



# The Annual Audit Letter For Rugby Borough Council

---

**Year ended 31 March 2019**

**20 August 2019**



# Contents



Your key Grant Thornton  
team members are:

Grant Patterson

Key Audit Partner

T: 0121 232 5296

E: grant.b.patterson@uk.gt.com

Mary Wren

Manager

T: 0121 232 5254

E: mary.wren@uk.gt.com

Martin Stevens

Executive

T: 0121 232 5313

E: martin.p.stevens@uk.gt.com

## Section

1. Executive Summary
2. Audit of the Financial Statements
3. Value for Money conclusion

## Page

- 3  
4  
9

## Appendices

- A Reports issued and fees

# 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 2019.

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 2019.

### Our work

<b>Materiality</b>	We determined materiality for the audit of the Council's financial statements to be £1,000,000, which is 1.77% of the Council's gross operating expenditure.
<b>Financial Statements opinion</b>	We gave an unqualified opinion on the Council's financial statements on 31 July 2019.
<b>Whole of Government Accounts (WGA)</b>	We completed work on the Council's consolidation return following guidance issued by the NAO.
<b>Use of statutory powers</b>	We did not identify any matters which required us to exercise our additional statutory powers.
<b>Value for Money arrangements</b>	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 2019.
<b>Certification of Grants</b>	<p>We completed work on the Council's 2017-18 Housing Benefit subsidy claim on behalf of the Department for Work and Pensions. We also carried out work to certify the Council's 2017-18 Pooling of Housing Capital Receipts return as an audit related non-audit service. There were no matters to report in respect of the Council's pooled capital receipts return but we did note one amendment and some minor exceptions in respect of the Council's subsidy claim (page 8).</p> <p>Our work on the 2018-19 subsidy claim is not yet complete and will be finalised by 30 November 2019. We have not yet started work on the 2018-19 pooled capital receipts return which has a 31 January 2020 deadline.</p>
<b>Certificate</b>	We certified that we have completed the audit of the financial statements of Rugby Borough Council in accordance with the requirements of the Code of Audit Practice on 31 July 2019.

### Working with the Council

- An efficient audit – we delivered an efficient audit with you in July, delivering the financial statements 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 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's financial statements (section two)
- assess the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources (the value for money conclusion) (section three).

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

---

# Audit of the Financial Statements

## Our audit approach

### Materiality

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

We determined materiality for the audit of the Council's financial statements to be £1,000,000, which is 1.77% of the Council's gross operating expenditure. This benchmark is considered the most appropriate because we consider users of the financial statements to be most interested in how it has expended its revenue and other funding.

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

We set a lower threshold of £50,000, 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 financial statements and the narrative report, annual governance statement and published alongside the financial statements to check it is consistent with our understanding of the Council and with the financial statements included in the Annual Report on which we gave our opinion.

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

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

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

# Audit of the Financial Statements

## Significant Audit Risks

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

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p><b>The revenue cycle includes fraudulent transactions</b></p> <p>Under ISA (UK) 240 – <i>the Auditor’s Responsibility to Consider Fraud in an Audit of Financial Statements</i> - there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue.</p> <p>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"> <li>• there is little incentive to manipulate revenue recognition</li> <li>• opportunities to manipulate revenue recognition are very limited</li> <li>• the culture and ethical frameworks of local authorities, including Rugby Borough Council, mean that all forms of fraud are seen as unacceptable.</li> </ul>	<p>We have not altered our assessment as reported in the audit plan and, 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. We therefore have no issues to report in this regard</p>
<p><b>Management override of controls</b></p> <p>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.</p> <p>The Authority faces external scrutiny of its spending and this could potentially place management under undue pressure in terms of how they report performance.</p> <p>We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>	<p>As part of our audit work we:</p> <ul style="list-style-type: none"> <li>• evaluated the design effectiveness of management controls over journals</li> <li>• analysed the journals listing and determine the criteria for selecting high risk unusual journals</li> <li>• tested unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration</li> <li>• gained an understanding of the accounting estimates and critical judgements applied made by management and consider their reasonableness with regard to corroborative evidence</li> <li>• evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions.</li> </ul>	<p>Our audit work at the Council has not identified any issues in respect of management override of controls.</p>

# Audit of the Financial Statements

## Significant Audit Risks - continued

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p><b>Valuation of land and buildings (Periodic revaluation with desktop valuation in intervening years)</b></p> <p>The Council revalues its land and buildings on a rolling five year basis. In the intervening years, such as 2018/19, to ensure the carrying value in the Authority financial statements is not materially different from the current value or the fair value (for surplus assets) at the financial statements date, the Authority carries out a desktop revaluation/requests a desktop valuation from its valuation expert to ensure that there is no material difference.</p> <p>This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved (£234m) and the sensitivity of this estimate to changes in key assumptions.</p> <p>We therefore identified valuation of land and buildings as a significant risk, which was one of the most significant assessed risks of material misstatement, and a key audit matter.</p>	<p>As part of our audit work we have:</p> <ul style="list-style-type: none"> <li>evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work</li> <li>evaluated the competence, capabilities and objectivity of the valuation expert</li> <li>written to the valuer to confirm the basis on which the valuation was carried out to ensure that the requirements of the Code are met</li> <li>challenged the information and assumptions used by the valuer to assess completeness and consistency with our understanding</li> <li>tested, on a sample basis, revaluations made during the year to see if they had been input correctly into the Council's asset register, and</li> <li>evaluated and challenged the assumptions made by management for those assets not revalued during the year and how management have satisfied themselves that these are not materially different to current value.</li> </ul>	<p>The Council owns 3,786 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.</p> <p>The Council's last full valuation of council dwellings was as at 1 April 2016, since this date the Council has carried out a desktop review using house price indexation for the West Midlands to assess any general market changes in value. This has been reviewed by the Council's external valuer. The year end valuation of Council Housing was £188.7m, a net increase of £302k from 2017/18 (£188.4m).</p> <p>Whilst the use of indices is not strictly in line with the Code (LAAP Bulletin 104 2015/16), it has been through engagement with the external valuer. We have reviewed the analysis performed and consider that the approach that has been taken to arrive at this estimate is reasonable and we are satisfied there is no indication of material misstatement.</p> <p>Other land and buildings comprises specialised assets such as the Queen's Diamond Jubilee Leisure Centre, Benn Hall and the John Barford Car Park , which are required to be valued at depreciated replacement cost (DRC) at year end. The remainder of other land and buildings are not specialised in nature and are required to be valued at existing use in value (EUV) at year end..</p> <p>The Council has engaged its own external valuer to complete the valuation of properties as at 31 March 2019 on a four yearly cyclical basis. 16% of total assets (by value) were revalued during 2018/19. The year end valuation other land and buildings valued by the valuer has resulted in a net decrease of £583k to £31.679m.</p> <p>Due to their nature i.e. infrastructure and community the remaining assets of £5.140m are not required to be revalued.</p> <p>We have no other points to report in relation to the valuation of Property, Plant and Equipment.</p>

# Audit of the Financial Statements

## Significant Audit Risks- continued

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p><b>Valuation of pension fund net liability</b></p> <p>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.</p> <p>The pension fund net liability is considered a significant estimate due to the size of the numbers involved (£50.7m million in the Council's balance sheet) and the sensitivity of the estimate to changes in key assumptions.</p> <p>We therefore identified valuation of the Council's pension fund net liability as a significant risk.</p>	<p>As part of our audit work we have:</p> <ul style="list-style-type: none"> <li>documented 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;</li> <li>evaluated the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work;</li> <li>assessed the competence, capabilities and objectivity of the actuary who carried out the Council's pension fund valuation;</li> <li>assessed the accuracy and completeness of the information provided by the Council to the actuary to estimate the liability;</li> <li>checked 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;</li> <li>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,</li> <li>obtained assurances from the auditor of Warwickshire Pension Fund as to the controls surrounding the validity and accuracy of membership data; contributions data and benefits data sent to the actuary by the pension fund and the fund assets valuation in the pension fund financial statements.</li> </ul>	<p>Our audit identified one issue in relation to accounting for the impact of the McCloud Court of Appeal judgement in respect of age discrimination and Guaranteed Minimum Pension (GMP) equalisation. The Council requested an estimate from its actuary of the potential impact of both upon the Council.</p> <p>The actuary has estimated that the combined impact of the McCloud judgement (£650k) and Guaranteed Minimum Pension (GMP) indexation (£211k), amounts to £861k.</p> <p>The Council has increased their pensions disclosures following receipt of the revised report. The Council has not adjusted their primary statements, taking the view that the combined impact compared to the net pension liability of £50.7m is not material to the financial statements and will be considered for future years' actuarial valuations and that additional disclosure is appropriate.</p> <p>We reviewed the analysis performed by the actuary, and considered that the approach that has been taken to arrive at this estimate is reasonable. Although we are of the view that there is sufficient evidence to indicate that a liability is probable, we have satisfied ourselves that there is not a risk of material misstatement as a result of this issue. We also acknowledge the significant uncertainties relating to the estimation of the impact on the Council's liability.</p> <p>We are satisfied this has no impact upon our audit opinion but as we consider this to be an unadjusted audit difference we obtained the Audit &amp; Ethics Committee agreement to management's decision and specific reference in the Letter of Representation.</p>

# Audit of the Financial Statements

## Audit opinion

We gave an unqualified opinion on the Council's financial statements on 31 July 2019.

## Preparation of the financial statements

The Council presented us with draft financial statements 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 financial statements

We reported the key issues from our audit to the Council's Audit and Ethics Committee on 30 July 2019.

## 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.

## Certificate of closure of the audit

We certified that we have completed the audit of the financial statements of Rugby Borough Council in accordance with the requirements of the Code of Audit Practice on 31 July 2019.

## Certification of Grants

Since our last Annual Audit Letter we have certified the Council's 2017-18 Housing Benefit Subsidy claim and the 2017-18 Pooling of housing Capital receipts return.

We also carry our work to certify the Council's 2018-19 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<sup>th</sup> November 2019. We will report the results of this work to the Audit and Ethics Committee in our Annual Certification Letter.

## 2017-18 Housing Benefit subsidy claim

We certified the Council's Housing Benefit Subsidy Claim for the financial year 2017-18 relating to subsidy claimed of £16.012m. 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 24 January 2019. Those which we particularly wish to highlight for your attention are that there:

- was one amendment of £1,709 (increase in subsidy) made in respect of errors found within the Non HRA rent rebate testing
- were three errors from extended testing that we carried out on this year's subsidy return which recurred from 2016/17, and
- five new errors were identified as a result of the testing undertaken.

We reported our findings to the DWP in our Qualification Letter dated 29 November 2018.

## Certification of 2017-18 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 return. There were no matters we were required to report to the Ministry of Housing, Communities and Local Government in our agreed upon procedures report dated 30 January 2019.

# Value for Money conclusion

## Background

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.*

## Key findings

Our first step in carrying out our work was to perform a risk assessment and identify the risks where we concentrated our work. The risks we identified and the work we performed are set out below.

As part of our Audit Findings report agreed with the Council in July 2019, we agreed recommendations to address our findings.

Risks identified in our audit plan	How we responded to the risk	Findings
<p><b>Financial sustainability</b></p> <p>Our audit plan was drafted before the Council set its budget in February. We therefore noted that the Council was in the process of finalising the budget for 2019/20 and the Medium Term Financial Plan (MTFP for 2019 to 2023) and that as at 3<sup>rd</sup> December 2018 a proposed deficit for 2019/2020 of £333k was presented to Cabinet.</p> <p>Further savings were needed to be identified in order to deliver a balanced budget in the medium term . In particular the high level of uncertainty around retained Business Rates and the potential reset of the system presents a considerable risk to the council from 2020/2021 onwards</p> <p>Under a partial reset there is a cumulative deficit of approximately £1m over the 4 year MTFP which increases to £1.4m under a full reset scenario.</p> <p>Whilst recognising that the Council did set a balanced budget for 2019/20 the medium to long term financial sustainability risk remained.</p>	<p>To address this risk we planned to discuss key strategic challenges and the Council's proposed response, including review of reports to members on:</p> <ol style="list-style-type: none"> <li>the outturn position for 2018/19 and the budget plans up to 2022/2023</li> <li>the Council's progress in updating its medium term financial strategy and progress against savings plans.</li> </ol>	<p><b>Outturn position 2018/19</b></p> <p>In 2018/19 the Council had total Portfolio expenditure of £13.6m against a revised budget, of £15.5m, resulting in an underspend of £1.9m. £125k of this favourable variance is being carried forward to 2019/20 with £1.175m being transferred to reserves . This leaves a total of £584k net expenditure variance for 2018/19 compared to budget.</p> <p>The HRA year-end position shows a favourable variance of £268k against the 2018/19 revised budget of £1.5m. Officers have requested that £125k be carried-forward to 2019/20, leaving a favourable variance of £143k.</p> <p><b>Budget plans up to 2022/23</b></p> <p>The Council is showing a balanced budget for 2019/20 however beyond this there are additional budget variances which need to be considered. The MTFP has been presented in two 'scenarios' i.e. the assumptions that the Council will either see the impact of a partial or full reset. Under a partial reset there is a cumulative deficit of approximately £700k across the 4 year MTFP, this increases to £1.1m under full reset.</p> <p>It is noted in the MTFP that due to the current challenging financial environment further savings still need to be identified in order to achieve a balanced budget across the medium term. In particular, the high level of uncertainty around Business Rates represents a considerable risk from 2020/2021. The Council will be refreshing the MTFP in October 2019 and throughout the budgeting period.</p> <p><b>Savings plans</b></p> <p>The approved budget for 2018/19 included savings and income proposals totalling £1.8m. These have been successfully achieved during the year. Income and savings progress is monitored through monthly variance analysis. Progress against savings and income plans are not monitored separately.</p> <p><b>General Fund</b></p> <p>In 2018/19 the Council has focussed on completing a risk assessment of the reserve levels held within corporate reserves which are used to respond to and manage financial risks. The risk assessment shows that there is potentially a funding gap in corporate reserves such that if all the risks present in the environment crystallised, particularly the funding risks, then the reserves would be depleted by 2022/23. This underlies the need to continue to focus on savings plans and supporting reserves but also creates the opportunity that, if the funding outcomes in 2020/21 are better than currently forecast, the Council will have greater flexibility to use them for other purposes.</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 2019.

# A. Reports issued and fees

We confirm below our final reports issued and fees charged for the audit.

## Reports issued

Report	Date issued
Audit Plan	26 March 2019
Audit Findings Report	30 July 2019
Annual Audit Letter	August 2019

## Fees

	Planned £	Actual fees £	2017/18 fees £
Statutory audit	42,325	46,825	54,968
Non-audit services	11,500	TBC	11,649
<b>Total fees</b>	<b>£53,825</b>	<b>TBC</b>	<b>£66,617</b>

## Fees for non-audit services

Service	Fees £
<b>Audit related services</b>	
- Housing benefit (Subsidy) Assurance Process	9,000
- Certification of pooled Housing capital receipts return	2,500
<b>Non-Audit related services</b>	0

### Non-audit services

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

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

## Audit fee variation

As outlined in our audit plan, the 2018-19 scale fee published by PSAA of £42,325 assumes that the scope of the audit does not significantly change. There are a number of areas where the scope of the audit has changed, which has led to additional work. These are set out in the following table.

Area	Reason	Fee Variation proposed £
<b>Assessing the impact of the McCloud ruling</b>	The Government's transitional arrangements for pensions were ruled discriminatory by the Court of Appeal last December. The Supreme Court refused the Government's application for permission to appeal this ruling. As part of our audit we have reviewed the revised actuarial assessment of the impact on the financial statements along with any audit reporting requirements.	<b>£4,500</b>
<b>Pensions – IAS 19</b>	The Financial Reporting Council has highlighted that the quality of work by audit firms in respect of IAS 19 needs to improve across local government audits. Accordingly, we have increased the level of scope and coverage in respect of IAS 19 this year to reflect this.	
<b>PPE Valuation – work of experts</b>	As above, the Financial Reporting Council has highlighted that auditors need to improve the quality of work on PPE valuations across the sector. We have increased the volume and scope of our audit work to reflect this.	

The revised fee for the year is subject to approval by Public Sector Appointments Ltd (PSAA) but it should be noted that £46,825 would still represent a 15% statutory audit fee reduction on the prior year.



© 2019 Grant Thornton UK LLP. All rights reserved.

'Grant Thornton' refers to the brand under which the Grant Thornton member firms provide assurance, tax and advisory services to their clients and/or refers to one or more member firms, as the context requires.

Grant Thornton UK LLP is a member firm of Grant Thornton International Ltd (GTIL). GTIL and the member firms are not a worldwide partnership. GTIL and each member firm is a separate legal entity. Services are delivered by the member firms. GTIL does not provide services to clients. GTIL and its member firms are not agents of, and do not obligate, one another and are not liable for one another's acts or omissions.