmark as, in our view, users of the Council's financial statements are most interested in where the Council has spent its revenue in the year.

We also set a lower level of specific materiality for senior officer remuneration disclosures due to their sensitive nature and public interest of £100,000.

We set a lower threshold of £56,000, above which we reported errors to the Audit and Ethics Committee in our Audit Findings Report.

The scope of our audit

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

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

We also read the remainder of the Statement of Accounts and the narrative report and annual governance statement to check they are consistent with our understanding of the Council and with the financial statements included in the Statement of Accounts on which we gave our opinion.

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

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

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

Audit of the Accounts

Significant Audit Risks

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

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Improper revenue recognition Under ISA 240 (UK) there is a presumed risk that revenue may be misstated due to the improper recognition of revenue. This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.</p>	<p>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:</p> <ul style="list-style-type: none"> • 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. 	<p>As noted, we did not consider this to be a significant risk at Rugby Borough Council. Whilst not a significant risk, as part of our audit work we did undertake work on material revenue items. Our work did not identify any matters that would indicate our rebuttal was incorrect.</p>
<p>Management override of controls Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. We identified management override of controls as a risk requiring special audit consideration.</p>	<p>As part of our audit work we:</p> <ul style="list-style-type: none"> • gained an understanding of the accounting estimates, judgements applied and decisions made by management and considered their reasonableness. • reviewed the journal entry process and the control environment around journal entries. • obtained a full listing of journal entries, identified and tested unusual journal entries for appropriateness. • evaluated the rationale for any changes in accounting policies or significant unusual transactions. 	<p>Our audit work has not identified any evidence of management over-ride of controls.</p> <p>In 2016/17 we identified that some journals were self-authorised. Independent review of journals strengthens the control environment. The journals testing that we have performed this year has identified that journals posted by authorised users are reviewed by another person.</p>

Audit of the Accounts

Significant Audit Risks (Continued)

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

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Valuation of property, plant and equipment The Council revalues its land and buildings on a rolling five year basis to ensure that carrying value is not materially different from fair value. This represents a significant estimate by management in the financial statements.</p> <p>We identified the valuation of land and buildings revaluations and impairments as a risk requiring special audit consideration.</p>	<p>As part of our audit work we have:</p> <ul style="list-style-type: none"> • Reviewed management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work. • Consideration of the competence, expertise and objectivity of any management experts used. • Discussions with the valuer about the basis on which the valuation is carried out and challenge of the key assumptions. • Review and challenge of the information used by the valuer to ensure it is robust and consistent with our understanding. • Testing of revaluations made during the year to ensure they are input correctly into the Council's asset register. • Evaluation of the assumptions made by management for those assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value. 	<p>With the exception of the item below, from the audit procedures carried out we gained sufficient assurance to conclude that the valuation of property, plant and equipment was free from material misstatement.</p> <p>Following production of the draft statements the Council undertook an impairment review on Biart Place where it concluded it may require major repairs or regeneration (Note 43 within the Statement of Accounts). This review concluded that based on its condition at the balance sheet date an impairment charge was required (£1.94m). The Council has amended the accounts for this impairment.</p>
<p>Valuation of pension fund net liability The Council's pension fund asset and liability, as reflected in its balance sheet, represent a significant estimate in the financial statements.</p> <p>We identified the valuation of the pension fund net liability as a risk requiring special audit consideration.</p>	<p>As part of our audit work we completed:</p> <ul style="list-style-type: none"> • Identified the controls put in place by management to ensure that the pension fund liability is not materially misstated. We also assessed whether these controls were implemented as expected and whether they are sufficient to mitigate the risk of material misstatement. • Evaluated the competence, expertise and objectivity of the actuary who carried out your pension fund valuation. We gained an understanding of the basis on which the valuation was carried out. • Undertook procedures to confirm the reasonableness of the actuarial assumptions made. • Tested accuracy of data provided to the actuary. • Checked the consistency of the pension fund asset and liability and disclosures in notes to the financial statements with the actuarial report from your actuary. 	<p>From the audit procedures carried out we gained sufficient assurance to conclude that the valuation of the pension fund net liability is free from material misstatement.</p>

Audit of the Accounts

Audit opinion

We gave an unqualified opinion on the Council's financial statements on 31 July 2018, in line with the national deadline.

Preparation of the accounts

The Council presented us with draft accounts in accordance with the national deadline, and provided a good set of working papers to support them. The finance team responded promptly and efficiently to our queries during the course of the audit.

Issues arising from the audit of the accounts

We reported the key issues from our audit to the Council's Audit and Ethics Committee on 30 July 2018.

Annual Governance Statement and Narrative Report

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

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

Whole of Government Accounts (WGA)

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

Other statutory powers

We also have additional powers and duties under the Act, including powers to issue a public interest report, make written recommendations, apply to the Court for a declaration that an item of account is contrary to law, and to give electors the opportunity to raise questions about the Council's accounts and to raise objections received in relation to the accounts.

We did not identify any matters which required us to exercise our additional statutory powers.

Certificate of closure of the audit

We are also required to certify that we have completed the audit of the accounts of Rugby Borough Council in accordance with the requirements of the Code of Audit Practice.

Certification of grants

Since our last Annual Audit letter we have certified the Council's 2016-17 Housing Benefit subsidy claim and 2016-17 Pooling of Housing Capital Receipts 2016PO16 return.

We also carry out work to certify the Council's 2017-18 Housing Benefit subsidy claim on behalf of the Department for Work and Pensions (DWP). Our work on this claim is not yet complete and will be finalised by 30 November 2018. We will report the results of this work to the Audit and Ethics Committee in our Annual Certification Letter.

2016-17 Housing benefit subsidy claim

We certified the Council's Housing Benefit subsidy claim for the financial year 2016-17 relating to subsidy claimed of £19.67 million. We reported the detailed findings from our audit work to the Council's Audit and Ethics Committee, as those charged with governance, in our Certification Letter dated 19 January 2018.

We identified a positive amendment of £3,431 and a number of matters which, whilst in a claim of this size, nature and complexity are not unusual, required us to qualify the claim. Those matters which we highlighted to the Council were that there:

- were three errors from the extended testing that we carried out on this year's subsidy return which recurred from 2015/16, and
- five areas where new errors were identified as a result of the testing undertaken

We reported our findings to the DWP in our Qualification Letter dated 30 November 2017.

Certification of 2016-17 pooled housing capital receipts grant

As noted in Appendix A we provided non-audit services in respect of certifying the Council's Pooling of Housing Capital Receipts 2016PO16 return. The only matter we were required to report was confirmation of an amendment made by the Council to include all new build expenditure incurred by the Council in 2016-17.

We reported our findings to the Department of Communities and Local Government in our agreed upon procedures report dated 31 January 2018.

Value for Money conclusion

Background and key findings

We carried out our review in accordance with the NAO Code of Audit Practice, following the guidance issued by the NAO in November 2017 which specified the criterion for auditors to evaluate: *In all significant respects, the audited body takes properly informed decisions and deploys resources to achieve planned and sustainable outcomes for taxpayers and local people.* Our first step in carrying out our work was to perform a risk assessment and identify the key risks where we concentrated our work. The key risks we identified and the work we performed are set out below.

Risks identified in our audit plan	Findings	Conclusions
<p>Financial sustainability</p> <p>The Council are currently in the process of finalising the budget for 2018/19 and the medium term financial plan (MTFP) 2018 to 2022 and are expecting to present it to Cabinet in February 2018 for approval. For 2018/19 the Council is has proposed a balanced budget.</p> <p>The draft MTFP currently forecasts a budget shortfall of £1.3m in 2019/20. The Government are currently consulting on the a reset of the business rates system and the Council have prepared the MTFP for 2020/21 and 2021/22 based potential outcomes of this consultation. Based on these different scenarios the Council is forecasting deficits of between £0.9m and £4.0m across 2020/21 and 2021/22.</p>	<p>We have discussed key strategic challenges and the Council's proposed response. Review of reports to members on:</p> <ul style="list-style-type: none"> the outturn position for 2017/18 and the budget plans up to 2021/22 the Council's progress in updating its medium term financial strategy and progress against savings plans. <p>The MTFP has been prepared and shows funding gaps from 2019/20 of £1.3m, however it also includes a voluntary contribution to the Business Rates Equalisation Reserve of £1.1m that can be accessed leaving an actual gap of £200k. For 2020/21 to 2022/23 the Council has prepared its MTFP showing three different scenarios, all varying depending on the level of reset in the business rates system. It also sets out a number of policy positions that the Council is progressing to close the budget gap and become financially-self-sufficient including commercialisation and digitalisation agendas and rolling out Zero-Based-Budgeting across a number of key service areas for this first time. Officers are in the process of developing a long-list of saving options for councillors to consider within the first 2019/20 budget setting report that will go to Cabinet in October.</p> <p>We found that the Council :</p> <ul style="list-style-type: none"> has identified and taken account of funding cuts in its medium term financial plans including changes to New Homes Bonus and the reset of Business Rate system, both of which will have an impact on the Council. For the reset of the Business Rate system the Council, as noted above, has undertaken scenario planning to identify the potential impact to the Council in 3 different circumstances. has taken into account the financial impact of demographic trends and other social pressures in its medium term financial plans. is building up its reserves to mitigate risks of the expected business rate reset, reducing its reliance on New Homes Bonus in core budgets and prudent estimates of commercialisation. is currently developing plans to address the budget shortfalls identified in its medium term financial plan which will be incorporated in the 2019/20 budget setting cycle in October 2018. <p>On that basis we concluded that the risk was sufficiently mitigated.</p>	<p>On the basis of our work, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in November 2017, we are satisfied that the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2018.</p>

Overall Value for Money conclusion

We are satisfied that in all significant respects the Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2018.

A. Reports issued and fees

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

Reports issued

Report	Date issued
Audit Plan	January 2018
Audit Findings Report	30 July 2018
Annual Audit Letter	August 2018

Fees

	Planned £	Actual fees £	2016/17 fees £
Statutory Council audit	54,968	54,968	54,968
Housing Benefit Grant Certification	9,149	TBC	13,040
Total fees	64,117	54,968	68,008

The planned fees for the year were in line with the scale fee set by Public Sector Audit Appointments Ltd (PSAA)

Fees for non-audit services

Service	Fees £
Audit related services	
- Certification of Housing capital receipts grant	2,500
Non-Audit related services	Nil
- None	

Non-audit services

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

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



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