

The Audit Findings for Dudley Metropolitan Borough Council

Year ended 31 March 2020

21 September 2020



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The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed for the purpose of expressing our opinion on the financial statements. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose all defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify. 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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Headlines

This table summarises the key issues arising from the statutory audit of Dudley Metropolitan Borough Council ('the Council') and the preparation of the Council's financial statements for the year ended 31 March 2020 for those charged with governance.

Covid-19

The outbreak of the Covid-19 coronavirus pandemic has had a significant impact on the normal operations of the Council. Authorities are 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, closure of schools and leisure centres alongside the additional challenges of reopening services under new government guidelines. Finance staff have had to work at home.

We have considered emerging guidance issued by the Financial Reporting Council and actively contributed to audit firm and NAO technical meetings where the impact of the virus on the financial reporting disclosures and audit approach has been discussed.

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 'Info', our document management sharing system.

We updated our audit risk assessment to consider the impact of the pandemic on our audit and issued an audit plan addendum on 9 April 2020. In that addendum we reported an additional financial statement risk in respect of Covid -19 and highlighted the impact on our VfM approach. Further detail is set out on page 11.

Financial Statements

Under the International Standards of Auditing (UK) (ISAs), we are required to report whether, in our opinion:

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

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

Our audit work was carried out between June and August and is substantially complete (see page 5 for further details). The accounts were prepared to a good standard together with appropriate working papers available from the start of the audit. We have identified an adjustment to the financial statements that have resulted in a change to balance sheet classification. This therefore had no impact on net expenditure or on useable reserves. Audit adjustments are detailed in Appendix C. Our follow up of recommendations from the prior year's audit are detailed in Appendix B.

At the time of drafting the report our audit work was still in progress and we had issues to clear most notably on the airport and pensions valuations such as the receipt of a IAS19 report from the Pensions Fund auditor. Subject to outstanding queries being resolved, we anticipate issuing an unqualified audit opinion following the Audit and Standards Committee meeting on 21 September 2020 and clearance of outstanding issues. We propose that our audit report will include an Emphasis of Matter paragraph, highlighting the material uncertainties in asset valuations stated in your accounts due to the Covid-19 pandemic. This will draw attention to this issue and is not a qualification of our audit opinion.

We have concluded that the other information published with the financial statements, which includes the Statement of Accounts, Annual Governance Statement and Narrative Report, are consistent with our knowledge of your organisation and with the financial statements we have audited.

Headlines (continued)

Statutory duties

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

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

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

We have completed the majority of work under the Code and expect to be able to certify the completion of the audit when we give our audit opinion.

Value for Money arrangements

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

- the Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources ('the value for money (VFM) conclusion')

We identified two value for money risks; financial sustainability and delivery of Children's services and have completed our risk based review of the Council's value for money arrangements. We have updated our VfM risk assessment to document our understanding of your arrangements to ensure critical business continuity in the current environment. We have not identified any new VfM risks in relation to Covid19.

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 rapidly reducing level of reserves.

We concluded that the arrangements in place are not sufficient to demonstrate that the Council's finances are sustainable after 2020/21.

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: because of the significance of matters we have identified in respect of financial sustainability, the Council did not have proper arrangements in all significant respects. We therefore propose to give a qualified 'adverse' conclusion on your arrangements for securing economy, efficiency and effectiveness in your use of resources. This opinion is subject to a peer review which has yet to take place.

Acknowledgements

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

Status of the audit

Our work is still underway as at the time of writing and the outstanding matters are detailed below.

Valuation of land and buildings

- Information from the Council's valuers to support the basis of valuation for other land and buildings including floor areas and build cost indices, recent sales information and explanations for the obsolescence factors used.
- Workings to support conclusion on the potential estimation uncertainty from land and buildings not revalued
- Consideration of risk of material uncertainty in land and buildings valuations due to the impact of the pandemic

Valuation of pension fund net liability

- Assurance from the West Midlands Pension Fund auditor
- Explanation from the actuary for the assessment of the £79.96m 'experience' adjustment
- Assessment of the potential impact of the McCloud and Goodwin case on the valuation of the net pension liability

Valuation of Birmingham Airport investment

- Receipt of our expert view on the valuation of the Airport investment and consideration of the risk of material estimation uncertainty.

Audit Completion

- Peer review of accounts, proposed audit opinion and value for money conclusion
- Receipt and completion of audit review of the Whole of Government Accounts return
- Receipt of management representation letter
- Review of the final set of amended financial statements
- Updating our post balance sheet events review, to the date of signing the opinion
- Final version of the Annual Governance Statement
- Receipt and consideration of our expert's consideration of the airport valuation.

Status

- Likely to result in material adjustment or significant change to disclosures within the financial statements
- Potential to result in material adjustment or significant change to disclosures within the financial statements
- Not considered likely to result in material adjustment or change to disclosures within the financial statements

Summary

Overview of the scope of our audit

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

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

Audit approach

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

- An evaluation of the Council's internal controls environment including its IT systems and controls; and

- Substantive testing on significant transactions and material account balances, including the procedures outlined in this report in relation to the key audit risks

Conclusion

We have substantially completed our audit of your financial statements and subject to outstanding queries detailed on page 5 being resolved, we anticipate issuing an unqualified audit opinion.

Our approach to materiality

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law.

Materiality calculations are slightly lower than reported in our audit plan. We detail in the table below our assessment of materiality for the Council.

	Amount	Qualitative factors considered
Materiality for the financial statements	£10.25m	We determined materiality for the audit of the Council's financial statements as a whole to be £10.25m, which is 1.5% of the Council's gross operating expenses in 2019/20 after discounting the effect of the revaluations of land and buildings. Materiality has been reduced from the level set out in the audit plan which was £10.7m.
Performance materiality	£7.6m	We used a lower level of materiality, to determine the extent of our testing. We set this at 75% of financial statement materiality.
Trivial matters	£513k	We determined the threshold at which we would communicate misstatements to the Audit and Standards Committee at £513,000 (5% of financial statement materiality)
Materiality for specific transactions, balances or disclosures	£100k	We have set a lower level of materiality for senior manager remuneration disclosures because we believe these disclosures are of specific interest to the reader of the accounts.

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. Despite forecasting an improved position in 2020/21, it is expected that there are significant risks to the Council setting a legal budget in 2021/22 due to the Council’s low level of useable reserves. Given the sensitive nature of these disclosures, we have identified this as an area of focus in our audit.

Going concern 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 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.

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).

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.

Auditor commentary

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.

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

Our review of the assertions made and 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.

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.

Significant audit risks

Risks identified in our Audit Plan

Commentary

1

Improper revenue recognition

Under ISA 240 (UK) there is a presumed risk that revenue may be misstated due to the improper recognition of revenue.

Auditor commentary

Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the Council, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:

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

Therefore we do not consider this to be a significant risk for the Council.

2

Management override of controls

Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. We identified management override of controls as a risk requiring special audit consideration.

Auditor commentary

Our audit work included:

- gaining an understanding of the accounting estimates, judgements applied and decisions made by management and consider their reasonableness
- obtaining a full listing of journal entries, identify and tested unusual journal entries for appropriateness
- evaluating the rationale for any changes in accounting policies or significant unusual transactions.

Our audit work has not identified 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.

We set out later in this section of the report our work and findings on key accounting estimates and judgements.

Significant audit risks

Risks identified in our Audit Plan

3

Valuation of land and buildings

The Council revalues 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.

We identified the valuation of land and buildings valuations as a risk requiring special audit consideration.

Commentary

Auditor commentary

Our audit work included, but was not restricted to:

- 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.

The Council's accounting policy on land and buildings PPE valuations is shown in note 33 to the financial statements and related disclosures are included in note 17.

Housing stock and other land and buildings have been valued as at the 31 December 2019, as an estimate of the valuation as at the 31st March 2020. We challenged how management have obtained assurance that the valuation is appropriate for the 31st March 2020. We are satisfied that management has obtained this assurance.

Our audit report will include an Emphasis of Matter paragraph, highlighting asset valuation material uncertainties in relation to the Covid-19 pandemic. We understand the Council is intending to state 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.

We noted that the Council does not have a formal engagement letter with its housing stock valuer Savills. It is a Coder requirement that a formal letter of engagement is issued with specifies the scope of the valuer's work.

We identified that houses built for sale were incorrectly classified as assets under construction instead of inventories and this has been corrected. Please see page 28 for more detail.

Our work in this area is currently not fully complete as we are awaiting information from the Council's valuer.

Significant audit risks

Risks identified in our Audit Plan

Auditor commentary

4

Valuation of pension fund net liability

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.

We therefore identified the valuation of the pension fund net liability as a risk requiring special audit consideration.

Our audit work included, but was not restricted to:

- 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.

The Council's accounting policy on the valuation of the net pension fund liability is shown in note 33 to the financial statements and related disclosures are included in note 28.

We have not identified any significant issues to date. We are currently awaiting an evaluation of the impact of the Government's restitution proposals re McCloud and the potential impact of the Goodwin case. We also have not yet received the IAS19 assurance letter from the Pension Fund auditor, which may require us to carry out further audit testing. We are waiting for a response from the Pension Fund Actuary regarding the £79.96m "experience" item in the IAS19 valuation.

Significant audit risks

Risks identified in our Audit Plan

4

Covid-19 pandemic

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:

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.

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

Auditor commentary

We carried out the following work

- 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 can be obtained for the purposes of our audit whilst working remotely
- Evaluated whether sufficient audit evidence can 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

Conclusion

The audit has been 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.

Estimates and judgements—review of issues raised in prior year

Issue and risk previously communicated

Estimates and judgements -PFI (Paragon Schools) disclosure

The Council is required to disclose the future unitary payments (split into service charges, repayment of Liability, and finance costs) for the life of the schemes. For the Paragon Schools disclosure we identified differences between the model used by the Council and our own model.



The differences were across the split of the unitary payment (service charge, liability and finance costs). Overall there was a trivial impact on the total future unitary payments disclosed.

Update on actions taken to address the issue





Pages 106 to 108 of the 2019/20 draft financial statements contains the required disclosure. As in previous years differences were noted, across the split of the unitary payment, between the model used by the Council and our own model. These differences are set out in the table below and overall there is a trivial impact on the total future unitary payments disclosed. Officers consider that their model is appropriate and have not adjusted for this.

	Service Charge £000	Finance costs £000	Repayment of Liability £000	Unitary payment £000
Within 1 year	-349	315	-86	120
2-5 years	-2,155	1,099	365	648
6-10 years	-3,202	824	994	980
11-15 years	-1,189	50	-1,069	236
Total	-6,896	2,288	204	1,984

Significant findings – key judgements and estimates

Accounting area	Summary of management's policy	Audit Comments	Assessment
Provisions for NNDR appeals - £18m	The Council are responsible for repaying a proportion of successful rateable value appeals. Management's calculation is based upon the latest information about outstanding rates appeals provided by the Valuation Office Agency (VOA) and previous success rates.	The Council has made a provision for the Business Rate appeals that have been received but not settled at year end and an assessment of potential appeals. The Council's estimate is based on the likelihood of various types of claims having to be settled and the estimated value of the settlement. The Council's provision follows a similar basis to the previous year and overall we are satisfied with the approach taken and that the provision is not materially misstated.	 Green
Land and Buildings – Council Housing - £925m	The Council owns 21,517 dwellings and is required to revalue these properties in accordance with MHCLG's Stock Valuation for Resource Accounting guidance. The guidance requires the use of beacon methodology, in which a detailed valuation of representative property types is then applied to similar properties. The Council has engaged its own in-house valuer to complete the valuation of these properties. The year end valuation of Council Housing was £925m in the draft accounts, a net increase from the 2018/19 balance of £916m.	The draft accounts initially contained a valuation as at 31 December 2019. We have challenged the basis for this valuation and whether it meets the Code requirements. There are no significant issues to report.	 Green


Assessment






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

Significant findings – key judgements and estimates

	Summary of management's policy	Audit Comments	Assessment
Land and Buildings – Other - £353m	<p>Other land and buildings comprises specialised assets such as schools and libraries, which are required to be valued at depreciated replacement cost (DRC) at year end, reflecting the cost of a modern equivalent asset necessary to deliver the same service provision. The remainder of other land and buildings are not specialised in nature and are required to be valued at existing use in value (EUV) at year end. The Council has engaged its in-house valuer to complete the valuation of properties as at 31 March 2020 on a five yearly cyclical basis. The valuation of properties valued by the valuer has resulted in a net increase of almost £7m. Management has considered the year end value of non-valued properties and the potential valuation change in the assets revalued at 31 March 2020 to determine whether there has been a material change in the total value of these properties. Management's assessment of assets not revalued has identified no material change to the properties value.</p>	<p>We assessed management's expert as competent and concluded positively on the completeness and accuracy of the underlying information used to determine the estimate.</p> <p>At the time of drafting we are awaiting further information to enable us to conclude our work.</p> <p>Our audit report will include an Emphasis of Matter paragraph, highlighting asset valuation material uncertainties in relation to the Covid-19 pandemic.</p>	

Significant findings – key judgements and estimates

Summary of management's policy	Audit Comments	Assessment
<p>Net pension liability – £557m</p> <p>The Council's net pension liability in its draft accounts at 31 March 2020 is £557m (PY £537m) comprises the West Midlands Pension Fund Local Government and unfunded defined benefit pension scheme obligations. The Council uses Barnett Waddingham to provide actuarial valuations of the Council's assets and liabilities. A full actuarial valuation is required every three years. The latest full actuarial valuation was completed in 2019. A roll forward approach is used in intervening periods, which utilises key assumptions such as life expectancy, discount rates, salary growth and investment returns. Given the significant value of the net pension fund liability, small changes in assumptions can result in significant valuation movements.</p>	<p>PwC were engaged by the NAO as consulting actuary to undertake a central review of the actuaries used by the Local Government Pension Scheme (LGPS). They produce a report designed to provide support to auditors when assessing the competence and objectivity of, and assumptions and approach adopted by, actuaries producing IAS 19 figures in respect of the LGPS, Police and Fire schemes as at 31 March 2020.</p> <p>We use this report to inform our assessment of the valuation of the pension fund liability in the Authority's accounts. We have compared the assumptions used by the Authority's actuary against industry benchmarks. Based on the work performed we are able to conclude that management's assumptions overall are reasonable.</p>	<p> Green</p>

Assumption	Actuary Value	PwC range	Assessment
Discount rate	2.35%	Dependent on duration 2.35%	
Pension increase rate	CPI pension increase is 0.8% p.a below RPI i.e 1.9% p.a.	Dependent on duration (1.95% to 1.85%p.a, implying RPI- CPI gap of 0.85% to 0.8% p.a)	
Salary growth	Salary increase of 1%above CPI	Long term assumption of 1.00% p.a above CPI	
Life expectancy – Males currently aged 45 / 65	Males: 85-115% of S3PMA	The post retirement mortality tables adopted are the S3PA heavy tables with a multiplier of 85% for males	
Life expectancy – Females currently aged 45 / 65	Females: 95-115% of S3PFA	The post retirement mortality tables adopted are the S3PA heavy tables with a multiplier of 95% for females	

Significant findings – key judgements and estimates

Summary of management's policy	Audit Comments	Assessment
Net pension liability – £537m	<p>We have also reviewed the:</p> <ul style="list-style-type: none"> • Completeness and accuracy of the underlying information used to determine the estimate • Reasonableness of the Authority's share of LGPS pension assets. • Reasonableness of increase/decrease in estimate • Adequacy of disclosure of estimate in the financial statements <p>We have not identified any significant issues to date.</p> <p>We are currently awaiting an evaluation of the impact of the Government's restitution proposals re McCloud as well as the IAS19 letter from the Pension Fund auditor.</p>	

Assessment

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

Significant findings – key judgements and estimates

	Summary of management's policy	Audit Comments	Assessment
Valuation of investment in Birmingham Airport	<p>Valuation of investment in Birmingham Airport</p> <p>The Council holds shares in Birmingham Airport Holdings Limited (BAHL) and is required to record this investment in the accounts at fair value. As shares in this company are not traded frequently the Council has had to estimate the value of its investment. The Council has drafted an estimation approach in conjunction with other West Midlands Metropolitan Councils that also hold shares in BAHL</p>	<p>We assessed management's expert as competent to carry out the valuation. Due to the additional risks this year, we employed our own valuation expert to review their work. This work is not yet concluded.</p>	

Assessment

- We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- We consider management's process and key assumptions to be reasonable

Other communication requirements

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

	Issue	Commentary
1	Matters in relation to fraud	<ul style="list-style-type: none"> We have previously discussed the risk of fraud with the Audit and Standards Committee. We have not been made aware of any other incidents in the period and no other issues have been identified during the course of our audit procedures.
2	Matters in relation to related parties	<ul style="list-style-type: none"> We are not aware of any related parties or related party transactions which have not been disclosed but we do recommend that the Council review the related parties included in the accounts to see if they meet the definition in the Code of Practice of Local Authority Accounting.
3	Matters in relation to laws and regulations	<ul style="list-style-type: none"> You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work.
4	Written representations	<ul style="list-style-type: none"> A letter of representation has been requested from the Council, which is included in the Committee papers
5	Confirmation requests from third parties	<ul style="list-style-type: none"> We requested from management permission to send confirmation requests to third party banks and other financial institutions and a number of other local authorities. This permission was granted and the requests were sent. Of these requests all were returned with positive confirmations. There are a number of third party balances where it is more efficient to undertake alternative procedures, including long term debt with the PWLB where we received central notification of the balances and temporary borrowing where the cash had been repaid before the audit commenced.
6	Disclosures	<ul style="list-style-type: none"> Our review found no material omissions in the financial statements
7	Audit evidence and explanations	<ul style="list-style-type: none"> All information and explanations requested from management was provided
8	Significant difficulties	<ul style="list-style-type: none"> There were no significant difficulties in performing the audit

Other responsibilities under the Code

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

Issue	Commentary
<p>1 Other information</p>	<p>We are required to give an opinion on whether the other information published together with the audited financial statements (including the Statement of Accounts, Annual Governance Statement (AGS) and Narrative Report), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.</p> <p>No inconsistencies have been identified with the revised draft AGS and Narrative Report. We will review the final AGS when it is provided.</p>
<p>2 Matters on which we report by exception</p>	<p>We are required to report on a number of matters by exception in a number of areas:</p> <ul style="list-style-type: none"> • If the AGS does not meet the disclosure requirements set out in the CIPFA/SOLACE guidance or is misleading or inconsistent with the other information of which we are aware from our audit • If we have applied any of our statutory powers or duties <p>We have not applied any of our statutory powers or duties. Therefore we have nothing now to report on these matters.</p>
<p>3 Specified procedures for Whole of Government Accounts</p>	<p>We are required to carry out specified procedures (on behalf of the NAO) on the Whole of Government Accounts (WGA) consolidation pack under WGA group audit instructions.</p> <p>As the Council exceeds the specified group reporting threshold we examine and report on the consistency of the WGA consolidation pack with the Council's audited financial statements. This work is not yet complete and the planned timescale for the work is to complete this by the end of September.</p>
<p>4 Certification of the closure of the audit</p>	<p>We expect to be able to certify the completion of the 2019/20 audit of the Council in our auditor's report.</p>

Value for Money

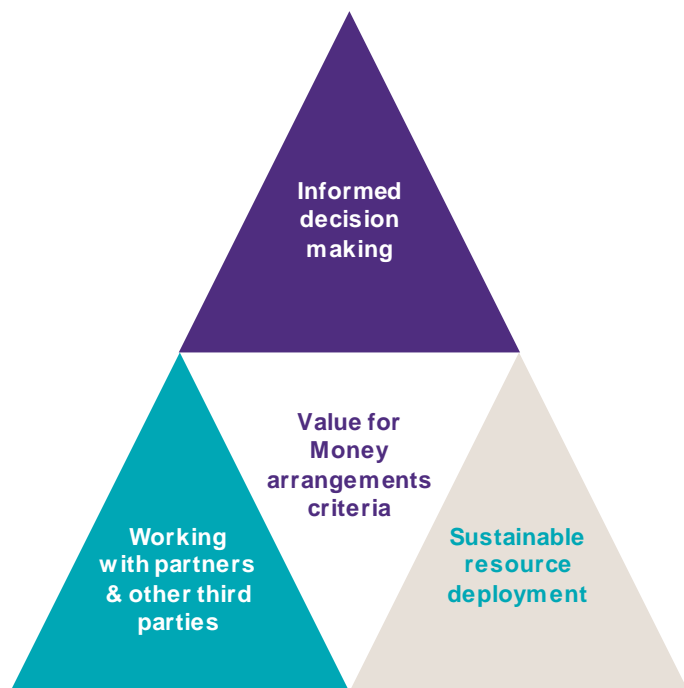
Background to our VFM approach

We are required to satisfy ourselves that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the Value for Money (VFM) conclusion.

We are required to carry out sufficient work to satisfy ourselves that proper arrangements are in place at the Council. In carrying out this work, we are required to follow the NAO's Auditor Guidance Note 3 (AGN 03) issued in November 2017. AGN 03 identifies one single 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."

This is supported by three sub-criteria, as set out below :



Risk assessment

We carried out an initial risk assessment in January 2019 and identified a number of significant risks in respect of specific areas of proper arrangements using the guidance contained in AGN03. We communicated these risks to you in our Audit Plan dated February 2020.

We have continued our review of relevant documents up to the date of giving our report, and have not identified any further significant risks where we need to perform further work.

We carried out further work only in respect of the significant risks we identified from our initial and ongoing risk assessment. Where our consideration of the significant risks determined that arrangements were not operating effectively, we have used the examples of proper arrangements from AGN 03 to explain the gaps in proper arrangements that we have reported in our VFM conclusion.

Value for Money

Our work

AGN 03 requires us to disclose our views on significant qualitative aspects of the Council's arrangements for delivering economy, efficiency and effectiveness.

We have focused our work on the significant risks that we identified in the Council's arrangements. In arriving at our conclusion, our main considerations were:

- Children's Services
- the Council's financial plans and financial sustainability

AGN 03 requires us to disclose our views on significant qualitative aspects of the Council's arrangements for delivering economy, efficiency and effectiveness.

We have focused our work on the two significant risks that we identified in the Council's arrangements. We have set out more detail on the risks we identified, the results of the work we performed and the conclusions we drew from this work on the following pages.

Overall conclusion

Based on the work we performed to address the significant risks, we are not satisfied that the Council had proper arrangements for securing economy, efficiency and effectiveness in its use of resources and are proposing an adverse qualified opinion. This proposed opinion is subject to a peer review.

Recommendations for improvement

We discussed findings arising from our work with management and have agreed recommendation for improvement as follows.

Our recommendations and management's response to these can be found in the Action Plan at Appendix A

Significant difficulties in undertaking our work

We did not identify any significant difficulties in undertaking our work on your arrangements which we wish to draw to your attention.

Significant matters discussed with management

There were no matters where no other evidence was available or matters of such significance to our conclusion or that we required written representation from management or those charged with governance.

Key findings

We set out below our key findings against the significant risks we identified through our initial risk assessment and further risks identified through our ongoing review of documents.

Significant risk	Findings	Auditor view
<p>1 Children's Services</p> <p>Risk identified in our audit plan</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" but two out of the three themes ("leadership" and "children in and leaving care") were assessed as "good". The "help and protection" theme was rated as "requires improvement". Ofsted reported that the Council had made significant progress since its last full inspection in 2016. 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. 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. Amongst issues raised were the needs of children and young people with SEND have not been accurately identified or moderated over time, the lack of a strategic approach to assessment, joint commissioning being underdeveloped and improvement strategies not being embedded. Since then the Council has provided OFSTED and DFE with an action plan to address this report which has been agreed with all interested local parties.</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>

Key findings

We set out below our key findings against the significant risks we identified through our initial risk assessment and further risks identified through our ongoing review of documents.

	Significant risk	Findings	Auditor view
1	OFSTED Inspection of children's Services (continued)	<p>The DfE have continued to monitor and provide additional support which included assistance from Essex: and more recently Improvement Partner Support through Bexley, who were asked to specifically undertake a review of the Fostering and Adoption service, due to emerging concerns in these areas.</p> <p>A Focussed Visit by Ofsted looking at the assessment service, together with assessments within the Disability Service took place in December 2019 and the outcome letter reported that "Senior leaders acknowledge that the quality of social work practice has deteriorated since the last inspection" and that "the new leadership team is very new, and actions taken and associated plans have not yet had an impact on services. As a result, there are significant vulnerabilities within the service, which mean that too many children do not have their needs assessed in a timely and effective way. Consequently, some children do not receive the right service to meet their needs when they need it, and they remain vulnerable for too long" It recognised that the timeliness and quality of assessments, including assessments of disabled children was a issue. The Interim Director of Children's Services produced a detailed diagnostic report around the same time which highlighted further weaknesses as well as strengths. All three reports highlighted the following issues</p> <ul style="list-style-type: none"> -Service Structure • Career Progression • Quality Assurance, Performance Management and Practice improvement • Service Support/Resources <p>The Council has pulled together a composite improvement plan which is being closely monitored. There is a full time project manager in place to do this. The improvement Board is the main governance arrangement in place with summaries provided to SMT, other members and Cabinet. The Board has broad representation from all interested stakeholders including members and officers and has an independent Chair.</p> <p>The Interim Director of Children's Services left the Council in July 2020 and this post is being filled on an acting basis. All but two of the Acting Director's nine-strong leadership team are currently not permanent. A recruitment process continues but given the challenges faced it is important to have effective and substantive leadership in place.</p>	

Key findings

We set out below our key findings against the significant risks we identified through our initial risk assessment and further risks identified through our ongoing review of documents.

	Significant risk	Findings	Auditor view
<p>2 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 will review 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). The main areas of overspend were Adult Social Care (£1.3m) and Children's Services (£2.1m). The Council's earmarked general fund reserves (excluding schools and Public Health) remained broadly stable due to the inclusion of a £9.4m reserve representing the unused balance of Covid-19 funding received before year end.</p> <p>The Council's Medium Term Financial Strategy was regularly updated throughout the year, in line with the annual planning process. The updates included expected and known changes to government funding arrangements, spending pressures and identified savings plans.</p> <p>Throughout this update process the Director of Finance and Legal has made realistic assessments of proposed savings plans and only included those where he has reasonable assurance that they will be delivered.</p> <p>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 since the onset of the Covid-19 Pandemic, the Council's financial outlook has deteriorated significantly due to forecast reductions in income, increases in expenditure and uncertainty over the level and duration of central government support. Although this is consistent with other councils, the Council's comparatively low levels of reserves means that it has limited capacity to fund any shortfalls from existing resources.</p> <p>The Council is now forecasting a surplus of £1m in 2020/21. There is though uncertainty about the level of government funding in future years but, given the impact of Collection Fund deficits carried forward from this year, likely ongoing shortfalls in tax income, other underlying budget pressures and low reserves, there is a risk of not being able to meet the statutory duty to set a balanced budget for 2020/21. These estimates are uncertain due to the unknown future pathway of the pandemic and the amount of any further additional central government funding. The Council is drawing up a savings programme to respond to this position.</p>	<p>There are continuing significant risks that threaten the Council's overall 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. The Council is at risk of not being able to meet its statutory duty to set a balanced budget for 2021/22.</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.</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 'adverse' basis and are considering whether further audit action is appropriate. This is subject to a peer review.</p>	

Key findings

We set out below our key findings against the significant risks we identified through our initial risk assessment and further risks identified through our ongoing review of documents.

Significant risk	Findings	Auditor view
<p>2 Medium Term Financial Strategy (continued)</p>	<p>The Council has been working for some time on a number of corporate initiatives designed to save money including property asset management, implementing a new digital customer service platform and commercialisation. To date these initiatives have either not delivered savings or, where savings have been achieved, these have not been sufficient to eliminate the underlying deficit.</p> <p>The Council has a very low level of spend per head compared to other Metropolitan District Councils and therefore it is challenging to deliver further savings from this already low base.</p> <p>There is also continuing uncertainty about Local Government funding when the current multi-year settlement ends. Outcomes for Fair Funding, the possibility of a business rates 're-set' and uncertainty about changes to Social Care funding all present risk to the Council's financial position that needs to be effectively managed. The Fair Funding review implementation has been postponed to 1 April 2023.</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>The Dedicated Schools Grant (DSG) non schools central balance at 31 March 2020 was in deficit by £5.5m and is not forecast to return to a surplus position in the short term. Within this balance, the high needs block is £7.7m in deficit. Forecasts for the deficit recovery plan are being revised in conjunction with the Schools Forum and the Council has reported that a longer term plan for recovery is anticipated to the Department for Education. The service is planned to overspend further in 2020/21. There is currently no agreed robust financial recovery plan in place and this needs to be agreed and implemented as a matter of priority.</p> <p>Setting the 2021/22 is a critical decision for the Council. Even if there is a significant increase in central government funding, which is uncertain, savings and Council Tax increases will be needed to ensure that a balanced budget can be set and delivered. Immediate priority needs to be given to identifying a realistic response to closing the financial gap. This will inevitably involve making hard decisions about the service level the Council can support.</p>	

Independence and ethics

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Financial Reporting Council's Ethical Standard and confirm that we, as a firm, and each covered person, are independent and are able to express an objective opinion on the financial statements

We confirm that we have implemented policies and procedures to meet the requirements of the Financial Reporting Council's Ethical Standard 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 December 2017 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

Details of fees charged are detailed in Appendix D

Audit and Non-audit services




For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council. The following non-audit services were identified which were charged from the beginning of the financial year to the current date as well as the threats to our independence and safeguards that have been applied to mitigate these threats.

	Fees £	Threats identified	Safeguards
Audit related			
Certification of Housing capital receipts grant 2019/20	3,500	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 £3,500 in comparison to the total fee for the audit and in particular relative to Grant Thornton UK LLPs 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.
Housing Benefits 2019/20	16,000	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £16,000 in comparison to the total fee for the audit and in particular relative to Grant Thornton UK LLPs 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.
Teachers Pensions Agency return	5,900	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 £5,900 in comparison to the total fee for the audit and in particular relative to Grant Thornton UK LLPs 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.




There are no non-audit related services. These services are consistent with the Council's policy on the allotment of non-audit work to your auditors. All services have been approved by the Audit and Standards Committee. None of the services provided are subject to contingent fees.

Action plan



We have identified recommendations for the Council as a result of issues identified during the course of our audit. We have agreed our recommendations with management and we will report on progress on these recommendations during the course of the 2019/20 audit. The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

Assessment	Issue and recommendation	Management response
1	<p> Value for money – Financial Sustainability</p> <p>The continued use of balances to close the financial gap is not a realistic option. The Council is at risk of not being able to meet its statutory duty to set a balanced budget for 2021/22.</p> <p>The Council needs to give urgent consideration as to what action it needs to take to ensure it is in sustainable financial position for 2020/21 and beyond.</p>	<p>Officers are developing options for savings to address the potential shortfalls that the Council faces from next financial year. Given the Council's existing low tax and low spend and its experience with delivery of savings from transformation and commercialisation, these are likely to have to be challenging options that impact on service delivery. They will be considered by Cabinet later in the Autumn. At the same time officers have been engaging with officials at the Ministry of Housing, Communities and Local Government (MHCLG) to highlight our specific circumstances and need for support. Officers have also contributed to a West Midlands Combined Authority response to the Government's Comprehensive Spending Review.</p>
2	<p> Value for money –</p> <p>The Dedicated Schools Grant (DSG) non schools central balance at 31 March 2020 was in deficit by £5.5m and is not forecast to return to a surplus position in the short-term.</p> <p>There is currently no agreed robust financial recovery plan in place and this needs to be agreed and implemented as a matter of priority.</p>	<p>Officers are working closely with schools to develop options that result in positive outcomes for children and also address the budget deficit. Early modelling of the 21/22 financial settlement indicates that there could be several million pounds additional funding within the High Needs Block but, robust management action will still be required.</p>
3	<p> Value for money – Children's Services</p> <p>There are interim arrangements in place for Safeguarding, Children in Care, SEND, Education Outcomes, Family Solutions and at Director and Assistant Director level in Children's Services. In our view, ensuring that there is effective substantive service leadership is essential to delivering the agreed action plan.</p> <p>The Council needs to ensure that priority to putting substantive leadership of Children's services in place.</p>	<p>The Council recognises the importance of recruiting substantive leadership for Children's Services as soon as possible while ensuring that the process is robust and the best possible team is put in place. The recruitment process for the Director was initially unsuccessful and the process has been extended. Recruitment to further posts in the structure will follow as soon as a Director has been recruited.</p>




Controls

-  High – Significant effect on control system
-  Medium – Effect on control system
-  Low – Best practice

Action plan (continued)



Assessment	Issue and recommendation	Management response
4.	 <p>Accounts – valuation of Property Plant and Equipment Ensure that the Council's valuers provides workings to support valuations carried out in the year and an assessment of the potential impact of those assets not valued at the start of the audit. The valuer should also be on hand to respond promptly and appropriately to queries from the Finance team and auditors</p>	<p>The Accountancy team will work closely with the valuers in 2020/21 and ensure all evidence necessary for the audit is maintained at every stage of the valuations process. We will ensure the valuer is available to liaise directly with the auditors where necessary in future. We plan to complete more valuations work before the interim audits in future so the work completed can be audited earlier.</p>
5	 <p>Accounts – valuation of Property Plant and Equipment The Council should have a formal engagement letter with its housing stock valuer Savills</p>	<p>Agreed</p>

Controls




-  High – Significant effect on control system
-  Medium – Effect on control system
-  Low – Best practice

Follow up on previous year's action plan

We identified the following issues in the audit of the Council's 2017/18 financial statements, which resulted in four recommendations being reported in our 2017/18 Audit Findings report. We have followed up management's response and the results are shown below.

Assessment	Issue and recommendation	Update on actions to address
1	 <p>Accounts – valuation of Property Plant and Equipment Management need to ensure that the carrying value of all land and buildings including Council dwellings is based on a valuer's assessment of valuation as at 31 March, the balance sheet date. This needs to be adequately supported by the judgements and assumptions made by the valuer.</p>	<p>Accountancy have worked closely with both Corporate Landlord Services and Valuations and Transactions teams over the last 12 months. The review has resulted in a significantly larger number of PPE being valued and the date of valuation has been moved forwards by 9 months. Both actions reduce the level of risk of material misstatement. However, the impact of Covid 19 has reduced the benefits of these changes, but we hope Covid 19 is an exceptional one off issue for 19-20.</p>
2	 <p>Value for money – Medium Term Financial Strategy The continued planned use of balances to close the financial gap only buys the Council time in which to develop a sustainable financial strategy. In our view it is vital that further income growth is achieved to close the financial gap and ensure that the finances of the Council are sustainable in the medium term. In considering the 2020/21 budget options the Council needs to give attention to ensuring the level of Council Tax is sufficient to maintain financial sustainability.</p>	<p>The Council increased the rate of Council Tax by the maximum amount permitted without triggering a referendum</p>

Controls

-  High – Significant effect on control system
-  Medium – Effect on control system
-  Low – Best practice

Audit Adjustments

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

Impact of adjusted misstatements

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

Detail	Comprehensive Income and Expenditure Statement £'000	Balance Sheet £'000	Impact on total net expenditure £'000
1 <u>Assets Built for Sale classified incorrectly</u>			
Council dwellings which have been built for sale were classified as assets under construction. These assets should have been shown under inventory. There is no impact on the Comprehensive Income and Expenditure Statement and the Balance Sheet is affected only by classification. The amount of the error is £420k and this has been removed from assets under construction and is now correctly shown as inventory.			
Balance sheet impact		420Cr	
Assets under construction			
Inventory		420Dr	
Overall impact	£0	£0	£0

Audit Adjustments

Misclassification and disclosure changes

The table below provides details of misclassification and disclosure changes identified during the audit which have been made in the final set of financial statements. In addition to these some amendments were made for formatting and typographical errors.

Disclosure omission	Details	Adjusted?
Incorrect PFI values shown in the note	Payments for waste to energy plant in Note 39 did not agree to the working papers of the Council. Therefore, the Unitary Payment and Service Charges figures have been amended to show the correct payments made.	✓
Comparable values did not agree in some cases	Some of the comparative values in the 2019-20 accounts did not agree to the 2018-19 audited accounts. These have been corrected..	✓
CIES restructure	The Council added additional narrative within the accounts to explain the prior year adjustment of the CIES.	✓
EFA Note 5	In the original draft statement of accounts a small table within the EFA (Note 5) was omitted in error. This has been included in the final statement of accounts	✓
IFRS 15	The accounting policy regarding IFRS 15 has been expanded to provide more detail to the user of the accounts on the impact of IFRS 15.	✓
Financial instruments	The financial instruments note has been amended to remove some assets and liabilities which had been included incorrectly. Also, cash and cash equivalents and the LOBO loans have now been included within the note.	✓
MIRS	The MIRS to ensure that the DSG deficit was included in the general fund balance	✓

Fees

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

Audit Fees

	£
Council Audit – fee proposed per audit plan	124,246
Final fee – 2018/19 audit	£112,743
Final fee– 2017/18 audit	£137,735

The proposed fees for the year were in line with the scale fee set by Public Sector Audit Appointments Ltd (PSAA). Our fees for grant certification cover only housing benefit subsidy certification, which falls under the remit of Public Sector Audit Appointments Limited. Fees in respect of other grant work, such as reasonable assurance reports, are shown under 'Fees for other services'.

Fees for other services	£
Audit related services:	
Housing capital receipts 2019/20	3,500
Housing benefits 2019/20	16,000
Teachers pensions return 2019/20	5,900
Total	£25,400



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