

Appendix 1-The Annual Audit Letter for Dudley Metropolitan Council

Year ended 31 March 2020

26 January 2021



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Executive Summary

Purpose

Our Annual Audit Letter (Letter) summarises the key findings arising from the work that we have carried out at Dudley Metropolitan Borough Council (the Council) for the year ended 31 March 2020.

This Letter is intended to provide a commentary on the results of our work to the Council and external stakeholders, and to highlight issues that we wish to draw to the attention of the public. In preparing this Letter, we have followed the National Audit Office (NAO)'s Code of Audit Practice and Auditor Guidance Note (AGN) 07 – 'Auditor Reporting'. We reported the detailed findings from our audit work to the Council's Audit and Standards Committee as those charged with governance in our Audit Findings Report in September 2020 and updated this report on completion of our audit in December 2020.

Our work

Respective responsibilities

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

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

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

Materiality	We determined materiality for the audit of the Council's financial statements to be £10,250,000, which is 1.5% of the Council's gross operating expenses in 2019/20 after discounting the effect of the revaluations on land and buildings.
Financial Statements opinion	We gave an unqualified opinion on the Council's financial statements on 18 December 2020. The accounts were prepared to a good standard together with appropriate working papers available from the start of the audit. The finance team responded promptly and efficiently to our queries during the course of the audit. There were, however, significant issues with the quality of information supporting the Council's land and buildings valuations. We identified two adjustments to the financial statements that have resulted in changes to the Statement of Comprehensive Income and Expenditure and Balance Sheet. These are set out in more detail later but did not impact on useable reserves.
Whole of Government Accounts (WGA)	We have not yet completed our work on the Council's consolidation return.
Use of statutory powers	We did not identify any matters which required us to exercise our additional statutory powers.
Value for Money arrangements	We were satisfied that the Council put in place proper arrangements to ensure economy, efficiency and effectiveness in its use of resources except for arrangements for strategic financial planning. We reflected this in our audit report to the Council on 18 December 2020.
Certificate	We will certify that we have completed the audit of the accounts of the Council in accordance with the requirements of the Code of Audit Practice following the completion of our work on WGA.
Certification of Grants	We also carry out work to certify the Council's Housing Benefit subsidy claim on behalf of the Department for Work and Pensions, Housing Capital Receipts Return and Teachers Pensions Return. Our work on these claims is not yet complete..

Executive Summary

Key messages

Financial statements

Draft accounts were presented for audit in early July and our audit was completed by the end of December. It is pleasing to report that the Council's finance team coped well with closing down the accounts remotely. The accounts were presented for audit promptly and well supported with working papers. The finance team were very supportive throughout our audit.

There were significant issues with the supporting information for the Council's land and buildings valuation. These issues both delayed the completion of the audit and required additional audit work. We obtained sufficient audit assurance, but concluded that there are weaknesses in the Council's arrangements to value its land and buildings.

We identified two adjustments to the financial statements that resulted in changes to the Statement of Comprehensive Income and Expenditure and Balance Sheet. These did not impact on useable reserves. We also identified some disclosure changes that were included in the final version of the financial statements.

Value for money conclusion

We are required to give a conclusion on whether the Council has proper arrangements in place to secure value for money in the use of its resources. Our work focused on:

- the Council's medium term financial strategy; and
- the Ofsted inspection of children's services

Given the challenges the Council faces we considered carefully whether it had appropriate arrangements in place to plan its finances effectively to support the sustainable delivery of strategic priorities and maintain statutory functions. We specifically considered the:

- Adequacy of savings plans in place
- Increases in unfunded spending
- The reducing level of reserves.

We concluded that there are weaknesses in the Council's strategic financial planning, in particular the arrangements for ensure that a sufficient level of reserves is maintained to sustain the Authority's financial resilience.

We also considered how the Council is responding to Ofsted's findings that there is an urgent need to improve Children's services. We specifically considered the:

- Council's action plan and how this is being monitored
- Service leadership arrangements in place.

We concluded that the Council does have proper arrangements in place to respond to Ofsted but noted that in our view ensuring that there is effective substantive service leadership is essential to delivering the agreed action plan.

Based on the work we performed to address the significant risks, we concluded that except for the matters we identified in respect of financial sustainability, the Council did have proper arrangements in place for securing economy, efficiency and effectiveness in its use of resources. We therefore issued a qualified 'except for' conclusion on your arrangements.

Working with the Council

The outbreak of the Covid-19 coronavirus pandemic has had a significant impact on the normal operations of the Council. Authorities were still required to prepare financial statements in accordance with the relevant accounting standards and the Code of Audit Practice, albeit to an extended deadline for the preparation of the financial statements up to 31 August 2020 and the date for audited financial statements to 30 November 2020. The Council has faced many front-line challenges such as administration of grants to businesses and the additional challenges of reopening services under new government guidelines. Finance staff have had to work at home.

Restrictions resulted in both the Council and audit team introducing new remote access working arrangements including remote accessing financial systems, video calling as well as making greater use of our document management sharing system. We have also held regular virtual meetings with management.

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

Grant Thornton UK LLP
January 2021

Audit of the Accounts

Our audit approach

Materiality

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

We determined materiality for the audit of the Council's accounts to be £10,250,000, which is 1.5% of the Council's gross operating expenses in 2019/20 after discounting the effect of the revaluations on land and buildings. We used this benchmark as, in our view, users of the Council's financial statements are most interested in where the Council has spent its revenue in the year.

We also set a lower level of specific materiality at £100,000 for senior officer remuneration.

We set a threshold of £513,000, above which we reported errors to the Audit and Standards Committee in our Audit Findings Report.

The scope of our audit

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

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

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

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

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

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

Audit of the Accounts

Significant Audit Risks

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

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Covid-19</p> <p>The global outbreak of the Covid-19 virus pandemic has led to unprecedented uncertainty for all organisations, requiring urgent business continuity arrangements to be implemented. We expect current circumstances will have an impact on the production and audit of the financial statements for the year ended 31 March 2020, including and not limited to:</p> <ul style="list-style-type: none"> • Remote working arrangements and redeployment of staff to critical front line duties may impact on the quality and timing of the production of the financial statements, and the evidence we can obtain through physical observation • Volatility of financial and property markets will increase the uncertainty of assumptions applied by management to asset valuation and receivable recovery estimates, and the reliability of evidence we can obtain to corroborate management estimates • Financial uncertainty will require management to reconsider financial forecasts supporting their going concern assessment and whether material uncertainties for a period of at least 12 months from the anticipated date of approval of the audited financial statements have arisen; and • Disclosures within the financial statements will require significant revision to reflect the unprecedented situation and its impact on the preparation of the financial statements as at 31 March 2020 in accordance with IAS1, particularly in relation to material uncertainties. <p>We therefore identified the global outbreak of the Covid-19 virus as a significant risk, which was one of the most significant assessed risks of material misstatement</p>	<p>We carried out the following work:</p> <ul style="list-style-type: none"> • worked with management to understand the implications the response to the Covid-19 pandemic has on the organisation's ability to prepare the financial statements and update financial forecasts and assess the implications on our audit approach • liaised with other audit suppliers, regulators and government departments to co-ordinate practical cross sector responses to issues as and when they arise • evaluated the adequacy of the disclosures in the financial statements in light of the Covid-19 pandemic • evaluated whether sufficient audit evidence using alternative approaches could be obtained for the purposes of our audit whilst working remotely • evaluated whether sufficient audit evidence could be obtained to corroborate significant management estimates such as asset valuations and recovery of receivable balances • evaluated management's assumptions that underpin the revised financial forecasts and the impact on management's going concern assessment • discussed with management any potential implications for our audit report if we have been unable to obtain sufficient audit evidence 	<p>The audit was more challenging for both us and the finance team due to this remote working. There are material uncertainties in the valuation of land and buildings as a result of the pandemic which are referred to on page 9 and an increased risk of material estimation uncertainty in the net pension liability. There is also a significant negative impact on the Council's financial sustainability which we refer to in more detail later in the value for money section.</p>

Audit of the Accounts

Significant Audit Risks (continued)

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Valuation of land and buildings</p> <p>The Council re-values its land and buildings on a rolling five year programme to ensure that the carrying value is not materially different from fair value. It also carries out a desk top exercise each year to ensure that those assets not revalued in that year are not materially misstated. This represents a significant estimate by management in the financial statements due to its size as land and buildings form around 75% of the Authority's assets.</p> <p>We identified the valuation of land and buildings valuations as a risk requiring special audit consideration.</p>	<p>Our audit work included, but was not restricted to:</p> <ul style="list-style-type: none"> • assessing management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work; • evaluating the competence, capabilities and objectivity of the Council's management experts; • assessing and challenging the information used by the valuer to obtain sufficient assurance that ensure it was robust and consistent with our understanding; • testing revaluations and ensuring they are input correctly into the Council's asset register • discussing with the valuer the basis on which the valuation was carried out, including challenging the key assumptions used; and • evaluating the assumptions made by management for those assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value. 	<p>Housing stock and other land and buildings were re-valued as at the 31 December 2019, as an estimate of the valuation as at the 31 March 2020. We challenged how management have obtained assurance that the valuation is appropriate for the 31 March 2020. We are satisfied that management has obtained this assurance.</p> <p>Our audit report will include an Emphasis of Matter paragraph, highlighting asset valuation material uncertainties in relation to the Covid-19 pandemic. The Council stated in its accounts that its valuer considers there is a material uncertainty in relation to other land and buildings valuations as at 31 March 2020. As a result our audit report included an Emphasis of Matter paragraph, highlighting material uncertainties in the value of property assets held.</p> <p>We noted that the Council does not have a formal engagement letter with its housing stock valuer Savills. It is a Code requirement that a formal letter of engagement is issued with specifies the scope of the valuer's work.</p> <p>We identified that houses built for sale were incorrectly classified as assets under construction instead of inventories and this has been corrected.</p> <p>More importantly we have identified significant errors in the valuation of Property Plant and Equipment mainly due to the use of incorrect floor areas in the calculations. The Council has revised its accounts to correct these.</p>

Audit of the Accounts

Significant Audit Risks (continued)

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Valuation of pension fund net liability</p> <p>The Council's pension fund net liability, as reflected in its balance sheet, is a significant estimate in the financial statements. The net liability accounts for a significant amount of the Council's liabilities.</p> <p>We therefore identified the valuation of the pension fund net liability as a risk requiring special audit consideration.</p>	<p>Our audit work included, but was not restricted to:</p> <ul style="list-style-type: none"> gaining an understanding of the processes and the controls put in place by management to ensure that the net pension fund liability was not materially misstated and evaluating the design of the associated controls; evaluating the competence, capabilities and objectivity of the Council's actuary who carried out the pension fund valuation; gaining an understanding of the basis on which the valuation was carried out, including evaluating the reasonableness of the significant assumptions used by management and their actuary; confirming the consistency of the pension fund gross asset and gross liability figures and associated disclosures in the notes to the financial statements with the actuarial report from the actuary; obtaining and evaluating the results of work performed by the Pension Fund's external auditor which was of relevance to the valuation of the net pension liability; and performing analytical procedures in respect of the gross pension fund assets and liabilities. 	<p>We were satisfied with management's evaluation of the impact of the Government's restitution proposals re McCloud and the potential impact of the Goodwin case and that this will not have a material impact on the net pensions liability shown in your balance sheet statement.</p> <p>Our audit report included an Emphasis of Matter paragraph, highlighting material uncertainties in the value of property assets held by West Midlands Pension Fund due to the Covid-19 pandemic.</p>

Audit of the Accounts

Significant Audit Risks (continued)

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Management override of controls</p> <p>Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities.</p> <p>We identified management override of controls as a risk requiring special audit consideration.</p>	<p>Our audit work included:</p> <ul style="list-style-type: none">• gaining an understanding of the accounting estimates, judgements applied and decisions made by management and considering their reasonableness• obtaining a full listing of journal entries, identifying and testing unusual journal entries for appropriateness• evaluating the rationale for any changes in accounting policies or significant unusual transactions.	<p>Our audit work did not identify any evidence of management over-ride of controls. In particular the findings of our review of journal controls and testing of journal entries has not identified any significant issues.</p>

Going concern

Our responsibility

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

It has been a challenging year due to the Covid-19 pandemic which has seen the administration of grants to businesses, closure of schools and car parks with additional challenges of reopening services under new government guidelines and the need to free up capacity of teams in addition to normal responsibilities. The Council is facing significant challenges and has reported a deficit position for 2019/20. Given the sensitive nature of these disclosures, we identified this as an area of focus in our audit.

Going concern commentary

Auditor commentary

Management's assessment process

The Council approved a budget for the financial year 2020/21, and updated the Medium Term Financial Strategy (MTFS), which sets out spending and resources for three years ahead. The Director of Finance and Legal Services (as s151 Officer) has reported (under Section 25 of the Local Government Act 2003) that the budget proposals are based on robust estimates, and that the level of reserves is adequate for 2020/21. He has recently re-assessed the medium term financial position in light of the Pandemic and other factors which demonstrated significant additional pressures in 2021/22 and beyond. The Council do not consider that there will be any liquidity issues in this assessment period despite the significant risks to setting a legal budget in 2021/22 without additional funding or delivery of savings.

ISA (UK) 570 requires the auditor to evaluate management's assessment of the entity's ability to continue as a going concern for at least 12 months from the date of the accounts.

The Council's arrangements to set a budget, taking into account its key funding sources and expenditure requirements are appropriate. Management's assessment is comprehensive and does not include assumptions on additional government funding where funding is expected not yet known. It takes into account the impact of Covid-19 which has significantly affected the financial outlook. The Council consider themselves a going concern as they will continue to provide services according to the public sector presumption and they do not consider there to be any material uncertainties.

Work performed

We reviewed the 2020/21 budget and updated MTFS as part of our Value for Money Conclusion work. We considered the key variables in the MTFS and the financial risks the Council is managing and considered management's recent updated view on the financial position due to the Covid-19 pandemic. We also considered the most recent management assessment and reviewed the underlying cash flow forecasts.

We reviewed the Council's going concern disclosure in the accounts and suggested changes which were agreed and made (in the significant assumptions section).

We did not identify any material uncertainties relating to going concern up to the end of December 2021.

Our review of the assertions made did not identify any further risk issues. We are not aware of any events or conditions that we are aware of that cast significant doubt on the Council's ability to continue as a going concern for 12 months from our proposed opinion date.

Concluding comments

There is no impact on our audit opinion from our management's going concern assessment.

We are satisfied that there are no events or conditions identified in the course of the audit that cast significant doubt on the Council's ability to continue as a going concern.

We have noted as part of our review of the MTFS that the forecast position to the end of 2021/22 includes significant pressures and risks. The outlook is challenging and requires the Council to deliver further savings and increase its income.

Audit of the Accounts

Audit opinion

We gave an unqualified opinion on the Council's financial statements on 18 December 2020.

Preparation of the accounts

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

Issues arising from the audit of the accounts

We reported the key issues from our audit to date to the Council's Audit and Standards Committee on 21 September 2020. We updated our Audit Findings Report on 18 December and it was circulated to Members of the Audit and Standards Committee.

There were significant issues with the supporting information for the Council's land and buildings valuation. These issues both delayed the completion of the audit and required additional audit work. We obtained sufficient audit assurance, but concluded that there are weaknesses in the Council's arrangements to value its land and buildings.

We identified two adjustments to the financial statements that resulted in changes to the Statement of Comprehensive Income and Expenditure and Balance Sheet. These did not impact on useable reserves. We also identified some disclosure changes that were included in the final version of the financial statements.

We are aware that subsequent to the balance sheet date, the Covid-19 pandemic and continued related Government restrictions on travel have had a significant impact on Birmingham Airport Holdings Limited's (BAHL) trading. BAHL forecasts to retain a satisfactory cash balance, but will not comply with the June 2021 covenants relating to the financing arrangements, unless passenger volumes and revenues recover quickly. BAHL shareholders, including the seven West Midlands Local Authorities collectively, have stated their intention to engage in further discussion should tangible support be required. Such corrective action could have a significant impact on the valuation of the Authority's investment in BAHL.

All of the seven West Midlands Local Authorities including Dudley Metropolitan Borough Council are reporting this as a non-adjusting event after the balance sheet date in their 2019/20 financial statements.

Annual Governance Statement and Narrative Report

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

The narrative report was prepared in line with the CIPFA Code and relevant supporting guidance. Following amendments to the Annual Governance Statement we also concluded that this conformed to guidance. We confirmed that both documents were consistent with the financial statements prepared by the Council and with our knowledge of the Council.

Whole of Government Accounts (WGA)

We carried out work on the Council's Data Collection Tool in line with instructions provided by the NAO. At the time of drafting this letter our work on the assurance statement was not yet complete.

Certificate of closure of the audit

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

We will issue our certificate of audit completion following the finalisation of our work on the Council's WGA Data Collection Tool.

Value for Money conclusion

Background

We carried out our review in accordance with the NAO Code of Audit Practice, following the guidance issued by the NAO in November 2017 which specified the criterion for auditors to evaluate:

In all significant respects, the audited body takes properly informed decisions and deploys resources to achieve planned and sustainable outcomes for taxpayers and local people.

Key findings

Our first step in carrying out our work was to perform a risk assessment and identify the key risks where we concentrated our work. In arriving at our conclusion, our main considerations were the Council's medium term financial strategy and children's services.

Given the challenges the Council faces we have considered carefully whether it had appropriate arrangements in place to plan its finances effectively to support the sustainable delivery of strategic priorities and maintain statutory functions. We specifically considered the:

- Adequacy of savings plans in place
- Increases in unfunded spending
- The reducing level of reserves.

We concluded that there are weaknesses in the Council's strategic financial planning, in particular the arrangements for ensure that a sufficient level of reserves is maintained to sustain the Authority's financial resilience.

We also considered how the Council is responding to Ofsted's findings that there is an urgent need to improve Children's services. We specifically considered the:

- Council's action plan and how this is being monitored
- Service leadership arrangements in place.

We concluded that the Council does have proper arrangements in place to respond to Ofsted but noted that in our view ensuring that there is effective substantive service leadership is essential to delivering the agreed action plan.

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

The key risks we identified and the work we performed are set out overleaf.

Overall Value for Money conclusion

Based on the work we performed to address the significant risks, we are satisfied that the Council had proper arrangements for securing economy, efficiency and effectiveness in its use of resources except for its arrangements for sustainable resource deployment. We are proposing to issue an "except for" qualified value for money conclusion.

Value for Money conclusion

Risks identified in our audit plan and how we responded	Findings	Conclusions
<p>Children’s services</p> <p>In January 2020 Ofsted issued a follow up letter to the Council following a focussed visit in December 2019 reviewing the Council’s children’s services. Inspectors had evaluated the local authority’s arrangements for assessments, decision-making and next steps, following assessments of children in need and children for whom there are safeguarding concerns. The letter confirmed the Council’s own assessment that the quality of social work practice in this area has deteriorated since the last inspection. This followed a critical review by Ofsted of the effectiveness of the local area in relation to services for children and young people with special educational needs and/or disabilities (SEND) was communicated to the Council in July 2019. The local area was required to produce and submit a Written Statement of Action to Ofsted to explain how the local area will tackle identified areas of significant weakness in services for children and young people with SEND. There is a risk that the Council is not responding appropriately to external reviews indicating that arrangements for children’s services need to significantly improve in some areas.</p> <p>Our response</p> <p>We reviewed at a high level how the Council is responding to recent Ofsted findings indicating an urgent need to improve children’s services</p>	<p>Ofsted carried out a full inspection of Children’s Social Care Services in October and November 2018. The overall assessment score given by Ofsted was “requires improvement to be good”. Ofsted reported that the Council had made significant progress since its last full inspection in 2016.</p> <p>Following this inspection, the Council moved from formal DfE intervention, to a 12 -month period of support and supervision, where the DfE continued to maintain a presence within Dudley, whilst providing support through the Partners in Practice (PIP) and Improvement Partners resources. In addition there were significant changes within Dudley’s Corporate Leadership Team.</p> <p>Ofsted visited the Council and CCG in May 2019 and reported in July 2019 on its joint local SEND inspection. As well as noting good practice they also raised significant concerns about the effectiveness of the local area in relation to SEND and highlighted several issues which they required to be addressed in a formal written statement of action.</p> <p>In December 2019 Ofsted completed a “focussed Visit” looking at the Council’s Assessment Service. The outcome letter reported that “Senior leaders acknowledge that the quality of social work practice has deteriorated since the last inspection”.</p> <p>The Council’s improvement plan is being closely monitored with a full time project manager in place. The improvement Board monitors the plans delivery and has broad representation from all interested stakeholders including members and officers and has an independent Chair.</p>	<p>We reviewed Ofsted’s monitoring letters as well as discussing the issues contained within the reports with senior Officers. We reviewed the Council’s action plan and how this is being monitored. We took these into account in forming our conclusion.</p> <p>We considered the service leadership arrangements in place and noted that there are interim arrangements in place for Safeguarding, Children in Care and Families and that the interim Director and her two interim deputies left in May 2020. In our view, ensuring that there is effective substantive service leadership is essential to delivering the agreed action plan.</p> <p>We have concluded that, notwithstanding the significant areas highlighted by Ofsted for further improvement in children’s services and its leadership, the Council has proper arrangements for understanding and using appropriate and reliable financial and performance information including, where relevant, information from regulatory/monitoring bodies to support informed decision making and performance management.</p>

Value for Money conclusion (continued)

Risks identified in our audit plan and how we responded	Findings	Conclusions
<p>Medium Term Financial Strategy</p> <p>Risk identified in our audit plan</p> <p>The October 2019 update for Cabinet of the Medium Term Financial Strategy (MTFS) shows that at the end of the 2021/22 financial year, the General Fund reserve will reduce to £14.5 million.</p> <p>The Council needs to demonstrate that it has a medium term financial plan that will deliver a balanced and sustainable financial position in an environment of reduced funding.</p> <p>Our response</p> <p>We reviewed the assumptions built into the MTFS to ensure that they are reasonable.</p>	<p>The Council's 2019/20 outturn position was an overspend of £1.9 million after the use of earmarked reserves against the original budget resulting in a larger decrease in the General Fund working balance than expected (a decrease of £6.9 million to £15.7 million at 31 March 2020).</p> <p>The Medium Term Financial Strategy was regularly updated throughout the year, in line with the annual planning process. Up until February 2020, the Council's medium term financial outlook had been improving over the previous 12 months. Although there were significant risks in relation to the financial position these were consistently and clearly communicated to Members by the Director of Finance and Legal. At the time of setting the budget, the Council agreed a strategy to prevent its forecast General Fund reserves reducing to unacceptably low levels at the end of three year medium term plan.</p> <p>However with the onset of the Covid-19 Pandemic, the Council's financial outlook deteriorated significantly due to forecast reductions in income, increases in expenditure and uncertainty over the level and duration of central government support. The Council's comparatively low levels of reserves meant that it had limited capacity to fund any shortfalls from existing resources.</p> <p>The Council updated its medium term financial plan for the December 2020 Cabinet to reflect the Government's November 2020 Comprehensive Spending Review announcement. Several additional funding streams were announced which significantly benefited the Council's forecast financial position. The Council is now forecasting a significantly improved outturn for 2020/21 with a £6.0 million surplus. The revised medium term financial plan is however forecasting a further deterioration in General Fund unearmarked balances to £11.9m by 31 March 2024.</p> <p>To date corporate initiatives designed to save money have either not delivered savings or, where savings have been achieved, these have not been sufficient to eliminate the underlying deficit. Savings plans in the revised medium term financial plan are not sufficient to maintain General Fund balances at their current levels.</p> <p>The main source of the Council's revenue is local taxation. The Council has a comparatively low level of Council Tax. It is currently the lowest of the West Midlands Metropolitan Districts, and the second lowest of all Metropolitan District Councils. As we reported last year the level of Council Tax is a matter for the Council, it needs to consider carefully whether its major source of income is sufficient to maintain financial sustainability in both the short and medium term.</p>	<p>There are continuing risks that threaten the Council's medium term financial stability.</p> <p>We have considered whether there are appropriate arrangements in place to plan finances effectively to support the sustainable delivery of strategic priorities and maintain statutory functions. We have specifically considered:</p> <ul style="list-style-type: none"> • savings planning; • increases in unfunded spending; and • The forecast level of General Fund balances to the end of 2022/23. <p>We are satisfied that the Director of Finance and Legal has made a realistic assessment of the financial challenge based on current knowledge of future funding.</p> <p>The continued use of balances to close the financial gap is not a realistic option.</p> <p>We have concluded that the arrangements in place are not sufficient to demonstrate the Council is delivering the level of savings required to ensure it can continue to deliver its strategic priorities, its statutory functions and maintain its financial stability in the medium term.</p> <p>This matter is therefore evidence of weaknesses in proper arrangements for planning finances effectively to support the sustainable delivery of strategic priorities and maintain statutory functions. We therefore propose qualifying our Value for Money Conclusion on a 'except for' basis and are considering whether further audit action is appropriate.</p>

A. Reports issued and fees

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

Reports issued

Report	Date issued
Audit Plan and Plan Addendum	February 2020 (Addendum issued April 2020)
Audit Findings Report	August and updated December 2020
Annual Audit Letter	January 2021

Fees

	Planned £	Actual fees £
Statutory audit	124,246	157,246
Total fees	124,246	157,246

Audit fee variation

As outlined in our audit plan, the planned fee of £124,246 assumes that the scope of the audit does not significantly change. There are a number of areas where the scope of the audit has changed, which has led to additional work. These are set out in the following table. The fee variations are subject to PSAA approval.

Area	Reason	Fee proposed
Effect of Covid 19 pandemic	Additional time input due to revisiting planning, reviewing managements estimates and assumptions at a time of heightened uncertainty, reviewing changes in financial resilience and the impact of remote working for both finance and audit teams.	18,637
Additional fee re PPE work	Additional work was necessary due to errors and inconsistencies identified in the valuation of buildings due to incorrect floor measurements and properties not still in use.	14,363
Total		33,000

A. Reports issued and fees continued

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

Fees for non-audit services

Service	Fees £
Audit related services:	
Housing capital receipts 2018/19	3,500
Housing benefits 2018/19	16,000
Teachers pensions return 2018/19	5,900
Non-Audit related services	
- None	

Non- audit services

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

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



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