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Date: 15th July 2021

Dear Sir/Madam,

Audit and Standards Committee – 20th July 2021

I refer to Agenda Items 6 and 7 for the meeting of the Audit and Standards committee scheduled for Tuesday 22nd June 2021 at 6.00pm. and attach the reports 'External Audit Plan' (Agenda Item 6) and 'Informing the Audit Risk Assessment' (Agenda Item 7) marked as "to follow".

Yours faithfully,

BRENT DAVIS

Executive Director - Operations

To: All Members of the Audit and Standards Committee

Councillors H. Walmsley (Chair), M. Rudkin (Vice-Chair), B. Beetham, T. Cooper, L. Downs, L. Hocking, J. Kennaugh, K. Kondakor, S. Markham, J. Singh, R. Tromans, and Mr G Sonola.

Nuneaton and Bedworth Borough Council audit plan

Year ending 31 March 2021

Nuneaton and Bedworth Borough Council
July 2021



Contents



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Key matters

Factors

Council developments

The Council continues to operate in an uncertain and challenging environment due to the global pandemic, balancing service delivery against the impact on local citizens, Council staff and their families. Covid has had, and will continue to have a significant financial impact on the Council. The Council estimated it suffered loss of operational income of approximately £2.5m and expenditure pressures of £1.8m in 2020/21. Increased government funding of £4.05m left a shortfall of £0.25m which the Council bridged through savings plans. This enabled the Council to forecast its outturn for the General Fund for the current year to be a balanced position, in line with the original budget, but with some significant variances in the year, mostly due to COVID-19.

The Council has also had to deal with the allocation, distribution and provision of emergency loans and grants at sometimes relatively short notice, while continuing to provide “business as usual” services such as housing and waste collection.

When setting the original budget for 2021/22 the Council noted the extremely challenging position due to the uncertainty over the impact of COVID-19 and the financial settlement announcement currently only covering one year. The additional one-off government funding for 2021/22 enabled a balanced budget to be set in February. The new administration is realigning the budget to reflect its manifesto commitments (i.e. reduced car parking charges) and maintaining the balanced budget. However, there remains a considerable gap of around £3.2m to be addressed over the period of MTFS up to 31 March 2024. The financial position does remain volatile and therefore maintaining reserve levels remains a priority.

Impact of Covid 19 pandemic

The Council’s finance team, management and Members have generally adapted well to remote working arrangements. Processes and controls have been adapted where required to ensure that base level day to day financial management of the Council’s finances is maintained. Internal Audit continue to deliver their program, ensuring that assurance is provided to the governance function. However, the pandemic has affected the Council’s service provision, for example, the Council is reporting achievement of 58% of its Delivering Our Future (DOF) plan as at the end of quarter 3 against a target of 80% and leisure services facilities had to be closed due to lockdown restrictions. We will consider the impact on Council services as part of our VfM audit work and the ability of the Council to re-establish service provision once the impact of the pandemic lessens.

Our response

- As a firm, we are absolutely committed to audit quality and financial reporting in the local government sector. Our proposed work and fee, as set further in our Audit Plan, is currently under discussion with management and our regulators and will be confirmed at a later date.
- We will consider your arrangements for managing and reporting your financial resources as part of our work in completing our Value for Money work.
- We will continue to provide you with sector updates via our Audit and Standards Committee updates.

Key matters

Factors

Financial Reporting and Audit

The Financial Reporting Council (FRC) has set out its expectation of improved financial reporting from organisations and the need for auditors to demonstrate increased scepticism and challenge, and to undertake more robust testing. There is a particular focus on estimates in 2020/21 with the introduction of ISA 540 (revised) (see pages 12 and 13 for more detail), and the Council should anticipate greater challenge and audit scrutiny in these areas.

We have commenced our detailed planning for 2020/21 and have started the process of meeting with your Executive team. We have initiated discussions around key risk areas including valuation of property, plant and equipment, estimates and value for money as outlined in the pages that follow.

The Council is considering whether the production of Group Accounts for its fully owned subsidiary Nuneaton and Bedworth Community Enterprises Ltd (NABCEL) will be required for the first time this year. The addition of Group Accounts would lead to an increase in audit considerations in order to meet specific group audit requirements. We will assess any fee implications once we have a better understanding of the impact of any NABCEL consolidation upon our audit procedures.

Accounting for grants

The Government has provided a range of financial support packages throughout the COVID-19 pandemic. These include additional funding to support the cost of services or offset other income losses and also grant packages to be paid out to support local businesses. The main considerations are to determine whether the Council is acting as principal/ agent, and if there are any conditions outstanding (as distinct from restrictions) that would determine whether the grant be recognised as a receipt in advance or income. The Council also needs to assess whether grants are specific, and hence credited to service revenue accounts, or of a general or capital nature in which case they are credited to taxation and non-specific grant income .

There is nothing new about the accounting treatment for grants or the processes the Council has in place but the size and volume of grants this year will mean this will be an area of focus. We have shared our publication on grant funding considerations with the Council and discussed it with the finance team who have considered the above factors in their rationale and justification for the accounting treatment to be proposed. It is an evolving area that we will need to react to as the audit progresses.

Our response

- We have identified an increased incentive and opportunity for organisations in the public sector to manipulate their financial statements due to increasing financial pressures. We have identified a significant risk in regards to management override of control, refer to page 6.
- The Council's pension fund net liability, as reflected in the balance sheet as the net defined benefit liability, represents a significant estimate in the financial statements due to the size of the numbers involved (£41 million in the balance sheet) and the sensitivity of the estimate to changes in key assumptions. We identified a significant risk in regards to the valuation of the pension fund net liability – refer to page 7.
- The Council's valuer reported a material uncertainty in regards to the valuation of properties in 2019/20 due to the Covid 19 pandemic. Whilst we anticipate markets will have returned to a degree of normality significant uncertainty will continue in 2020/21. We identified a significant risk in regards to the valuation of properties – refer to page 7.

Introduction and headlines

Purpose

This document provides an overview of the planned scope and timing of the statutory audit of Nuneaton and Bedworth Borough Council ('the Council') for those charged with governance.

Respective responsibilities

The National Audit Office ('the NAO') has issued a document entitled Code of Audit Practice ('the Code'). This summarises where the responsibilities of auditors begin and end and what is expected from the audited body. Our respective responsibilities are also set out in the *Terms of Appointment and Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA)*. We draw your attention to both of these documents.

Scope of our audit

The scope of our audit is set in accordance with the Code and International Standards on Auditing (ISAs) (UK). We are responsible for forming and expressing an opinion on the:

- Council's financial statements that have been prepared by management with the oversight of those charged with governance (the Audit and Standards committee); and
- Value for Money arrangements in place at the Council for securing economy, efficiency and effectiveness in your use of resources.

The audit of the financial statements does not relieve management or the Audit and Standards Committee of your responsibilities. It is the responsibility of the Council to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Council is fulfilling these responsibilities.

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

Significant risks

Those risks requiring special audit consideration and procedures to address the likelihood of a material financial statement error have been identified as:

- Management override of controls
- Valuation of land, buildings and council dwellings (including investment properties)
- Valuation of net pension liability

We will communicate significant findings on these areas as well as any other significant matters arising from the audit to you in our Audit Findings (ISA 260) Report.

Materiality

We have determined planning materiality to be £1.8m (PY £1.5m) for the Council, which equates to 1.7% of your prior year gross expenditure for the year. We are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. Clearly trivial has been set at £90k (PY £75k).

Value for Money arrangements

Our Value for Money risk assessment remains in progress. From the work completed to date we have identified financial sustainability as an area where the risk of significant weakness may lie. This is not to say a significant weakness in arrangements actually exists but this is an area of focus of our work requiring audit consideration and procedures to gain assurance that proper arrangements are (or are not) in place at Council.

Audit logistics

Our interim visit took place will take place in March 2021 and our final visit will take place in August and September 2021. Our key deliverables are this Audit Plan, our Audit Findings Report and Auditor's Annual Report. Our audit approach is detailed in Appendix A.

MHCLG have increased the funding of local government audit by £15 million to reflect the pressures on local audit and the additional work that is needed to deliver the additional value for money audit duties set out in the National Audit Office's Code of Practice. This equates to a 60 per cent increase in funding for local audit. Our proposed fee for the 2020/21 audit is £64,086 for the Council, subject to the Council delivering a good set of financial statements and working papers and Covid 19 not impacting on audit delivery.

We have complied with the Financial Reporting Council's Ethical Standard (revised 2019) and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements..

Group audit scope and risk assessment

The Council are currently in the process of determining whether or not their subsidiary, Nuneaton and Bedworth Community Enterprises Ltd (NABCEL) requires the production of Group Accounts for the first time. We are therefore still finalising our work in this area as at the time of writing, but outline our initial conclusions below should consolidation be required. In accordance with ISA (UK) 600, as group auditor we are required to obtain sufficient appropriate audit evidence regarding the financial information of the components and the consolidation process to express an opinion on whether the group financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework.

Component	Individually Significant?	Level of response required under ISA (UK) 600	Risks identified	Planned audit approach
Nuneaton and Bedworth Borough Council	Yes	Audit of the financial information of the component using component materiality	See Pages 6 and 7	Full scope audit performed by Grant Thornton UK LLP
NABCEL	No	Audit of one more classes of transactions, account balances or disclosures relating to significant risks of material misstatement of the group financial statements	Management override of controls	<p>The company accounts are currently exempt from audit. We are therefore still considering our audit response dependent upon the Council's conclusions on the requirement for group accounts. Our initial conclusions are that we need to:</p> <ul style="list-style-type: none"> • Document the consolidation process and audit the consolidation • Undertake sample testing of operating expenditure and income to cover occurrence, accuracy and completeness.

Audit scope

- Audit of the financial information of the component using component materiality
- Audit of one more classes of transactions, account balances or disclosures relating to significant risks of material misstatement of the group financial statements
- Review of component's financial information
- Specified audit procedures relating to significant risks of material misstatement of the group financial statements
- Analytical procedures at group level

Significant risks identified

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.

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
The revenue cycle includes fraudulent transactions	<p>Under ISA (UK) 240, 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>As external auditors in the public sector, we are also required to give regard to Practice Note 10, which interprets the ISA in a public sector context and directs us to consider whether the assumption also applies to expenditure.</p>	<p>Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the Authority, we have determined that the risk of fraud arising from expenditure and some revenue streams can 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; and • the culture and ethical frameworks of local authorities, including Nuneaton and Bedworth Borough Council, mean that all forms of fraud are seen as unacceptable. <p>We have not concluded a full rebuttal for all revenue streams is appropriate at the time of writing as our work in understanding the processes and controls surrounding COVID-19 grant income is yet to be completed. Once this is finalised we will determine whether the risk for this revenue stream can also be rebutted.</p>
Management over-ride of controls	<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. The Council faces external scrutiny of its spending and this could potentially place management under undue pressure in terms of how they report performance.</p> <p>We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk of material misstatement.</p>	<p>We will:</p> <ul style="list-style-type: none"> • evaluate the design effectiveness of management controls over journals; • analyse the journals listing and determine the criteria for selecting high risk unusual journals; • test unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration; • gain an understanding of the accounting estimates and critical judgements applied made by management and consider their reasonableness with regard to corroborative evidence; and • evaluate the rationale for any changes in accounting policies, estimates or significant unusual transactions.

Significant risks identified

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
Valuation of land and buildings (including investment properties)	<p>The Authority revalues its land and buildings on a rolling five-yearly basis, and investment properties every year.</p> <p>The Council has appointed Savills and the District Valuer Services to revalue their council dwellings and DRC assets as at the 31st March 2021.</p> <p>This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved (approximately £210m of council dwellings, £49m other land & buildings and £30m of investment property in the prior period) and the sensitivity of this estimate to changes in key assumptions.</p> <p>Additionally, management will need to ensure the carrying value in the Authority financial statements is not materially different from the current value or the fair value (for any surplus assets) at the financial statements date, where a rolling programme is used.</p> <p>We therefore identified valuation of land and buildings, particularly revaluations and impairments, as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>	<p>We will:</p> <ul style="list-style-type: none"> • evaluate management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work; • evaluate the competence, capabilities and objectivity of the valuation expert; • write to the valuer to confirm the basis on which the valuation was carried out to ensure that the requirements of the CIPFA code are met; • challenge the information and assumptions used by the valuer to assess completeness and consistency with our understanding; • test revaluations made during the year to see if they had been input correctly into the Authority's asset register and accounted for correctly; and • evaluate 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 at year end.
Valuation of the pension fund net liability	<p>The Authority's pension fund net liability, as reflected in its balance sheet as the net defined benefit liability, represents a significant estimate in the financial statements.</p> <p>The pension fund liability is considered a significant estimate due to the size of the numbers involved (£49m as at 31 March 2020) and the sensitivity of the estimate to changes in key assumptions.</p> <p>We therefore identified valuation of the Authority's pension fund net liability as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>	<p>We will:</p> <ul style="list-style-type: none"> • update our understanding of the processes and controls put in place by management to ensure that the Authority's pension fund net liability is not materially misstated and evaluate the design of the associated controls; • evaluate the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work; • assess the competence, capabilities and objectivity of the actuary who carried out the Authority's pension fund valuation; • assess the accuracy and completeness of the information provided by the Authority to the actuary to estimate the liability; • test 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; • undertake 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 • obtain assurances from the auditor of Staffordshire 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.

Accounting estimates and related disclosures

The Financial Reporting Council issued an updated ISA (UK) 540 (revised): *Auditing Accounting Estimates and Related Disclosures* which includes significant enhancements in respect of the audit risk assessment process for accounting estimates.

Introduction

Under ISA (UK) 540 (Revised December 2018) auditors are required to understand and assess an entity's internal controls over accounting estimates, including:

- The nature and extent of oversight and governance over management's financial reporting process relevant to accounting estimates;
- How management identifies the need for and applies specialised skills or knowledge related to accounting estimates;
- How the entity's risk management process identifies and addresses risks relating to accounting estimates;
- The entity's information system as it relates to accounting estimates;
- The entity's control activities in relation to accounting estimates; and
- How management reviews the outcomes of previous accounting estimates.

As part of this process auditors also need to obtain an understanding of the role of those charged with governance, which is particularly important where the estimates have high estimation uncertainty, or require significant judgement.

Specifically do Audit and Standards Committee members:

- Understand the characteristics of the methods and models used to make the accounting estimates and the risks related to them;
- Oversee management's process for making accounting estimates, including the use of models, and the monitoring activities undertaken by management; and
- Evaluate how management made the accounting estimates?





Additional information that will be required

To ensure our compliance with this revised auditing standard, we will be requesting further information from management and those charged with governance during our audit for the year ended 31 March 2021.

Based on our knowledge of the Council we have identified the following material accounting estimates for which this is likely to apply:

- Valuations of land and buildings, council dwellings and investment properties
- Depreciation
- Year end provisions and accruals
- Credit loss and impairment allowances
- Valuation of defined benefit net pension fund liabilities
- Fair value of financial instruments (investments)

The Council's Information systems

In respect of the Council's information systems we are required to consider how management identifies the methods, assumptions and source data used for each material accounting estimate and the need for any changes to these. This includes how management selects, or designs, the methods, assumptions and data to be used and applies the methods used in the valuations.

When the models used include increased complexity or subjectivity, as is the case for many valuation models, auditors need to understand and assess the controls in place over the models and the data included therein. Where adequate controls are not in place we may need to report this as a significant control deficiency and this could affect the amount of detailed substantive testing required during the audit.

If management has changed the method for making an accounting estimate we will need to fully understand management's rationale for this change. Any unexpected changes are likely to raise the audit risk profile of this accounting estimate and may result in the need for additional audit procedures.

We are aware that the Council uses management experts in deriving some of its more complex estimates, e.g. asset valuations and pensions liabilities. However, it is important to note that the use of management experts does not diminish the responsibilities of management and those charged with governance to ensure that:

- All accounting estimates and related disclosures included in the financial statements have been prepared in accordance with the requirements of the financial reporting framework, and are materially accurate;
- There are adequate controls in place at the Council (and where applicable its service provider or management expert) over the models, assumptions and source data used in the preparation of accounting estimates.



Estimation uncertainty

Under ISA (UK) 540 we are required to consider the following:

- How management understands the degree of estimation uncertainty related to each accounting estimate; and
- How management address this estimation uncertainty when selecting their point estimate.

For example, how management identified and considered 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 point estimate used.

The revised standard includes increased emphasis on the importance of the financial statement disclosures. Under ISA (UK) 540 (Revised December 2018), auditors are required to assess whether both the accounting estimates themselves and the related disclosures are reasonable.

Where there is a material uncertainty, that is where there is a significant risk of a material change to the estimated carrying value of an asset or liability within the next year, there needs to be additional disclosures. Note that not all material estimates will have a material uncertainty and it is also possible that an estimate that is not material could have a risk of material uncertainty.

Where there is material estimation uncertainty, we would expect the financial statement disclosures to detail:

- What the assumptions and uncertainties are;
- How sensitive the assets and liabilities are to those assumptions, and why;
- The expected resolution of the uncertainty and the range of reasonably possible outcomes for the next financial year; and
- An explanation of any changes made to past assumptions if the uncertainty is unresolved.

Planning enquiries

As part of our planning risk assessment procedures we have issued the Informing the Audit Risk Assessment document to management which will assist in our understanding of the processes and controls surrounding accounting estimates. We would appreciate a prompt response to these enquires in due course.

Further information

Further details on the requirements of ISA (UK) 540 (Revised December 2018) can be found in the auditing standard on the Financial Reporting Council's website:

[https://www.frc.org.uk/getattachment/0fa69c03-49ec-49ae-a8c9-cc7a2b65382a/ISA-\(UK\)-540_Revised-December-2018_final.pdf](https://www.frc.org.uk/getattachment/0fa69c03-49ec-49ae-a8c9-cc7a2b65382a/ISA-(UK)-540_Revised-December-2018_final.pdf)

Other matters

Other work

In addition to our responsibilities under the Code of Practice, we have a number of other audit responsibilities, as follows:

- We read your Narrative Report and Annual Governance Statement to check that they are consistent with the financial statements on which we give an opinion and our knowledge of the Council.
- We carry out work to satisfy ourselves that disclosures made in your Annual Governance Statement are in line with requirements set by CIPFA.
- We carry out work on your consolidation schedules for the Whole of Government Accounts process in accordance with NAO group audit instructions.
- We consider our other duties under legislation and the Code, as and when required, including:
 - giving electors the opportunity to raise questions about your 2020/21 financial statements, consider and decide upon any objections received in relation to the 2020/21 financial statements;
 - issuing a report in the public interest or written recommendations to the Council under section 24 of the Local Audit and Accountability Act 2014 (the Act).
 - application to the court for a declaration that an item of account is contrary to law under section 28 or a judicial review under section 31 of the Act
 - issuing an advisory notice under section 29 of the Act
- We certify completion of our audit.

Other material balances and transactions

Under International Standards on Auditing, "irrespective of the assessed risks of material misstatement, the auditor shall design and perform substantive procedures for each material class of transactions, account balance and disclosure". All other material balances and transaction streams will therefore be audited. However, the procedures will not be as extensive as the procedures adopted for the risks identified in this report.

Going concern

As auditors, we are required to obtain sufficient appropriate audit evidence regarding, and conclude on:

- whether a material uncertainty related to going concern exists; and
- the appropriateness of management's use of the going concern basis of accounting in the preparation of the financial statements.

The Public Audit Forum has been designated by the Financial Reporting Council as a "SORP-making body" for the purposes of maintaining and updating Practice Note 10: Audit of financial statements and regularity of public sector bodies in the United Kingdom (PN 10). It is intended that auditors of public sector bodies read PN 10 in conjunction with (ISAs) (UK).

PN 10 has recently been updated to take account of revisions to ISAs (UK), including ISA (UK) 570 on going concern. The revisions to PN 10 in respect of going concern are important and mark a significant departure from how this concept has been audited in the public sector in the past. In particular, PN 10 allows auditors to apply a 'continued provision of service approach' to auditing going concern, where appropriate. Applying such an approach should enable us to increase our focus on wider financial resilience (as part of our VfM work) and ensure that our work on going concern is proportionate for public sector bodies. We will review the Council's arrangements for securing financial sustainability as part of our Value for Money work and provide a commentary on this in our Auditor's Annual Report.

Materiality

The concept of materiality

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. Misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Materiality for planning purposes

We have determined financial statement materiality based on a proportion of the gross expenditure of the Council (Cost of Services Level) for the financial year. In the prior year we used the same benchmark. Materiality at the planning stage of our audit is £1.8m (PY £1.5m) for the Council, which equates to 1.7% of your forecast gross expenditure for the year. We design our procedures to detect errors in specific accounts at a lower level of precision which we have determined to be £25k for Senior officer remuneration.

We reconsider planning materiality if, during the course of our audit engagement, we become aware of facts and circumstances that would have caused us to make a different determination of planning materiality.

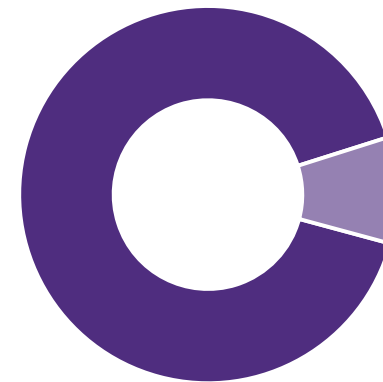
Matters we will report to the Audit and Standards Committee

Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Audit Committee any unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work. Under ISA 260 (UK) 'Communication with those charged with governance', we are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. ISA 260 (UK) defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria. In the context of the Council, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £90k (PY £75k).

If management have corrected material misstatements identified during the course of the audit, we will consider whether those corrections should be communicated to the Audit and Standards Committee to assist it in fulfilling its governance responsibilities.

Prior year gross operating costs

£105.464m



■ Prior year gross operating costs

Materiality

£1.8m

Council financial statements materiality (PY: £1.5m)



£90k

Misstatements reported to the Audit and Standards Committee (PY: £75k)

Value for Money arrangements

Revised approach to Value for Money work for 2020/21

On 1 April 2020, the National Audit Office introduced a new Code of Audit Practice which comes into effect from audit year 2020/21. The Code introduced a revised approach to the audit of Value for Money. (VFM)

There are three main changes arising from the NAO's new approach:

- A new set of key criteria, covering financial sustainability, governance and improvements in economy, efficiency and effectiveness
- More extensive reporting, with a requirement on the auditor to produce a commentary on arrangements across all of the key criteria, rather than the current 'reporting by exception' approach
- The replacement of the binary approach to VFM conclusions, with far more sophisticated judgements on performance, as well as key recommendations on any significant weaknesses in arrangements identified during the audit.

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 three specified reporting criteria. These are as set out below:



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



Risks of significant VFM weaknesses

As part of our planning work, we considered whether there were any risks of significant weakness in the body's arrangements for securing economy, efficiency and effectiveness in its use of resources that we needed to perform further procedures on. The risks we have identified are detailed in the first table below, along with the further procedures we will perform. We may need to make recommendations following the completion of our work. The potential different types of recommendations we could make are set out in the second table below.

Risks of significant weakness

Those risks requiring audit consideration and procedures to address the likelihood that proper arrangements are not in place at the body to deliver value for money.



Financial Sustainability

Our value for money risk assessment remains in progress. When setting the original budget for 2021/22 the Council noted the extremely challenging position due to the uncertainty over the impact of COVID-19 and the financial settlement announcement currently only covering one year. The additional one-off government funding for 2021/22 enabled a balanced budget to be set in February. The new administration is realigning the budget to reflect its manifesto commitments (i.e. reduced car parking charges) and maintaining the balanced budget. However, there remains a considerable gap of around £3.2m to be addressed over the period of MTFS up to 31 March 2024.

Given the in-year challenges and those anticipated looking forward (including those raised as the result of Covid-19) we believe a residual VFM risk in respect of planning finances effectively to support the sustainable delivery of strategic priorities and maintain statutory functions remains. We will review the Council's Medium Term Financial Strategy and financial monitoring reports and assess the assumptions used and savings being achieved. We will keep the Audit and Standards Committee updated with our assessment.

Potential types of recommendations

A range of different recommendations could be made following the completion of work on risks of significant weakness, 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

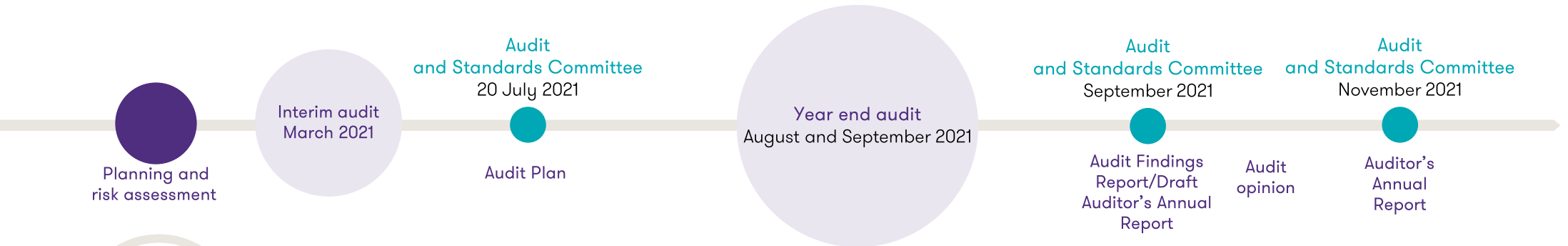
The Code of Audit Practice requires that where auditors identify significant weaknesses in arrangements to secure value for money they should make recommendations setting out the actions that should be taken by the body. We have defined these recommendations as 'key recommendations'.



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

Audit logistics and team



Grant Patterson, Key Audit Partner

Grant's role will be lead to our relationship with you and be a key contact for the s151 Officer and the Audit and Standards Committee. Grant will take overall responsibility for the delivery of a high quality audit, meeting the highest professional standards and adding value to the Authority as well as ensuring that Grant Thornton's full service offering is at your disposal.



William Guest, Audit Manager

William's role will be to manage the delivery of a high quality audit, meeting the highest professional standards and adding value to the Authority.



Allison Thomas, Audit Incharge

Allison's role will be the day to day contact for the Authority's finance staff, will take responsibility for ensuring there is effective communication and understanding by finance of audit arrangements. Allison will focus on the on the technical matters raised by you throughout the audit.

Audited body responsibilities

Where audited bodies do not deliver to the timetable agreed, we need to ensure that this does not impact on audit quality or absorb a disproportionate amount of time, thereby disadvantaging other audits. Where the elapsed time to complete an audit exceeds that agreed due to a client not meeting its obligations we will not be able to maintain a team on site. Similarly, where additional resources are needed to complete the audit due to a client not meeting their obligations we are not able to guarantee the delivery of the audit to the agreed timescales. In addition, delayed audits will incur additional audit fees.

Our requirements

To minimise the risk of a delayed audit, you need to ensure that you:

- produce draft financial statements of good quality by the agreed timetable you have agreed with us, including all notes, the Narrative Report and the Annual Governance Statement
- ensure that good quality working papers are available at the start of the audit, in accordance with the working paper requirements schedule that we have shared with you
- ensure that the agreed data reports are available to us at the start of the audit and are reconciled to the values in the accounts, in order to facilitate our selection of samples for testing
- ensure that all appropriate staff are available on site throughout (or as otherwise agreed) the planned period of the audit
- respond promptly and adequately to audit queries.

Audit fees

In 2018, PSAA awarded a contract of audit for Nuneaton and Bedworth Borough Council to begin with effect from 2018/19. The fee agreed in the contract was £41,086. Since that time, there have been a number of developments, particularly in relation to the revised Code and ISA's which are relevant for the 2020/21 audit.

As referred to on page 12, the 2020/21 Code introduces a revised approach to our VFM work. This requires auditors to produce a commentary on arrangements across all of the key criteria, rather than the current 'reporting by exception' approach. Auditors now have to make far more sophisticated judgements on performance, as well as issue key recommendations if any significant weaknesses in arrangements are identified during the audit. We will be working with the NAO and other audit firms to discuss and share learning in respect of common issues arising across the sector.

The new approach will be more challenging for audited bodies, involving discussions at a wider and more strategic level. Both the reporting, and the planning and risk assessment which underpins it, will require more audit time, delivered through a richer skill mix than in previous years.

MHCLG have increased the funding of local government audit by £15 million to reflect the pressures on local audit and the additional work that is needed to deliver the additional audit duties set out in the National Audit Office's Code of Practice. This equates to a 60 per cent increase in funding for local audit. Our estimate is that for your audit, this will result in an increased fee of £64,086 (56%). This is in line with increases we are proposing at all our local audits.

Additionally, across all sectors and firms, the FRC has set out its expectation of improved financial reporting from organisations and the need for auditors to demonstrate increased scepticism and challenge and to undertake additional and more robust testing, as noted in the number of revised ISA's issued by the FRC that are applicable to audits of financial statements commencing on or after 15 December 2019, as detailed in Appendix 1. As a firm, we are absolutely committed to meeting the expectations of the FRC with regard to audit quality and public sector financial reporting.

As a firm, we are absolutely committed to meeting the expectations of the FRC with regard to audit quality and public sector financial reporting. Our proposed work and fee for 2020/21 is still in discussion with management and regulators. We are also considering the impact of Covid-19 and the additional work required to finalise 2019/20 audit on the fee. We will report separately upon to this and it will gain be subject to discussions with management and PSAA.

	Actual Fee 2018/19	Planned Fee 2019/20	Proposed fee 2020/21
Nuneaton and Bedworth Borough Council Audit	£45,586	£48,586	£64,086
Total audit fees (excluding VAT)	£45,586	Final Fee TBC	£64,086

Assumptions

In setting the above fees, we have assumed that the Council will:

- prepare a good quality set of accounts, supported by comprehensive and well presented working papers which are ready at the start of the audit
- provide appropriate analysis, support and evidence to support all critical judgements and significant judgements made during the course of preparing the financial statements
- provide early notice of proposed complex or unusual transactions which could have a material impact on the financial statements.

Relevant professional standards

In preparing our fee estimate, we have had regard to all relevant professional standards, including paragraphs 4.1 and 4.2 of the FRC's [Ethical Standard \(revised 2019\)](#) which stipulate that the Engagement Lead (Key Audit Partner) must set a fee sufficient to enable the resourcing of the audit with partners and staff with appropriate time and skill to deliver an audit to the required professional and Ethical standards.

Audit fees – detailed analysis

Scale fee published by PSAA		£41,086
<i>Ongoing increases to scale fee first identified in 2019/20</i>		
Raising the bar/regulatory factors	£2,500	
Enhanced audit procedures for Property, Plant and Equipment	£1,750	
Enhanced audit procedures for Pensions	£1,750	
Recurring element of 2019/20 fee		£6,000
<i>New issues for 2020/21</i>		
Additional work on Value for Money (VfM) under new NAO Code	£10,000	
Increased audit requirements of revised ISAs	£6,500	
Local risk factors i.e. work in respect of NABCEL	£500	
Proposed increase to agreed recurring 2019/20 fee		£17,000
Total audit fees (excluding VAT)		£64,086

Independence and non-audit services

Auditor independence

Ethical Standards and ISA (UK) 260 require us to give you timely disclosure of all significant facts and matters that may bear upon the integrity, objectivity and independence of the firm or covered persons, relating to our independence. We encourage you to contact us to discuss these or any other independence issues with us. We will also discuss with you if we make additional significant judgements surrounding independence matters.

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 (Revised 2019) and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements. Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in May 2020 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

We confirm that we have implemented policies and procedures to meet the requirements of the Ethical Standard. For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council.

Other services

The following other services provided by Grant Thornton were identified

The amounts detailed are fees agreed to-date for audit related and non-audit related services to be undertaken by Grant Thornton UK LLP in the current financial year. These services are consistent with the Council's policy on the allotment of non-audit work to your auditors. Any changes and full details of all fees charged for audit related and non-audit related services by Grant Thornton UK LLP and by Grant Thornton International Limited network member Firms will be included in our Audit Findings report at the conclusion of the audit.

None of the services provided are subject to contingent fees.

Service	Fees £	Threats	Safeguards
Audit related			
Housing Benefit subsidy certification	15,500	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £15,500 in comparison to the total fee for the audit of £64,086 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.
Certification of Pooling of Housing Capital Receipts	2,300	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 £2,300 in comparison to the total fee for the audit of £64,086 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.
Non-audit related		No non-audit related non-audit services provided.	
Total	£17,800		









Appendix 1: Revised Auditor Standards and application guidance

FRC revisions to Auditor Standards and associated application guidance

The following Auditing Standards and associated application guidance that were applicable to 19/20 audits, have been revised or updated by the FRC, with additional requirements for auditors for implementation in 2020/21 audits and beyond.

	Date of revision	Application to 2020/21 Audits
ISQC (UK) 1 – Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and other Assurance and Related Service Engagements	November 2019	✓
ISA (UK) 200 – Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing (UK)	January 2020	✓
ISA (UK) 220 – Quality Control for an Audit of Financial Statements	November 2019	✓
ISA (UK) 230 – Audit Documentation	January 2020	✓
ISA (UK) 240 – The Auditor’s Responsibilities Relating to Fraud in an Audit of Financial Statements	January 2020	✓
ISA (UK) 250 Section A – Consideration of Laws and Regulations in an Audit of Financial Statements	November 2019	✓
ISA (UK) 250 Section B – The Auditor’s Statutory Right and Duty to Report to Regulators of Public Interest Entities and Regulators of Other Entities in the Financial Sector	November 2019	✓

Appendix 1: Revised Auditor Standards and application guidance continued

	Date of revision	Application to 2020/21 Audits
ISA (UK) 260 – Communication With Those Charged With Governance	January 2020	
ISA (UK) 315 – Identifying and Assessing the Risks of Material Misstatement Through Understanding of the Entity and Its Environment	July 2020	
ISA (UK) 500 – Audit Evidence	January 2020	
ISA (UK) 540 – Auditing Accounting Estimates and Related Disclosures	December 2018	
ISA (UK) 570 – Going Concern	September 2019	
ISA (UK) 580 – Written Representations	January 2020	
ISA (UK) 600 – Special considerations – Audits of Group Financial Statements (Including the Work of Component Auditors)	November 2019	
ISA (UK) 620 – Using the Work of an Auditor’s Expert	November 2019	
ISA (UK) 700 – Forming an Opinion and Reporting on Financial Statements	January 2020	

Appendix 1: Revised Auditor Standards and application guidance continued

	Date of revision	Application to 2020/21 Audits
ISA (UK) 701 – Communicating Key Audit Matters in the Independent Auditor’s Report	January 2020	
ISA (UK) 720 – The Auditor’s Responsibilities Relating to Other Information	November 2019	
Practice Note 10: Audit of Financial Statements of Public Sector Bodies in the United Kingdom	December 2020	



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Informing the audit risk assessment for Nuneaton & Bedworth Borough Council 2020/21

Grant Patterson
Director
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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 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 your business or any 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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Purpose

The purpose of this report is to contribute towards the effective two-way communication between Nuneaton and Bedworth Borough Council's external auditors and the Audit and Standards Committee, as 'those charged with governance'. The report covers some important areas of the auditor risk assessment where we are required to make inquiries of the Audit and Standards Committee under auditing standards.

Background

Under International Standards on Auditing (UK), (ISA(UK)) auditors have specific responsibilities to communicate with the Audit and Standards Committee. ISA(UK) emphasise the importance of two-way communication between the auditor and the Audit and Standards Committee and also specify matters that should be communicated.

This two-way communication assists both the auditor and the Audit and Standards (A&S) Committee in understanding matters relating to the audit and developing a constructive working relationship. It also enables the auditor to obtain information relevant to the audit from the Audit and Standards Committee and supports the Audit and Standards Committee in fulfilling its responsibilities in relation to the financial reporting process.

Communication

As part of our risk assessment procedures we are required to obtain an understanding of management processes and the Audit and Standards Committee oversight of the following areas:

- General Enquiries of Management
- Fraud,
- Laws and Regulations,
- Related Parties, and
- Accounting Estimates

This report includes a series of questions on each of these areas and the response we have received from Nuneaton & Bedworth BC's management. The Audit and Standards Committee should consider whether these responses are consistent with its understanding and whether there are any further comments it wishes to make.

General Enquiries of Management

Question	Management response
1. What do you regard as the key events or issues that will have a significant impact on the financial statements for 2020/21?	The Covid-19 pandemic has had a significant impact on the costs and income to the Council. Due to the level of turnover within NABCEL (wholly owned subsidiary), officers will need to reassess whether Group Accounts should be prepared. Should this be required, this will increase the size of the final document subject to audit and for consideration by the Members of the Audit & Standards Committee.
2. Have you considered the appropriateness of the accounting policies adopted by the Council? Have there been any events or transactions that may cause you to change or adopt new accounting policies?	Yes. Officers have reviewed the CIPFA Code and assessed the appropriateness of the current policies with no changes anticipated. However, subject to the review of the above matter regarding NABCEL and the creation of group accounts there may be an additional accounting policy regarding interest in companies and other entities.
3. Is there any use of financial instruments, including derivatives?	Yes, the Council has investments, borrowings, cash, receivables and payables. These are disclosed in the notes to the accounts.
4. Are you aware of any significant transaction outside the normal course of business?	In 2020-2021, the Council has received a number of additional grants in relation to Covid-19, including the distribution of business grants, and test and trace isolation payments.

General Enquiries of Management

Question	Management response
5. Are you aware of any changes in circumstances that would lead to impairment of non-current assets?	The outbreak of Covid-19 has impacted on the global financial markets and market activity. Although material valuation uncertainty was disclosed in the property valuer's report in 2019/20, it is unlikely to be the case for 2020/21 as markets return to normal.
6. Are you aware of any guarantee contracts?	No
7. Are you aware of the existence of loss contingencies and/or un-asserted claims that may affect the financial statements?	No
8. Other than in house solicitors, can you provide details of those solicitors utilised by the Council during the year. Please indicate where they are working on open litigation or contingencies from prior years?	Yes – a list can be provided as part of the audit work There are no known contingencies from previous years being worked on.

General Enquiries of Management

Question	Management response
<p>9. Have any of the Council service providers reported any items of fraud, non-compliance with laws and regulations or uncorrected misstatements which would affect the financial statements?</p>	<p>None of the Council's service providers have reported any items of fraud, non-compliance with laws and regulations or uncorrected misstatements which would affect the financial statements.</p>
<p>10. Can you provide details of other advisors consulted during the year and the issue on which they were consulted?</p>	<p>Link Asset Services provide advice on treasury management matters including investment and borrowing advice and the application of the applicable accounting standards for inclusion in the financial statements. Hymans Robertson are appointed as the actuary for the Warwickshire Local Government Pension Scheme and provide specialist valuation services in respect of the pension fund.</p>

Fraud

Issue

Matters in relation to fraud

ISA (UK) 240 covers auditors responsibilities relating to fraud in an audit of financial statements.

The primary responsibility to prevent and detect fraud rests with both the Audit and Standards (A&S) Committee and management. Management, with the oversight of the A&S Committee, needs to ensure a strong emphasis on fraud prevention and deterrence and encourage a culture of honest and ethical behaviour. As part of its oversight, the A&S Committee should consider the potential for override of controls and inappropriate influence over the financial reporting process.

As the Council's external auditor, we are responsible for obtaining reasonable assurance that the financial statements are free from material misstatement due to fraud or error. We are required to maintain professional scepticism throughout the audit, considering the potential for management override of controls.

As part of our audit risk assessment procedures we are required to consider risks of fraud. This includes considering the arrangements management has put in place with regard to fraud risks including:

- assessment that the financial statements could be materially misstated due to fraud,
- process for identifying and responding to risks of fraud, including any identified specific risks,
- communication with the A&S Committee regarding its processes for identifying and responding to risks of fraud, and
- communication to employees regarding business practices and ethical behaviour.

We need to understand how the A&S Committee oversees the above processes. We are also required to make inquiries of both management and the A&S Committee as to their knowledge of any actual, suspected or alleged fraud. These areas have been set out in the fraud risk assessment questions below together with responses from the Council's management.

Fraud risk assessment

Question	Management response
<p>1. Have the Council assessed the risk of material misstatement in the financial statements due to fraud?</p> <p>How has the process of identifying and responding to the risk of fraud been undertaken and what are the results of this process?</p> <p>How do the Council's risk management processes link to financial reporting?</p>	<p>The following reports and processes have informed the Council that the risk of misstatement due to fraud is low:</p> <ul style="list-style-type: none"> • Annual Governance Statement - managers provide assurance statements and identify key control issues affecting their operational processes • Head of Audit and Governance gives an opinion on the overall internal control environment in the Annual Report to the Audit & Standards Committee and this informs the Annual Governance Statement • 6 monthly reports are presented to Audit & Standards Committee by the Head of Audit and Governance giving a summary of audit findings on each of the systems reviewed • Audit & Standards Committee request specific reports on issues they are concerned about as and when required • Follow-up reviews are completed in a timely manner, normally within 6 to 12 months after the final report is issued, to ensure that agreed actions have been implemented. All outstanding actions are reported to the Head of Audit & Standards in the Audit and Governance Managers 6 monthly reports • Annual Internal Audit plans are developed using a risk based approach, which includes an assessment of fraud, these assessments are updated after each audit is completed • Audit reports giving a 'Limited Assurance' opinion are submitted to the Council's Management Team for consideration <p>The Council has the following policies in place:</p> <ul style="list-style-type: none"> • Confidential Reporting Code • Anti Fraud Strategy • Anti Money Laundering Framework • Fraud Response Plan • Risk Management Policy and Strategy • Contract and Financial Procedure Rules. <p>The areas of highest risk are in relation to cash related transactions and procurement</p> <p>The Executive Director – Resources has an operational risk register which, if necessary, will include any key risks that will impact on financial reporting</p>

Fraud risk assessment

Question	Management response
<p>2. What have you determined to be the classes of accounts, transactions and disclosures most at risk to fraud?</p>	<p>Key financial systems that are reviewed by the internal audit team on a 3 year rolling cycle include creditors, debtors, payroll, rental income, car park income, council tax, housing benefit, NDR, fixed assets, general ledger and treasury management</p>
<p>3. Are you aware of any instances of actual, suspected or alleged fraud, errors or other irregularities either within the Council as a whole or within specific departments since 1 April 2020? As a management team, how do you communicate risk issues (including fraud) to those charged with governance?</p>	<p>There are no new cases that the Council are aware of.</p> <p>The Audit & Standards Committee has been charged with governance and the terms of reference states that they are responsible for:</p> <ul style="list-style-type: none"> • Reviewing the assessment of fraud risks and potential harm to the Council from fraud and corruption • Monitoring the Anti Fraud Strategy and Fraud Response Plan • Maintaining an overview of the Confidential Reporting Code • Reviewing the Annual Governance Statement prior to approval to consider whether it properly reflects the risk environment. <p>The following arrangements are in place for reporting fraud issues and risks to the Audit & Standards Committee:</p> <ul style="list-style-type: none"> • 6 monthly reports from the Head of Audit and Governance giving a summary of audit findings including an opinion on the overall control environment for each completed audit, including the work of the Counter Fraud Officer • All known and proven frauds are reported to Audit & Standards Committee on completion of the investigation

Fraud risk assessment

Question	Management response
<p>4. Have you identified any specific fraud risks?</p> <p>Do you have any concerns there are areas that are at risk of fraud?</p> <p>Are there particular locations within the Council where fraud is more likely to occur?</p>	<p>The areas of greatest risk are housing tenancy, council tax, Covid-19 related business and other support grants, procurement and business rates.</p> <p>The areas that are at high risk of fraud are procurement and cash. Members of the public are discouraged from paying bills in cash. Low value payments are made to employees using petty cash but there is a limit of £25 per transaction. Procurement is included in the internal audit plan and is reviewed annually and the procurement team use a computerised system, Intend, to manage and monitor contracts.</p> <p>Procurement in relation to contract fraud.</p>
<p>5. What processes do the Council have in place to identify and respond to risks of fraud?</p>	<p>Anti fraud and corruption policy and the fraud response plan set out the procedures to be followed in response to suspected fraud. The internal audit manual sets out the risk based approach that is followed for all audit reviews.</p>

Fraud risk assessment

Question	Management response
<p>6. How do you assess the overall control environment for the Council, including:</p> <ul style="list-style-type: none"> the existence of internal controls, including segregation of duties; and the process for reviewing the effectiveness the system of internal control? <p>If internal controls are not in place or not effective where are the risk areas and what mitigating actions have been taken?</p> <p>What other controls are in place to help prevent, deter or detect fraud?</p> <p>Are there any areas where there is a potential for override of controls or inappropriate influence over the financial reporting process (for example because of undue pressure to achieve financial targets)?</p>	<p>We are satisfied with the adequacy of the overall control environment. The internal audit plan is prepared using a risk based approach and the work is carried out with an awareness of the possibility of fraud and corruption, albeit on a sample of transactions only so there is no guarantee of finding all instances. The results of follow-up reviews shows that management take appropriate action when weaknesses are brought to their attention in internal audit reports. External Audit review the work of the internal audit section.</p> <p>The Council participates in the National Fraud Initiative and all high risk matches are investigated.</p> <p>The Council employs a Counter Fraud Officer, which is a shared service with North Warwickshire Borough Council. The role of the investigator is to work across both Council's to deter, prevent, detect and investigate fraudulent activity in relation to Housing Benefit, Council Tax Benefit/Reduction, Council Tax, Non-Domestic Rates, housing related fraud and more recently Covid-19 grant payments to businesses.</p> <p>The Council will be issuing a press release at the year end to publicise the work of the Counter Fraud Officer to demonstrate our zero tolerance to fraud and we have posted articles in the InTouch magazine that is issued to all residents across the Borough</p> <p>We are not aware of any areas, there is a robust budget monitoring and virement approval process in place, segregation of duties within the creditors section and journal processing is limited to only a handful of employees.</p>
<p>7. Are there any areas where there is potential for misreporting?</p>	<p>As above</p>

Fraud risk assessment

Question	Management response
<p>8. How do the Council communicate and encourage ethical behaviours and business processes of it's staff and contractors?</p> <p>How do you encourage staff to report their concerns about fraud?</p> <p>What concerns are staff expected to report about fraud?</p> <p>Have any significant issues been reported?</p>	<p>Corporate Governance training is carried out every 2 years for employees and attendance is mandatory. The training includes:</p> <ul style="list-style-type: none"> • Procurement • Gifts and Hospitality • Late Payment Directive • Data Protection (GDPR) • Fraud and Corruption <p>Some governance training has also been given in November 2019 for existing key suppliers and potential new suppliers</p> <p>The Corporate Governance Group meets on a monthly basis to discuss pertinent issues around procurement, financial management, information management, specific capital projects audit and risk.</p>
<p>9. From a fraud and corruption perspective, what are considered to be high-risk posts?</p> <p>How are the risks relating to these posts identified, assessed and managed?</p>	<p>High risk posts are those that have authority to approve high value financial transactions. All high value financial transactions are approved by a second signatory</p>
<p>10. Are you aware of any related party relationships or transactions that could give rise to instances of fraud?</p> <p>How do you mitigate the risks associated with fraud related to related party relationships and transactions?</p>	<p>No</p> <p>Elected members and key officers are required to provide the Head of Finance each financial year a declaration of any related party relationships.</p>

Fraud risk assessment

Question	Management response
<p>11. What arrangements are in place to report fraud issues and risks to the Audit and Standards Committee?</p> <p>How does the Audit and Standards Committee exercise oversight over management's processes for identifying and responding to risks of fraud and breaches of internal control?</p> <p>What has been the outcome of these arrangements so far this year?</p>	<p>All proven frauds are reported to the Audit and Standards Committee. The Audit and Standards Committee approve the internal audit annual plan which is developed on a risk based procedure which includes the risk of fraud. A summary of the audit findings for all reviews and follow-up reviews are reported to the Audit and Standards Committee. The Committee has the authority to request internal audit to carry out any further work that they consider necessary. Where internal audit give a limited or no assurance opinion on the control environment the Committee will, in future, be inviting the relevant manager to attend meetings to enable them to give an update on what has been or is being done to improve the controls. Reports with a 'Limited Assurance' opinion are also reported to Management Team.</p>
<p>12. Are you aware of any whistle blowing potential or complaints by potential whistle blowers? If so, what has been your response?</p>	<p>No</p>
<p>13. Have any reports been made under the Bribery Act?</p>	<p>No</p>

Law and regulations

Issue

Matters in relation to laws and regulations

ISA (UK) 250 requires us to consider the impact of laws and regulations in an audit of the financial statements.

Management, with the oversight of the Audit and Standards Committee, is responsible for ensuring that the Council's operations are conducted in accordance with laws and regulations including those that determine amounts in the financial statements.

As auditor, we are responsible for obtaining reasonable assurance that the financial statements are free from material misstatement due to fraud or error, taking into account the appropriate legal and regulatory framework. As part of our risk assessment procedures we are required to make inquiries of management and the Audit and Standards Committee as to whether the entity is in compliance with laws and regulations. Where we become aware of information of non-compliance or suspected non-compliance we need to gain an understanding of the non-compliance and the possible effect on the financial statements.

Risk assessment questions have been set out below together with responses from management.

Impact of laws and regulations

Question	Management response
<p>1. How does management gain assurance that all relevant laws and regulations have been complied with?</p> <p>What arrangements does the Council have in place to prevent and detect non-compliance with laws and regulations?</p> <p>Are you aware of any changes to the Council's regulatory environment that may have a significant impact on the Council's financial statements?</p>	<p>Various groups exist (e.g. Corporate Governance Group and Corporate Asset Management Team) to review and maintain an understanding of the legal requirements placed upon the Council. These groups are multidisciplinary groups with one or more Director attending. Matters involving issues of compliance or the need for resources are escalated to the Council's management Team and from there to Cabinet and Council as necessary.</p> <p>The Council's performance reports also provide both a context and some detail on the issues of service delivery and compliance.</p> <p>The Council has arrangements in place to ensure that all Committee reports that involve key decisions are scrutinised and reviewed by qualified lawyers to ensure compliance with legislation. The Monitoring Officer or his deputy attends all Council, Cabinet and Management Team meetings. In addition, the Council has a number of specialist multi-disciplinary working groups to deal with key regulatory matters such as Health & Safety; Fire Safety; Information Management; Procurement and Asbestos Management which consider changes to the law and any issues that might suggest non-compliance. Reports are made to the Council's Management Team as and when required on non-compliance issues or changes to the law which require a formal response which, in turn, will be followed by a report to Cabinet and Council for any additional resource requirements. The Council's internal audit service plays a key part in assessing the compliance by service departments, assisted by the Council's legal service when required. The Internal Audit Service report any findings to the Service Director, the Monitoring Officer and the Executive Directors.</p> <p>The Audit and Governance Manager reports the key findings of all audits to the Council's Audit & Standards Committee which, in turn reports to Full Council. The Council has a Confidential Reporting Code for Officers, members and contractors, should there be a need to report any known breaches of the law. This provides both an internal process and an external process which includes notification of suspected breaches to the External Auditors.</p> <p>All legal, Finance and Regulatory officers are subject to compliance with Compulsory Professional Development in order to keep abreast of new developments</p> <p>No</p>

Impact of laws and regulations

Question	Management response
2. How is the Audit and Standards Committee provided with assurance that all relevant laws and regulations have been complied with?	The Council's internal audit service assesses compliance by service departments, assisted by the Council's legal service when required. The internal Audit Service report any findings to the Council's Service Director, the Monitoring Officer and the Executive Directors. The Audit and Governance Manager reports the key findings of all audits to the Council's Audit & Standards Committee which, in turn reports to Full Council.
3. Have there been any instances of non-compliance or suspected non-compliance with laws and regulation since 1 April 2020 with an on-going impact on the 2020/21 financial statements?	We are not aware of any breaches of legislation by the Council.
4. Is there any actual or potential litigation or claims that would affect the financial statements?	No

Impact of laws and regulations

Question	Management response
5. What arrangements does the Council have in place to identify, evaluate and account for litigation or claims?	<p>Service departments are required to evaluate and monitor their performance and budgets. In the event that an event occurs, that is escalated internally to the Service Director who, in turn will escalate the matter to the Monitoring Officer and Executive Directors.</p> <p>Once identified by Service departments, potential claims against the Council are passed to the Legal Services team for assessment. Where unusual or complex, Counsel's opinion may be sought on the matter.</p> <p>Advice is sought from accountants who make any necessary provisions in the accounts based upon an estimate of the anticipated value of the claim.</p>
6. Have there been any report from other regulatory bodies, such as HM Revenues and Customs which indicate non-compliance?	No

Related Parties

Issue

Matters in relation to Related Parties

The Council are required to disclose transactions with entities/individuals that would be classed as related parties. These may include:

- entities that directly, or indirectly through one or more intermediaries, control, or are controlled by the Council.
- associates;
- joint ventures;
- an entity that has an interest in the authority that gives it significant influence over the Council
- key management personnel, and close members of the family of key management personnel, and
- post-employment benefit plans (pension fund) for the benefit of employees of the Council or of any entity that is a related party of the Council. A disclosure is required if a transaction (or series of transactions) is material on either side, i.e. if a transaction is immaterial from the [type of body]'s perspective but material from a related party viewpoint then the Council must disclose it.

ISA (UK) 550 requires us to review your procedures for identifying related party transactions and obtain an understanding of the controls that you have established to identify such transactions. We will also carry out testing to ensure the related party transaction disclosures you make in the financial statements are complete and accurate.

Related Parties

Question	Management response
<p>1. Have there been any changes in the related parties disclosed in the Council's 2019/20 financial statements? If so please summarise:</p> <ul style="list-style-type: none"> • the nature of the relationship between these related parties and the Council • Whether the Council has entered into or plans to enter into any transactions with these related parties • the type and purpose of these transactions 	<p>During the 2020/21 financial year the Council has acted as agent and principal for payment of Covid support grants to businesses and traders on behalf of the central government department BEIS (Business, Energy and Industrial Strategy).</p>
<p>2. What controls does the Council have in place to identify, account for and disclose related party transactions and relationships?</p>	<p>A number of arrangements are in place to identify related party transactions including:</p> <ul style="list-style-type: none"> • Maintaining a register of interests for Members and Senior Officers • Gifts and Hospitality Register • Obtaining an annual return for members and senior officers requiring confirmation that they have read and understood the disclosure requirements and to state details of any known related party interests.
<p>3. What controls are in place to authorise and approve significant transactions and arrangements with related parties?</p>	<p>Any significant transactions and arrangements with related parties outside of the budgetary framework would require approval in line with financial regulations and the Constitution.</p>
<p>4. What controls are in place to authorise and approve significant transactions outside of the normal course of business?</p>	<p>Any significant transactions and arrangements outside of the normal course of business would be outside of the budgetary framework would require approval in line with financial regulations and the Constitution.</p>

Accounting estimates

Issue

Matters in relation to Related Accounting estimates

ISA (UK) 540 (Revised December 2018) requires auditors to understand and assess an entity's internal controls over accounting estimates, including:

- The nature and extent of oversight and governance over management's financial reporting process relevant to accounting estimates;
- How management identifies the need for and applies specialised skills or knowledge related to accounting estimates;
- How the entity's risk management process identifies and addresses risks relating to accounting estimates;
- The entity's information system as it relates to accounting estimates;
- The entity's control activities in relation to accounting estimates; and
- How management reviews the outcomes of previous accounting estimates.

As part of this process auditors also need to obtain an understanding of the role of those charged with governance, which is particularly important where the estimates have high estimation uncertainty, or require significant judgement.

Specifically do Audit Committee members:

- Understand the characteristics of the methods and models used to make the accounting estimates and the risks related to them;
- Oversee management's process for making accounting estimates, including the use of models, and the monitoring activities undertaken by management; and
- Evaluate how management made the accounting estimates?

We would ask the Audit and Standards Committee to satisfy itself that the arrangements for accounting estimates are adequate.

Accounting Estimates - General Enquiries of Management

Question	Management response
1. What are the classes of transactions, events and conditions, that are significant to the financial statements that give rise to the need for, or changes in, accounting estimate and related disclosures?	Valuation, depreciation and impairment of property, plant and equipment. Valuation of defined benefit pension liability Fair value assessment of financial instruments Provisions Accruals
2. How does the Council's risk management process identify and addresses risks relating to accounting estimates?	Senior management and the S151 officer will consider the risk and judgements of material accounting estimates during the production of the accounts and ensure that the basis for the estimates and the effects of any judgements made and their associated risks are transparently reported.
3. How do management identify the methods, assumptions or source data, and the need for changes in them, in relation to key accounting estimates?	Management consult guidance, e.g. the Code of Practice on Local Authority Accounting and RICS guidance. Also work with experts where appropriate (eg treasury advisors, external valuers)
4. How do management review the outcomes of previous accounting estimates?	Management look back retrospectively to assess whether previous accounting estimates were born out in reality.
5. Were any changes made to the estimation processes in 2020/21 and, if so, what was the reason for these?	So far, no changes have been made to the estimation processes in 2020/21. This will be reviewed through closedown.

Accounting Estimates - General Enquiries of Management

Question	Management response
6. How do management identify the need for and apply specialised skills or knowledge related to accounting estimates?	Management commission specialist skills or knowledge when, for example when expert knowledge or resource is not available in-house.
7. How does the Council determine what control activities are needed for significant accounting estimates, including the controls at any service providers or management experts?	The Council determines what control activities are needed through liaison with other authorities (e.g. as part of the Warwickshire Accounting Financial Officers Group) , referring to the Code of Practice on Local Authority Accounting and other guidance, attendance at seminars and workshops (e.g. Grant Thornton's annual Local Government Accountants Workshop)
8. How do management monitor the operation of control activities related to accounting estimates, including the key controls at any service providers or management experts?	Management review the output of service providers and the assumptions underpinning them, challenging any discrepancies or unexpected outcomes.
9. What is the nature and extent of oversight and governance over management's financial reporting process relevant to accounting estimates, including: <ul style="list-style-type: none"> - Management's process for making significant accounting estimates - The methods and models used - The resultant accounting estimates included in the financial statements. 	<p>The nature and extent of the oversight in relation to accounting estimates includes:</p> <ul style="list-style-type: none"> • The agreement of assumptions in advance, including their appropriateness • Verification of the underlying data in advance • The methodology to be used to determine the value of estimates and its appropriateness • Review of the results for reasonableness, including comparative analysis with previous years

Accounting Estimates - General Enquiries of Management

Question	Management response
10. Are management aware of transactions, events, conditions (or changes in these) that may give rise to recognition or disclosure of significant accounting estimates that require significant judgement (other than those in Appendix A)?	No
11. Are the management arrangements for the accounting estimates, as detailed in Appendix A reasonable?	Yes
12. How is the Audit Committee provided with assurance that the arrangements for accounting estimates are adequate ?	Significant estimates are reported as part of this report and are also included within the notes to the accounts. For added clarity from 2020/21 a separate section of the Statement of Accounts report to be presented to the Audit & Standards Committee will highlight these key estimates and methods used.

Appendix A Accounting Estimates

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Land & Buildings Valuations	Valuations are made by suitably qualified valuers in line with RICS guidance on the basis of 5 year valuations with interim reviews.	Head of Financial Services notifies the valuer(s) of the program of rolling valuations or of any conditions that warrant an interim revaluation.	Yes	Valuations are made in line with RICS guidance – reliance on expert.	No
Investment Property Valuations	Valuations are made by suitably qualified valuers in line with RICS guidance every year as at 31 st March	All assets within the category are required to be revalued. The Council's asset database holds each individual asset owned by the Council.	Yes	Valuations are made in line with RICS guidance – reliance on expert.	No

Appendix A Accounting Estimates

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Depreciation and Amortisation	<p>Depreciation is provided for on all fixed assets with a finite useful life on a straight-line basis.</p> <p>The following asset categories have general asset lives:</p> <ul style="list-style-type: none"> ▪ Buildings up to 60 years.. ▪ Vehicles, plant, furniture and equipment 5 to 10 years. ▪ Infrastructure 25 to 50 years. <p>Depreciation methods, useful lives and residual values are reviewed each financial year and adjusted if appropriate.</p>	Consistent application of depreciation method across all assets.	No	<p>Assets are depreciated over useful lives that are dependent on assumptions about the level of repairs and maintenance that will be incurred in relation to individual assets.</p> <p>The length of the life is determined at the point of acquisition or revaluation according to:</p> <ul style="list-style-type: none"> ■ Assets acquired in the financial year are not depreciated until the following financial year. ■ Assets that are not fully constructed are not depreciated until they are brought into use. 	No

Appendix A Accounting Estimates

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Impairments	Assets are assessed at each year-end as to whether there is any indication that an asset may be impaired. Where indications exist and any possible differences are estimated to be material, the recoverable amount of the asset is estimated and, where this is less than the carrying amount of the asset, an impairment loss is recognised for the shortfall	Assets are assessed at each year-end as to whether there is any indication that an asset may be impaired.	Yes – qualified valuer.	Valuations are made in-line with the Code and RICS guidance - reliance on expert.	No
Fair Value Measurements	Council values financial instruments at fair value based on the advice of their externally appointed treasury management advisors and other finance professionals.	Take advice from finance professionals.	Yes	Take advice from finance professionals.	No.

Appendix A Accounting Estimates

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Valuation of defined benefit net pension fund liabilities	The Council is an admitted body to Warwickshire Pension Fund. The administering authority (Warwickshire County Council) engage the actuary – Hymans Robertson – who provide the estimate of the pension liability and the calculated actuarial gains and losses figures. These figures are based on making % adjustments to the closing values of assets/liabilities.	Payroll data is provided to the Actuary. Management reconcile this estimate of contributions to the actuals paid out in the year.	The Council are provided with an actuarial report from the consulting actuary - Hymans Robertson (LGPS).	As disclosed in the actuary's report. Complex judgements including the discount rate used, rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. The nature of these figures forecasting into the future are based upon the best information held at the current time and are developed by experts in their field.	No.
Impairment allowance for doubtful debt	A provision is estimated using a proportion basis of an aged debt listing.	The Finance team review the aged debt listing and the likelihood of debt being collected before calculating the impairment allowance for doubtful debt.	No	Consistent proportion used across aged debt as per the Code	No.

Appendix A Accounting Estimates (Continued)

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Provisions for liabilities	<p>Provisions are made where an event has taken place that gives the Council a legal or constructive obligation that probably requires settlement by a transfer of economic benefits or service potential, and a reliable estimate can be made of the amount of the obligation.</p> <p>Provisions are charged as an expense to the appropriate service line in the CI&ES in the year that the Council becomes aware of the obligation, and are measured at the best estimate at the balance sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties.</p>	<p>Charged in the year that the Council becomes aware of the obligation.</p> <p>Each provision is separately reviewed by finance and a working is put together to support the calculation.</p>	No	<p>Estimated settlements are reviewed at the end of each financial year – where it becomes less than probable that a transfer of economic benefits will now be required (or a lower settlement than anticipated is made), the provision is reversed and credited back to the relevant service. Where some or all of the payment required to settle a provision is expected to be recovered from another party (e.g. from an insurance claim), this is only recognised as income for the relevant service if it is virtually certain that reimbursement will be received by the Council.</p>	No.

Appendix A Accounting Estimates (Continued)

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Business rates appeals provision	The provision is calculated based on expert analysis of actual claims submitted to the VOA and also from a risk review of properties that could be deemed likely to submit a claim.	Data derived from actual VOA claims data and full property list and Rateable Value information.	Yes	Use of experts for provision of detailed data and methodology	No
Accruals	The Finance team collate accruals of Expenditure and Income. Activity is accounted for in the financial year that it takes place, not when money is paid or received.	Activity is accounted for in the financial year that it takes place, not when money is paid or received.	No	Accruals for income and expenditure have been principally based on known values. Where accruals have had to be estimated the latest available information has been used.	No.

Appendix A Accounting Estimates (Continued)

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Non Adjusting events – events after the balance sheet date	S151 Officer makes the assessment. If the event is indicative of conditions that arose after the balance sheet date then this is an un-adjusting event. For these events only a note to the accounts is included, identifying the nature of the event and where possible estimates of the financial amount.	Directors and Senior Managers notify the S151 Officer.	This would be considered on individual circumstances.	This would be considered on individual circumstances.	N/A
Accumulated absence account	Accrual is based on estimated outstanding leave as at 31 March 2021	Finance contact a sample of employees directly in order to calculate the estimate	No	Finance assume that the sample is representative of the population.	No.

Appendix A Accounting Estimates (Continued)

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Overhead Allocation	The Finance team apportion central support costs to services based on fixed bases.	All support service cost centres are allocated according to the pre agreed bases.	No	Apportionment bases are reviewed each year to ensure equitable.	No



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