Agenda Item 6

Grant Thornton

The Audit Findings for Sandwell Metropolitan Borough Council

Year ended 31 March 2019

August 2020

Contents

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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.

Headlines

This table summarises the key findings and other matters arising from the statutory audit of Sandwell Metropolitan Borough Council ('the Council') and the preparation of the group and Council's financial statements for the year ended 31 March 2019 for those charged with governance.

Financial Statements	Under International Standards of Audit (UK) (ISAs) and the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion, the group and Council's financial statements: • give a true and fair view of the financial position of the group and Council and the group and Council's income and expenditure for the year ended 31 March 2019; 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 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.	The majority of our audit work was completed on site during June/July and off site during August and September. Due to resolution of the matters surrounding Sandwell Land and Property Company and valuations completion of work has been protracted. Our findings are summarised on pages 5 to 42. We have identified a number of adjustments to the financial statements that have resulted in a (£18.1) adjustment to the surplus on provision of services in the Council's Comprehensive Income and Expenditure Statement. Audit adjustments are detailed in Appendix C. We have also raised recommendations for management as a result of our audit work in Appendix A. Our follow up of recommendations from the prior year's audit are detailed in Appendix B. Our work is substantially complete and there are no matters of which we are aware that would require modification of our audit opinion or further material changes to the financial statements, subject to resolution of the following outstanding matters; - review of the final set of financial statements, including the remaining SL&P adjustments, following Weightman's review - Management assessment of going concern, to include a cashflow forecast to September 2021. - Review of updated disclosures around accounting for Sandwell land and property company and resolution of remaining legal matters, and - receipt of management representation letter. We have concluded that the other information to be published with the financial statements is consistent with our knowledge of your organisation and the financial statements we have audited. Our anticipated audit report opinion will be unmodified.

Headlines

This table summarises the key findings and other matters arising from the statutory audit of Sandwell Metropolitan Borough Council ('the Council') and the preparation of the group and Council's financial statements for the year ended 31 March 2019 for those charged with governance.

Value for Money arrangements	**Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report if, 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 have completed our risk based review of the Council's value for money arrangements. We have concluded that Sandwell Metropolitan Borough Council has proper arrangements to secure economy, efficiency and effectiveness in its use of resources except for its arrangements around Children's services which have been rated as 'inadequate' by OFSTED. We therefore anticipate issuing a qualified 'except for' value for money conclusion, as detailed in Appendix E. Our findings are summarised on pages 35 to 41.
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 • To 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, however we will be unable to certify completion of the audit because we have yet to complete our work on Whole of Government Accounts. The completion certificates for 2016/17 or 2017/18 have now been issued and consequently we will be able to certify completion of this year's audit on completion of our work on whole of Government accounts.

Acknowledgements

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

Summary

Overview of the scope of our audit

This Audit Findings Report 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 management and the Audit and Risk Committee].

As auditor we are responsible for performing the audit, in accordance with International Standards on Auditing (UK) and the Code, 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 Group's business and is risk based, and in particular included:

- An evaluation of the Group's internal controls environment, including its IT systems and controls;
- An evaluation of the components of the group based on a measure of materiality considering each as a percentage of the Group's gross revenue expenditure to assess the significance of the component and to determine the planned audit response. From this evaluation we determined that specified audit procedures for operating expenses and payroll was required, which was completed by Grant Thornton.
- Substantive testing on significant transactions and material account balances, including the procedures outlined in this report in relation to the key audit risks

We have not had to alter or change our audit plan, as communicated to you on 18 January 2019 in terms of our approach to significant risks. However the audit has required additional work to that anticipated when we issued the audit plan. Further details are outlined within this report and summarised below.

The draft financial statements were presented for audit in accordance with the agreed timetable of the 31 May 2019, although it been agreed in advance that adjustments were likely to the financial statements as the Council had not completed the revaluation of its schools at his time.

The finance team were supportive of the audit and responded as promptly as possible to audit queries. In the main, working papers were available as per our working paper requirement document. However, there were some areas where working papers had to be prepared in response to an audit request or where the audit trail was not complete.

The audit identified several technical accounting matters which significantly delayed the progress of the audit. In some cases these required consultation with the Council's external advisors and Grant Thornton's technical team. Some of these related to matters specific to this financial year, such as the establishment of the Children's Trust and the impact of the McCloud ruling on the valuation of the Council's pension fund. However others related to prior year matters where additional evidence was requested to support historic judgements. This arose because the evidence was insufficient to support the accounting treatment or the judgement had not been updated for changes in circumstances. Combined, these matters significantly delayed our audit.

Key matters included:

- SL&P: this is a wholly owned limited company established in 2011. Its purpose is to hold the title deeds to the Council's school land and buildings assets and to lease them back to the Council. We were not satisfied that the accounting around these assets was correct and explained our reasoning to officers. Officers agreed and have adjusted the accounts. The adjustment was material and has resulted in a prior period adjustment.
- PFI liabilities: the accounting disclosures for PFI models are driven by operating and accounting models – usually initially prepared by an external firm, and then updated for the changes that occur over time. Some significant differences were identified between the liability per the accounting model and the accounts and following additional work by the Council and review by Grant Thornton Specialists the accounts have been adjusted.

Summary (continued)

- Investment properties: Under the Cipfa Code, as Investment properties are valued at fair value, they should be revalued annually. Historically management has adopted a cyclical approach to valuation of investment properties and use indices as an assessment of whether there had been significant movements. This is due to the volume of Investment properties held by the Council. To more closely comply with the Code we agreed with management that they would revalue the largest value properties this year. Our estimate indicates that investment properties may be undervalued by £6.8m.
- Assets not valued in year: the CIPFA code states that assets should be revalued over a short period and a five-year rolling programme is generally interpreted as meeting the requirement. In addition the Code and accounting policies require the Council to consider whether there is any indication of a significant change in valuation in classes of asset not valued in year. We were not satisfied with the approach proposed by the Council to making this assessment and agreed that following further analysis that the Council would revalue schools as at 31 March 2019. This has been completed and resulted in a net increase of £17m in the net book value of the Council's property.
- Movement in valuations: there were a number of significant movement in valuation of individual assets in the valuation process which officers were unable to explain. We were aware that management had applied an indexed increase to valuations in the prior year, which is not in accordance with the Code and it was felt that this may have contributed to the unexplained variances. We concluded that we could not be assured over the accuracy of the brought forward valuation of PPE, in particular the valuation of schools. Valuations were obtained for all 2018/19, 2017/18 and 2016/17 schools. Completion of this exercise identified material misstatements in these years and so the revised valuations were applied to the accounts via a prior period adjustment. This exercise was also necessary to support the work on the Sandwell land and property company restatement (see later).
- Housing stock. The Council had its housing stock revalued at 1 April 2018, when the balance sheet date is 31 March 2019. Based on the comments made by the Valuer in his report and the regional indicators provided by our valuers, Gerald Eve, there was an indication that the movement in value of the housing stock was significant and that the valuation in the accounts could be materially misstated. Following discussion with officers and the valuer, it was agreed that the valuer would undertake a desk top review of beacon properties to provide a valuation as at 31 March 2019. This exercise has now been completed and there is no material movement in the netbook value of the housing stock as a result.
- Pension guarantees: where staff transfer to new organisations via the TUPE process from a Council it is common that the Council will issue a pension guarantee in relation to the transferred staff. Over the years there have been a number of TUPE transfers. However management had not assessed the Councils position in relation to guarantees and whether there should be related liabilities reflected in the accounts. This work was completed for the organisations where there had been the biggest staff transfers and thus where the lability was considered most likely to be significant. Management has now completed this work and have not identified any significant liabilities relating to these guarantees.
- Children's Trust Pensions: the pension liability and disclosures in the Council's single entity accounts includes the pension liabilities for the staff transferred to the Children's Trust. As expected, the Trust has responsibility for these staff including the payment of salaries and pensions. Initially the Council was not able to demonstrate that it had retained the pension risk relating to the people employed by the Trust. As such it was unclear whether the pension liabilities should be reported in the Council's single entity accounts. However, the Council, the Directors at the Trust, and the West Midlands Pension Fund provided additional documentation and agreements clarifying the responsibility for the pension liabilities. On the basis of the additional agreements we are satisfied that the Council is correct in recognising the pension liabilities in its single entity accounts.
- Children's Trust: the Trust auditors initially were not satisfied that the Children's Trust was a going concern. A letter of comfort has since been issued from the Council to the Trust setting out that it will support the cashflows of the Trust. As such the accounts have subsequently been signed. We note that the Trust has yet to confirm its medium-term financial plan because significant savings will need to be achieved and that the Council had to support the overspend of the Trust in 2018/19. We could see no reference in the Council's in year reporting, in 2018/19 or to date of financial risk associated with the children's trust contract. We have raised a recommendation relating to the need for better monitoring and clearer financial reporting of this matter
- Debtors and creditor balances: we experienced some difficulty in obtaining complete listings for a number of balances. We also noted that the Council had a significant balance of aged debtor's balances which are unlikely to be collectible, for example £6.1m of pre 2013/14 council tax debt and £1m of community charge debt. While these balances have been provided for, we consider that they should be written off. We are satisfied that these balances are not materiality misstated but consider that debtors are overstated by £1.341m.

Continued overleaf …

Summary (continued)

- Sandwell Land and Property (SL&P) is a wholly owned subsidiary of Sandwell Council. It was set up as a 'holding company' for school land and buildings previously owned by the Council. School land and buildings were transferred to the company and shares were issued to the Council, to the value of the property transferred. Leases were agreed between the Council and the company to enable the Council to continue to utilise the property. Under its historic accounting treatment the Council has accounted for the leases from the company as finance leases and the schools assets have been held on its balance sheet.
- As part of our audit we reviewed the leasing arrangements between the Council and SL&P. We determined that the leases for property could be treated as finance leases. However, we concluded that the Council and the company had incorrectly accounted for land in 2018/19 and in prior year accounts and that these were operating leases. The Council and the company have now made adjustments to their 2018/19 accounts and prior year accounts and this has resulted in a material restatement of the Council and company balance sheets.
- The audit of SL&P and other work undertaken by management on the company identified some significant weakness in the historic process of the establishment of the company and transferring the property. The audit of SL&P is currently not complete until these matters are resolved. Management has included enhanced disclosures in the Council's accounts in relation to SL&P and will include a contingent liability to reflect a potential creditor with SL&P.
- We note that the current administration and management team were not involved in the establishment of SL&P. However, we consider that the accounting and governance of the company has been inadequate. Management has signalled that it is the Board's intention that the company should be wound up as soon as possible.

Conclusion

We have substantially completed our audit of your financial statements and subject to outstanding queries being resolved, we anticipate issuing an unqualified audit opinion following the Audit and Risk Assurance Committee yet to be scheduled , as detailed in Appendix E. These outstanding items include:

- review of the final set of financial statements, including the remaining SL&P adjustments, following Weightman's review
- Management assessment of going concern, to include a cashflow forecast to September 2021.
- Review of updated disclosures around accounting for Sandwell land and property company and resolution of remaining legal matters, and
- receipt of management representation letter.

Summary (continued)

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 remain the same as reported in our audit plan.

We detail in the table below our determination of materiality for Sandwell Metropolitan Borough Council.

Our approach to materiality

	Group Amount (£)	Council Amount (£)	Qualitative factors considered
Materiality for the financial statements	14.6m.	14.5m	We determined materiality for the audit of the Council's financial statements as a whole to be £14,500,000, which is approximately 1.8% of the Councils gross operating expenses. This benchmark is considered the most appropriate because we consider users of the financial statements to be most interested in how it has expended its revenue and other funding.
Performance materiality	10.95m	10.875m	We use a different level of materiality, performance materiality, to drive the extent of our testing and this was set at 75% of financial statement materiality for the audit of the financial statements. Our consideration of performance materiality is based upon a number of factors: • We are not aware of a history of significant deficiencies or a high number of deficiencies in the control environment • There has not historically been a large number or significant misstatements arising as a result of the financial statements audits at the Council • Senior management and key reporting personnel in the finance function has remained stable from the prior year audit
Trivial matters	0.725m.	0.725m	We determined the threshold at which we will communicate misstatements to the Audit and Risk Assurance Committee to be £725,000, which is 5% of materiality.
Materiality for Senior Officer remuneration	£0.1m	£0.1m	We have identified senior management remuneration as a sensitive item and set a lower materiality of £100,000 for testing these items.

Significant findings – audit risks

	Risks identified in our Audit Plan	Commentary
1	**The Revenue Cycle includes fraudulent transactions (rebutted)**	**Auditor commentary** **Improper Recognition of Revenue** There are no changes to our assessment reported in the audit plan. There were no matters arising from our work that changed our view on this.
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. . The Authority and Group faces external scrutiny of its spending and this could potentially place management under undue pressure in terms of how they report performance. We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk, which was one of the most significant assessed risks of material misstatement.	**Auditor commentary** We : • evaluated the design effectiveness of management controls over journals • analysed the journals listing and determine the criteria for selecting high risk unusual journals • tested unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration • gained an understanding of the accounting estimates and critical judgements applied made by management and consider their reasonableness with regard to corroborative evidence • evaluate the rationale for any changes in accounting policies, estimates or significant unusual transactions. **Findings:** We noted that the Council did not have consistent approach to approval of journals. Journals are generally approved in batches after they have been input. We found two examples where there was no evidence of journals having been approved because the approval was said to be verbal. Our testing of these particular journals did not indicate that they were inappropriate. The issue is a control matter, and we consider that the Council should have an appropriate and evidenced approach to journal approvals. We have made some recommendations for changes to disclosure on a number of accounting policies and disclosure of critical judgements and estimates. These were to ensure there was adequate and accurate disclosure rather than being indicative of any management override of controls. Details are contained later in the report. **Recommendation** We recommend that the Council puts in place a formal, consistent process to ensure that all journals are authorised and approved and that this is evidenced.

Significant findings – audit risks

Risks identified in our Audit Plan	Commentary
3 **Land and Buildings – Council Housing - £1,016m** The Council revalue land and buildings on a rolling five-yearly basis (3 years for Investment properties). This valuation represents a significant estimate by management in the financial statements due to the value (£1.9 billion) and the sensitivity of this estimate to changes in key assumptions. Additionally, management need to ensure the carrying value in the Authority financial statements is not materially different from the current value or the fair value (for surplus assets and investment property) at the financial statements date, where a rolling programme is used. We therefore identified valuation of PPE and Investment properties, as a significant risk.	**Auditor commentary** The Council owns 1020 dwellings and is required to revalue these properties in accordance with DCLG's Stock Valuation for Resource Accounting guidance. The guidance requires the use of beacon methodology, in which a detailed valuation of representative property types is then applied to similar properties. In line with the Stock Guidance, Council Housing is valued on a Beacon basis, where a full valuation is carried out every 5 years with desktop valuations carried out in the intervening years. The Council has engaged Savills to complete the valuation of these properties. The year end valuation of Council Housing was £1,106m, a net increase of £89m from 2017/18 (£1,105m). This was the first year of the engagement of the current valuers. We considered that management expert was appropriately qualified and experienced to undertake the valuations. We tested and concluded that the underlying information used to determine the estimate was complete and accurate. There was no significant change to the valuation method. The valuer had followed the DCLG guidance in its approach to valuation, using the beacon methodology. We undertook sample testing of the beacon properties used in the valuation against publicly available sale values and concluded that overall the beacon vales used in the valuation was reasonable. Note (xviii) of the accounts states that non current assets are revalued as a minimum every 5 years as at 1st April. The housing stock was valued as at 1 April 2018, and therefore does not take into account movement in the value of the stock during the financial year. We considered the Gerald Eve indices which showed that the land registry index was that prices had moved by 3.5% nationally and the council's valuer's report which suggested a 4.8% movement was indicated. Both of these provided uncertainty that the balance sheet valuation was materially correct. Following discussions with officers and the valuer, the external valuer subsequently undertook a desk top valuation of the housing stock which indicated that the housing stock had moved in value by £8.5m between 1 April and the year end. Officers then used the information provided by the valuer and applied to the assets bought in year and adjusted for disposals and were able to demonstrate that there was a relatively small movement in the gross value of the housing stock and thus no further adjustment was made. When a revaluation is undertaken any accumulated depreciation should be eliminated. We noted that there was £18m of accumulated depreciation which was reflected in note 10 in error, which related to an error in accounting in a prior years. This has been adjusted for and disclosed as an adjustment to the opening balances in the accounts. (Appendix C adjusted errors). We have now been able to conclude that the valuation of the HRA is a reasonable estimate. **Recommendations:** Officers should plan to undertake valuations of HRA as at 31 March 2020 in the 2019/20 financial year, or if for practical reasons this is not possible there should be a formal evidenced review by the valuer at the year end to provide assurance that there is not a material uncertainty around the valuation of the housing stock. The Council should review its accounting policy that assets are valued as at 1 April.

Significant findings – audit risks

	Risks identified in our Audit Plan	Commentary
4	**Land and Buildings – Other - £653m**	**Auditor commentary** 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 Wilks Head and Eve to complete the valuation of properties as at 1 April 2018 on a five yearly cyclical basis. **Assets not valued in year** The CIPFA code allows councils to undertake valuations on a 5 year rolling programme, however there should be an annual review to determine whether there are any indications of changes in values, which should trigger a formal valuation. We did not agree with the Council's approach to the annual review. The external valuers provide an annual summary of indices over classes of assets to indicate what the market movement is on these classes of assets. The Council's approach was that using this summary, where this is a 10% overall movement, then this would trigger a response either by applying indices to the valuation or through a formal valuation. In the prior year (2017/18) there was an average index of 10% in the year and this was applied to the asset register and to the balance sheet valuation. We understand from management that the 10% adjustment that was applied in 2017/18 was only applied to assets valued on a DRC basis, and was undertaken with the full agreement of our internal Valuers and the external auditors at the time We did not agree with this appropriate approach because: • the use of 10% as a trigger is an arbitrary judgement which does not take into account the value of the movement, overall or at the level of an individual class of asset, nor does it take into account the cumulative impact of valuation movements since the last valuation. • applying a general 10% uplift is not an appropriate response (unless this has been specifically agreed to by a qualified valuer) as it is not compliant with the principles of the code. In our view it is generic uplift and does not reflect the fact that different classes of asset may have significant differences in movement year on year. We discussed our view with officers at our interim audit and agreed an approach whereby officers calculated the impact of the cumulative indices (provided by the external valuer) on the asset base to assess if this indicated a potential material movement, and if it did further specific valuations would be sought from the external valuer This exercise was undertaken at interim so that there would be sufficient time for additional valuations to be obtained if necessary. As a consequence of this exercise officers agreed that all schools would be revalued as a class of assets, in line with the code, and it was agreed that to allow the external valuer sufficient time, this would be applied following receipt of the draft accounts. The outcome of his review was a net movement of £17m for schools. (appendix C adjusted errors). We then agreed the reasonableness of these valuations and sought additional information where there was significant movement at an asset level or against Gerald Eve indices. For any assets where the explanation was not adequate these are reflected in the errors schedule – appendix C.

Significant findings – audit risks

	Risks identified in our Audit Plan	Commentary
4	**Land and Buildings – Other - £653m**	**Auditor commentary** **Assets valued in year:** We considered the information provided to the valuer and concluded that there are generally adequate arrangements in place to ensure the completeness and accuracy of the information provided to the valuer to determine the estimate, although testing indicated that there is scope to improve both the accuracy of information supplied to the external valuer and quality checks of the information received back before applying changes to the fixed asset register. The Council has an in-house qualified valuer who has a role in assimilating and directing the external valuer and reviewing the information returned to the Council. The council and valuer had used 1 April 2018 as a proxy for the 31 March 2019 valuation and used indices to assess whether there are significant movements. This is not good practice, particularly in view of the size and value of the Council asset base as there is a high risk of material misstatement. We have encouraged management to obtain valuations as close as possible to 31 March year end in future valuation exercises and to value the highest value assets more regularly to minimise the risk of misstatement. We considered the valuations against Gerald Eve indices and also sought explanations where there had been significant movements in values compared to the last valuation. We received satisfactory explanations for most of these movements, although the process did identify that there were errors in some of the prior year valuations, particularly in relation to the valuation of schools. We agreed with management that they would obtain revised valuations for the prior year schools valuations to provide us with assurance over the accuracy of the brought forward balances. This exercise confirmed that the brought forward balances were materially misstated and thus management has restated it prior year financial statements. We note that some of the year end revaluations have changed due to a revised approach to assessment of floor area. We would expect to see this approach adopted in future year's valuations, and officers consider the impact on prior year as part of this exercise **Other matters** Agreement to asset register: the Council has a cut off date for update of the asset register for valuations – as a result there was a small difference between the asset register and the valuers report . Officers should reconsider the approach to its revaluation programme, engaging both internal and external valuers as appropriate, to ensure that there is a more robust approach to valuation of PPE and that there has been a robust check and challenge of valuations to ensure that they are reasonable and understood before applying to the asset register.

Significant findings – audit risks

	Risks identified in our Audit Plan	Commentary
6	**Investment properties £78.5m (£86.4m) prior year . (net income form these assets £2.8m (£2.2m prior year)**	**Auditor commentary** Investment properties are valued at fair value at the reporting date. Prior to 2018/19 the Council has valued its investment properties on a rolling programme and used indices (global percentages) to determine whether there is an indication of unrecognised changes in valuation, and reflected this within critical judgements. The fair value must reflect market conditions at the end of the reporting period and thus annual revaluations are necessary unless the authority can demonstrate that the carrying value is not materially different from the fair value at that date (paragraph 4.4.2.12 of the Code). In the prior year these had been applied to the asset register, without the sign off of the valuer, and we do not agree that this approach is in line with the code or is a reliable estimate. We understand form management that the approach adopted was agreed with the internal valuers and external auditors at the time. We discussed the approach with officers who subsequently demonstrated that most of the value was concentrated on relatively few assets, which if revalued would leave a balance which was unlikely to be materially misstated, and these could be revalued on a cyclical basis. We have reviewed the valuation of both the investment assets valued in year and those that weren't valued. We are satisfied on the basis of our testing that the value is not materially misstated. By the nature of the assets the valuation can be relatively volatile and there has been a £6m reduction in value (7%) in year as a consequence of the review. We sought additional explanations for some of the movement. In summary, we are now satisfied that the Investment property valuation is a reasonable estimate. However, our estimate indicates that investment properties may be undervalued by £6.8m. We also consider that the cyclical valuation approach is not in line the code, and the Council should review its stated accounting policy in the 2019/20 accounts. **Recommendation** We consider that all investment assets should be valued on an annual basis.

Significant findings – audit risks

Risks identified in our Audit Plan	Commentary
7 **Valuation of pension fund net liability** The Authority's and the Group's pension fund net liability, as reflected in its balance sheet as the net defined benefit liability, represents a significant estimate in the financial statements and group accounts. The pension fund net liability is considered a significant estimate due to the size of the numbers involved (£742 million in the Authority's balance sheet) and the sensitivity of the estimate to changes in key assumptions. We therefore identified valuation of the Authority's and the Group's pension fund net liability as a significant risk, which was one of the most significant assessed risks of material misstatement.	**Auditor commentary** We have: • updated our understanding of the processes and controls put in place by management to ensure that the Authority's and the Group's pension fund net liability is not materially misstated and evaluate the design of the associated controls; • evaluated the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work; • assessed the competence, capabilities and objectivity of the actuary who carried out the Authority's and the Group's pension fund valuation; • assessed the accuracy and completeness of the information provided by the Authority and its subsidiaries to the actuary to estimate the liability; • tested the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial report from the actuary; • undertaken procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performing any additional procedures suggested within the report; and • agreed the advance payment made to the pension fund during the year to the expected accounting treatment and relevant financial disclosures. • obtained assurances from the auditor of West Midlands Pension Fund as to the controls surrounding the validity and accuracy of membership data; contributions data and benefits data sent to the actuary by the pension fund and the fund assets valuation in the pension fund financial statements. **Findings** We were satisfied with the approaches adopted by the Council, the pension fund and the Actuary (Barnett Waddingham) in ensuring the accuracy of the underlying information on which the estimates is based and the broad assumption made by the actuary in his valuation of the pension fund. We had specific conversations with the Council around three key areas: • The assumptions around the McCloud ruling; and • Guaranteed Minimum Pension (GMP) court case • The treatment of the pensions relating to the transfer of staff to the Children Trust.

Significant findings – audit risks

	Risks identified in our Audit Plan	Commentary
8	**Valuation of pension fund net liability** The Authority's and the Group's pension fund net liability, as reflected in its balance sheet as the net defined benefit liability, represents a significant estimate in the financial statements and group accounts. The pension fund net liability is considered a significant estimate due to the size of the numbers involved (£742 million in the Authority's balance sheet) and the sensitivity of the estimate to changes in key assumptions. We therefore identified valuation of the Authority's and the Group's pension fund net liability as a significant risk, which was one of the most significant assessed risks of material misstatement.	**Auditor commentary** **McCloud** In January 2017, the Employment Tribunal ruled that transitional provisions in the New Judicial Pension Scheme (NJPS) were unlawfully age discriminatory because they were not objectively justified. The Tribunal found that a group of claimant judges had been subject to age discrimination when they were transferred to the NJPS established in April 2015 while under transitional provisions older colleagues were able to remain in the existing Judicial Pension Scheme (JPS). Where the transitional provisions are unlawful then those members who are found to have been discriminated against will need to be offered appropriate remedies to ensure they are placed in an equivalent position to the protected members. The Government applied to the Supreme Court for permission to appeal and on 27 June 2019 it was announced this was denied. The legal ruling around age discrimination also has implications for other public service schemes where they have implemented transitional arrangements on changing benefits. Protections were applied to all members within 10 years of retirement in all public service schemes, with the form that protection took varying from scheme to scheme. For example, LGPS introduced a new CARE benefit structure with effect from 1 April 2014 ('the 2014 scheme'). For members who were 10 years or less from Normal Retirement Age on 1 April 2012 (i.e. aged 55 or above), an underpin was provided based on the existing final salary scheme ('the 2008 scheme'). The ruling from the McCloud case impacts on both employer bodies and the pension funds where public sector schemes have been impacted by transitional provisions. Our internal actuary, highlights that Barnett Waddingham's approach implicitly makes the adjustments for the entity's specific salary increase rate and further allows for the exclusion of post 2012 joiners. It does not, however, make any allowance for the entity specific age profile of the active members. They are comfortable that the adjustments for salary increases and post 2012 joiners are acceptable. However given that adjusting for post 2012 joiners is likely to reduce the estimated McCloud liabilities from the central GAD estimate, they suggest that the active member age profile be considered by engagement teams to ensure that it is not materially different from that of the LGPS Funds as a whole (i.e. 46 years). Where the average age of the actives (weighted by salaries) is either higher than, or within 4 years of, the average age for the Fund of 46, their view is that no further adjustment is required on the grounds of materiality. But if the average age is less than 42 further adjustment may be required. This matter was discussed with the client and the pension fund, and in conjunction with the other West Midland Metropolitan councils, a revised actuary report was prepared. This resulted in a change in the Pension Liability from £701,391 to £717,494 and the balance sheet and the notes to the accounts have been adjusted accordingly (adjusted errors, appendix C)

Significant findings – audit risks

Risks identified in our Audit Plan	Commentary
9 **Valuation of pension fund net liability** The Authority's and the Group's pension fund net liability, as reflected in its balance sheet as the net defined benefit liability, represents a significant estimate in the financial statements and group accounts. The pension fund net liability is considered a significant estimate due to the size of the numbers involved (£742 million in the Authority's balance sheet) and the sensitivity of the estimate to changes in key assumptions. We therefore identified valuation of the Authority's and the Group's pension fund net liability as a significant risk, which was one of the most significant assessed risks of material misstatement.	**Auditor commentary (continued)** **GMP** As a result of the High Court's recent Lloyds ruling on the equalisation of GMP's between genders, a number of pension schemes (including the West Midlands Pension Fund) have made adjustments to accounting disclosures to reflect the effect of this ruling has on the value of pension liabilities. Our internal actuary has considered Barnett Waddingham's assumptions on this matter and established that the pension liability at 31/3/19 includes assumptions that for members reaching SPA after 2016 the Fund will be required to pay the entire inflationary increase after this date. It is the view of the Grant Thornton actuary that to make allowances for the post 2021 element in the IAS 19 estimates is not appropriate on the basis that these future liabilities are uncertain. Using information provided by PWC, we estimate that the resulting overstatement of the liability to be 0.15%. Based on Sandwell's liabilities we estimate that the impact is £1074k . Following discussion with management a further valuation was obtained and has been applied to the restated accounts.

Significant findings – audit risks

Risks identified in our Audit Plan	Commentary
10 **Accounting for the transfer of services to the Children's Trust and first time preparation of group accounts.** From 1 April 2018, much of the responsibility for delivering children's services in Sandwell was transferred to Sandwell Children's Trust. Over 400 staff TUPE transferred to the Trust including their associated net pension liability. The Council has a contract of £58m with the Trust to provide children's services. These agreements gave rise to a number of material accounting transactions in the financial statements for which the economic substance of the transactions needs to be considered. The Authority will prepare group accounts for the first time in 2018/19. We therefore identified the accounting transactions associated with the transfer of services to the Trust as a significant risk of material misstatement.	**Auditor commentary** We planned and undertook the following procedures: • reviewed the key agreements to gain an understanding of the arrangements put in place on transfer of services and staff to the company; • discussed with key group personnel, the underlying substance of the transactions and the basis of the Authority's and Group's proposed accounting treatment of the arrangements; • critically assess the economic substance of the transactions to assess the appropriateness of the accounting treatment adopted by the group in accordance with the Code, International Financial Reporting Standards (IFRSs) and other relevant accounting guidance (see next section) The main area of concern was in relation to the proposed treatment of pension liabilities. The Children's Trust is an admitted body to the West Midlands pension fund and a scheme employer. On TUPE transfers the ongoing pension liability would normally transfer to the new organisation with the people. The Council and the children's trust agreed that they would prefer for the Council to retain this responsibility for these pension liabilities and the actuary was instructed to prepare the ISA19 disclosures and proposed accounting entries on this basis. The draft accounts reflect this position and the Children's Trust reflect pension costs as though it were a defined contributions scheme. In order to account for the pension in his way the Council should be able to demonstrate that: • the pension fund has confirmed its understanding that the proposal is in line with the Act; and • substantially all the actuarial risk remain with the Council after the staff transfer. Whilst the Council had documentation which demonstrated discussions with the pensions fund and legal advisors, key documents such as a tripartite agreement formally setting out the arrangement were not in place. Overall there was insufficient evidence to support the accounting treatment. We sought additional assurances and this included an additional legal letter being prepared by the Council lawyers setting out both the Council's and Children's trust understanding of these arrangements. The agreement confirms the Council's responsibility for ongoing pension liabilities. The letter was agreed and signed by representatives of the Children's Trust and the Council. The pension fund also formally confirmed specific clauses of the legal letter which were sufficient to support the assertion that this accounting treatment was the intention of all parties concerned, that it was lawful and, that the Council was bearing substantially all the actuarial risk. The S151 has confirmed he will undertake further action to formalise the position going forward including putting in place a clear tripartite agreement and fixing the pensions contribution rate for the Children's Trust.

Significant findings arising from the group audit

Component	Component auditor	Findings	Group audit impact
Sandwell Children's Trust	Grant Thornton LLP	The Council has a 100% shareholding of the Trust, is the major source of funding and whilst it does not have control over the board or operational management, remains statutorily responsible for the services provided, and has a key role in setting the strategic direction and in performance managing the Trust. Management concluded that for accounting purposes the Council has control over the Trust and that, as a subsidiary, the Trust accounts should be consolidated into the Council's group accounts on a line by line basis. We • considered the Council's assessment and concluded that it was appropriate • established that the Trust had consistent accounting policies to the Council • reviewed the consolidation of the accounts to ensure that intergroup transactions had been eliminated • requested that the draft accounts were adjusted for £5m to reflect the debtor in the Children's Trust accounts with the Council, which the Council had not recognised in the single entity accounts (adjusted error appendix C). We gain assurance from the Trust auditors over the significant transactions within the Trust accounts. An unqualified audit opinion of was issued by Grant Thornton. No significant accounting issues were identified, although clearly the financial pressures of the Trust are an ongoing challenge. Some additional disclosures were requested within the group section of the accounts and have been reflected in the revised accounts. We considered that the judgement that the Council had control over the Trust was a critical judgement, as this is a key determinant of the need to prepare group accounts. The revised accounts have been updated to reflect this.	
Sandwell land and Property Company (SL&P)	Grant Thornton LLP	SL&P was incorporated in 2011. The accounts were audited in year 1 but subsequently the Board relied on Section 477 (small companies) of the Companies Act 2006 to be exempt from audit. We provide further detail on our audit at page 28 of this report. In summary, we disagree with the historic accounting treatment for the Trust. As a consequence of the adjustments referred to later within this report, SL&Ps balance sheet was adjusted by £28m to reflect its ownership of the school land transferred to the company by the Council in exchange for shares. As a result the company is no longer exempt from audit and management have appointed Grant Thornton as auditors. In addition management judged that the Council's has control over the company and due to materiality have incorporated into the group accounts.	

Significant findings arising from the group audit

Component	Component auditor	Findings	Group audit impact
Sandwell land and Property Company (SL&P)	Grant Thornton LLP	We have reviewed the work of the component auditor in targeted areas and have reviewed the revised group accounts and consolidated working papers. The audit of SL&P is not yet complete and the audit process and subsequent follow up by management identified a number of historic weaknesses in the establishment of the company including processes around share issue and transfer of assets. Further reference is made later in the report. Management has agreed to make appropriate disclosure in Sandwell Council's 2018/19 accounts of the relationship and status of the SL&P. We are satisfied that we have sufficient assurance that the restated group accounts are not materially misstated in relation to SL&P.	

Significant findings - other issues

This section provides commentary on new issues and risks which were identified during the course of the audit that were not previously communicated in the Audit Plan and a summary of any significant control deficiencies identified during the year.

	Issue	Commentary	Auditor view
1	**Operating expenditure/ creditors**	Our testing of operating expenditure did not indicate any significant matters and we have no material concerns in this area. Our testing of creditors identified the following errors: • One item sampled related to a different financial year and therefore failed our 'cut off' test. • One item to potential future PFI costs, £3.7m. We concluded that this was not a valid creditor and officers agreed that it should be more appropriately reflected as a reserve. The accounts, and the prior year accounts were adjusted accordingly. Due to these issues, we judged that it was necessary to extend our sample from that we originally planned due to the heightened risk. We then extrapolated the errors and these are reflected in Appendix C. We are satisfied that the creditors balance has not been materially misstated.	**Auditor view** The finance team sets a timetable for departments to provide details of accruals to be included in the accounts. Departments should be reminded of the need to work to the closedown timetable to ensure creditors listing are as accurate as possible

Significant findings - other issues

This section provides commentary on new issues and risks which were identified during the course of the audit that were not previously communicated in the Audit Plan and a summary of any significant control deficiencies identified during the year.

	Issue	Commentary	
2	**Debtors/ provision for bad debt**	Our audit approach involves testing debtor balances, at a transaction level, to supporting evidence, on a sample basis. We encountered some difficulty in obtaining complete transaction listings for several debtor balances to facilitate testing. Officers struggled to produce these listings, partly due to the size and because the information had not been requested in prior years and so reports had not been run as part of the closedown. This information was prepared on request, with some difficulty experienced by officers, and some reports did not reconcile exactly due to not having been run at the year end. However, in the main the differences were not significant and we were able to complete our testing.	**Auditor view** Officers should prepare transaction listings (electronic) to support all debtor (and creditor) balances as part of closedown.
		In one instance it was not possible for officers to provide a listing. This related to £3.8m for Council tax receipt in advance (creditors). As such we have not been able to test this balance and it is included as an error as a result in Appendix C. We note that over half of the balance was over 1 year old and if written back would improve the Council's reserves.	
		The Council has good collection rates for its current debt and Council tax and NNDR collection rates are good. However we noted that the Council has a significant value of old debtor balances. For example, it has £6.1m of pre 2013/14 council tax debt and £1m of community charge debt. We estimate that there is over £11m of debt which should be written off due to its age and the low probability of collection. The Council provides 100% against revenues debt over 2 years and debt reflected in the accounts is net of this, so we are comfortable that the debtor position in the balance sheet is not materially overstated. However, we also noted a number of balances that had remained static year on year, approximately £1.4m of sundry which had not specifically been provided for.	There should be regular review and write off of debt over 2 years. The policy on debt management should be progressed to support better management of old debt.
		Debtor balances should reflect collectable debt and uncollectable amounts should be routinely written off. Large valued of uncollectable debt, even where it has been provide for, could mean that there is a lack of clear focus on recovery action on debt. The Revenues manager has explained that he is currently developing a policy for management and write off of old debt.	
		The CIPFA code and accounting standards expect that a provision for bad debts is based on an assessment of collectability of debt at the year end, and therefore should be an annual evidence based assessment. For some of the balances officers struggled to explain the basis of the debt, suggesting that it had note been reviewed at the year end. For council tax and business rates the provision was based on expected income rather than arrears. For housing benefits the council could not initially explain the basis of the £6.9m provision, which appeared to be the prior year provision rolled forward.	Officers should provide evidence to support the basis of year end provisions and of the annual review.
		Overall, we are satisfied that debtors are not materially misstated but consider that debtors are overstated by £1.341m. Action is needed by the Council to improve debtor management.	

Significant findings - other issues

This section provides commentary on new issues and risks which were identified during the course of the audit that were not previously communicated in the Audit Plan and a summary of any significant control deficiencies identified during the year.

	Issue	Commentary	
3	**PFI / service concessions**	The Council has four PFI schemes and one service concession arrangement with Serco, relating to refuse collection and disposal. Per the Code, private finance initiatives (PFI), and similar schemes shall be accounted for in a manner that is consistent with the adaptation of IFRIC 12 Service Concession Arrangements contained in the government's Financial Reporting Manual (FReM). The criteria in IFRIC 12 is used for determining whether the operator controls the asset used in a service concession arrangement or whether the grantor (local authority) controls the asset. This determines the accounting treatment, in essence whether the asset and liability is reflected on the Council's balance sheet. We requested the Council's IFRIC12 assessments for the PFI and service concession assets, to demonstrate the Council's judgement on these arrangements and these were prepared on request. We subsequently concluded that we agreed with the Council's judgement in the IFRIC 12 assessments and thus the accounting treatment, in principle was correct. The accounts included an explanation of the Council's judgements around control of these assets within accounting policies (xxii) although due to the value of the assets involved, we consider this should be disclosed as a critical judgement.	**Auditor view** The accounts should reflect the judgement around PFI contracts as a critical judgement.
		The notes to the accounts (note 40) reflects the estimated value of the assets, the associated estimated liability plus other relevant disclosures such as the unitary charges paid in year. PFI schemes have relatively complex models in place which drive the accounting entries – in particular the disclosed liabilities(£77m long term Liabilities and the current liability £3.9m). There is an operating model and a related financial model for each scheme which should inform the accounting and disclosures. We considered the operating model and compared to the Grant Thornton model to make an assessment whether the assumptions are reasonable. At year end we compared the accounting entries to the accounting model and noted differences. Officers subsequently established there was a net £9.2m difference between the liability reflected in the accounts and that driven by the model, the most significant being on the Riverside Scheme where there was a difference of £12.4m. This occurred because the model had not been updated nor was it reconciled it to the ledger, the figures for the accounts had been derived outside the model. Officers investigated the difference and then updated the financial model and are as a consequence have reduced long term liabilities by £6.3m and increase short term liabilities by £0.3m, on this one scheme. We sought support from Grant Thornton Specialists to support our review of the models and adjustments have been agreed with management. We discussed with management the need for further training and development in this area management confirmed that PFI models would be updated and reconciled to the 2019/20 financial statements.	The Council should update the accounting models annually and ensure they are consistent with the financial statements.

Significant findings - other issues

This section provides commentary on new issues and risks which were identified during the course of the audit that were not previously communicated in the Audit Plan and a summary of any significant control deficiencies identified during the year.

	Issue	Commentary	Auditor view
3	**PFI / service concessions (continued)**	The differences on the remaining schemes, which have not been investigated or adjusted for, are summarised below and are reported as errors in Appendix C:	Officers should update the accounting models for the remaining schemes as part of the 2019/20 closedown

PFI Scheme	2018-19 Ledger Balance	2018-19 Model Balance	2018-19 Difference
	£m	£m	£m
Total Schools	-7.279	-9.170	-1.891
Portway	-7.447	-8.752	-1.305
Rowley BSF	-38.177	-38.177	0.000
	-52.903	**-56.099**	**-3.196**

Accounting policies and the code refer to the PFI liabilities being reflected at fair value. The draft accounts do not correctly disclose the fair value (current value used) and subsequently a valuation was sought following audit request. Prior year and current year disclosures have been adjusted accordingly and then further updated to reflect the above adjustment for Riverside.

	Issue	Commentary	Auditor view
4	**Pension guarantees**	Where a Council has TUPE transferred staff to a service company and there is a contractual guarantee made by the Council to the pension scheme or to the new employer/ service company. Such guarantees can either be an insurance contract (IFRS 4) or a derivative financial liability (IFRS 9). The Council has made a number of TUPE transfers but officers had not considered the accounting implications. Officers undertook work on this and considered the three largest staff transfers as these were judged likely to have the biggest financial implications. Officers considered both the associated guarantees, the financial risk associated to the related companies and the likely probability of the guarantee being realised. Officers concluded that for the three guarantees considered they were insurance contracts and the financial consequences were not material to the Council. We have reviewed officers conclusion and consider that they are reasonable.	The Council should complete its review of the remaining guarantees in readiness for the 2019/20 accounts.

Significant findings - other issues (continued)

	Issue	Commentary	
5	**Sandwell Land and property Company**	The Sandwell Land and Property Company (SL&P) was established late in 2010/11 in order to protect and maintain Council ownership of land and property currently occupied by school establishments. The company is wholly owned by Sandwell Council and the directors are appointed by the Council. The legal ownership of land and property currently utilised by schools transferred into SL&P (in return for the issue of shares) and was leased back to the Council by SL&P at £1 per annum for a duration of 125 years. Underleases were subsequently put in place between the Council and academy schools. The transfer was effectively for £217m of land and property of around 98 schools. In return the company issued £217m shares (of £1 each). Following the lease of schools back to the Council the school value was written to £nil in the company accounts. As a result the company and the related shares had a £nil value in the Council's accounts. While the investment in the Company was valued at £nil in the Council's accounts it continued to recognise the value of schools and land. The value of the land and buildings in the 2018/19 accounts is £442m (£89m land, £352m buildings) The original transfer of the schools was done without Secretary of State approval and with limited consultation of the schools concerned. The Council has continued to maintain and develop the school assets as part of its statutory responsibility for education and behaved in both operational and accounting terms as though the arrangement did not exist. The company is effectively a dormant company as there has been no further addition of schools since the original transfer tranche and financial transactions through the accounts are minimal. The original purpose of the company was to protect school assets with the establishment of academies. With the passage of time there remains no particular purpose to the company and the Council has confirmed its intention that it will wind up the company in the 2019/20 financial year. We have challenged the Council on both the purpose of the arrangement, the related disclosures and the accounting treatment as reflected in the draft accounts. As highlighted above, the accounts presented for audit reflected the value of school land and buildings, as if no transfer has occurred. The notes to the accounts and accounting policies made some reference to the arrangement but not in sufficient detail to allow a reader of the accounts to understand that the company has the legal title to the Council's schools. It was also not clear that the Council has an investment in a company which effectively had no value, nor did the note clearly set out the accounting judgement around the treatment of over £400m of assets, reflected on the balance sheet, to which the Council does not have legal title. Officers provided us with a paper setting out their view and the judgements made. The key accounting assumption is that Standing Interpretations Committee, SIC 27 applies. The basic principle of SIC 27 is that for a series of transactions, that involve the legal form of a lease, they should be accounted for in accordance with their substance. The Council asserted that this applied in relation to the leases for both school buildings and land because there has been no change to the substance of the arrangement in that the Council still controls and operates the school land and building. As such it is as if no transaction took place between the Council and the company and therefore the underlying assets should remain on the Council Single Entity Balance Sheet and no group accounts are required.	**Auditor view** We disagree with the historic accounting treatment. We have required the Council to restate its and the company's financial statements as outlined in the commentary.

Significant findings - other issues (continued)

	Issue	Commentary
6	**Sandwell Land and property Company (continued)**	We reviewed the accounting judgements and concluded that they were not correct, particularly in respect of the land. The transfer of the school buildings and land to the company is legally binding. Whilst there are 125 year operating leases in place between the Council and the company, once these come to an end both the school buildings and the land will be the legal property of the company. There is no written confirmation within these leases or any other documentation to confirm that the Council has any rights or obligations with respect to these assets at the end of the lease period. In particular, the land will have a residual value at the end of the period and thus we consider that there is substance to the transaction, and it would in accounting terms be more appropriate for the land to be accounted for as an operating lease and to remain on the company balance sheet. Whilst we note the Council's intention to wind up the company and transfer the legal title of the assets back to the Council, or to incorporate clearer terms into the leases, this has no bearing on the position as at 31 March 2019. As such changes could not be applied retrospectively. **Restatement of the accounts** Management considered our view and subsequently agreed with our interpretation and confirmed the accounts had been historically misstated. Historic records were obtained to identify the value of the land transferred which should be reflected on SL&P balance sheet and removed from SMBC single entity accounts. The historic value of land was £28.7m The broad impact of the adjustments is as follows: ***Council (single entity)*** The Council has recognised an investment 'at cost' in its accounts with investment on the balance sheet increased by £26m, which was equal to the cost of land. The land previously recognised at the fair value on the balance sheet in the Council's single entity accounts has been removed. An opposite entry has been made in the revaluation reserve/ disposals. The share value relating to the buildings is nominal. The Council continues to include the value of the school buildings at fair value under Standard Interpretations Committee note 27. ***Council (Group)*** The land is now consolidated at fair value into the Council's group accounts with the investment in SL&P being removed from consolidated financial statements. ***SL&P*** The adjustments required SL&P to treat its lease of the land to the Council as an operating lease. The accounting entries proposed recognise £28.7m of land on SL&P balance sheet, with the corresponding entry in P&L reserve. This reflects the historic 'fair value' of land transferred and is allowable under FRS102. ***Accounting changes summary*** There is no loss to the Council from these accounting changes. However, as the balances are material adjustments have been made to the Council's accounts. We note that the accounting errors date back to the inception of SL&P.

Significant findings - other issues (continued)

Issue	Commentary
6 **Sandwell Land and property Company (continued)**	**Other issues** The audit process identified that a number of errors had been made in the original set up and transfer of the assets: • We noted that some assets were not recognised on the land registry as in the ownership of SL&P • Several of the larger secondary schools had transferred at nil or very low value and thus the shares issued in consideration were not commensurate with the value • Some of the schools were not owned by SMBC at the date of the transfer however shares were issued as consideration. • The company did not follow Company Act requirements in the issue of shares. We note that external advisors to the Council have indicated that the SL&P should recognise a debtor (and the Council a creditor) where shares were issued and SL&P did not receive consideration in the form of an asset. Management consider that It is unlikely that the company will require payment of the debt and have recognised this potential liability as a contingent liability to reflect the position. We are satisfied with this judgement. We have agreed adjustments to the accounts for the school land which should not be recognised in SL&P accounts and a corresponding reduction in the investment recognised on SMBC balance sheet. We have agreed that if management make appropriate disclosure that we have sufficient assurance that the restated group accounts are not materially misstated. **Governance** Our audit has highlighted a number of weaknesses in the governance arrangements for SL&P. In particular: • The accounting for transactions has not been appropriately assessed and there have been material errors in the financial statements for a number of years • The Board has not appropriately authorised in all cases the issue of shares • The Board has not secured the agreed transfer of assets, in all cases, for the issue of shares. On this basis we consider that the Council's governance of SL&P has not been adequate. **Recommendation** We recommend that Council representatives discuss with the Directors of the company the ongoing purpose of the company and whether it should continue in its current form.

Significant findings - other issues (continued)

Issue	Commentary
6 **Financial instruments disclosures**	We considered the disclosures in financial instruments and agreed a number of adjustments to narratives and the notes: • The council had previously included non statutory debtors within financial instruments. This is incorrect and the creditors disclosure gas been adjusted to remove council tax, business rates and HMRC balances. Prepayments had also previously been included and have been adjusted for. As these were historic errors the council has chosen to adjust the prior year statement also. (appendix C adjusted errors) There is no impact on the primary statements for these matters. • Lender Option Borrower Option Loans (LOBOs) - we were not satisfied that the council made clear that some of the loans were held as LOBOs. These type of loans can often have a higher inherent risk than other types of loans and therefore we felt that the council's assessment of and management of these risks should be made clear within the accounts. In addition the intertest rates and the basis for the assessment of the fair values should be clear (LINK 7 asset services have been used, who have used the PWLB rate as the basis for the fair value disclosure- however as these are market loans this is a matter of judgement and the council has not adequately disclosed this judgement (appendix C disclosure adjustments) • PFI debt - the council had not this year or previously obtained a fair value valuation for the PFI debt. This has b now been done and reflected in the accounts. • Reclassification of airport shares as level 3 – the prior year comparatives should be restated to ensure comparability and the change explained (it's not a transfer between levels as the method of valuation has remained the same).

Significant findings – key judgements and estimates

	Summary of management's policy	Audit Comments	Assessment
Net pension liability – £759m (restated)	The Council's net pension liability at 31 March 2019 is £759m (restated) (PY £742m) comprising the West Midlands Local Government and unfunded defined benefit pension scheme obligations (teachers pension). The Council uses Barnett Waddingham to provide actuarial valuations of the Council's assets and liabilities derived from this WMLGPF scheme. A full actuarial valuation is required every three years. The latest full actuarial valuation was completed in 2016. 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. There has been a £39m net actuarial loss during 2018/19.	We considered the basis of the estimate with the assistance of our auditors expert (PWC). We concluded that the general assumptions made by the actuary were appropriate, subject to the assumptions referred to earlier in the report on McCloud and GMP. We also include details of the general procedures undertaken in relation to the estimate earlier in the report.	● (dark green)

Assumption	Actuary Value	PwC range	Assessment
Discount rate	2.4%	2.4%-2.5%	● (light green)
Pension increase rate	2.4%	2.3%-2.2%	● (amber)
Salary growth	3.9%	Scheme and employer specific	● (yellow)
Life expectancy – Males currently aged 45 / 65	22.6/20.9	24.8-26.3 22.2-23.7	● (light green)
Life expectancy – Females currently aged 45 / 65	25/23.2	27.9-29.0 25.0-26.4	● (light green)

Assessment

- ● (red) We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- ● (amber) We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- ● (yellow) We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- ● (light green) 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
Level 2/3 investments	The council holds shares in Birmingham Airport Holdings Limited represented by 5.62% of equity shares and 11.48% of preference shares and is valued on the balance sheet as at 31 Mar 2019 at £28.4m. The investment is not traded on an open exchange/market and the valuation of the investment is subjective. These were re-valued in 2018/19 by Solihull MBC and reviewed by their valuers BDO LLP. The value of ordinary shares had increased by £0.081m while there has been no change to the value of preference shares. The authority has used earnings techniques to establish the fair value of its Birmingham Airport The Council has previously categorised the airport shares as level 2. This was because some of the inputs used to determine the valuation are observable. However, as they also include some unobservable inputs such as calculation of an earnings multiple using non-quoted information, the decision to reclassify the instruments at input level 3 from input level 2 was made in 2018/19.	The shares are held by the other metropolitan councils audited by Grant Thornton and we have coordinated our approach to the audit of this balance. We have : • Undertaken an assessment of management's expert a • Considered the appropriateness of the underlying information used to determine the estimate • Considered the consistency of estimate against peers/industry practice • considered the adequacy of disclosure of estimate in the financial statements We have not identified any matters in relation to the fair value measurement of the investment. We are satisfied with the councils reasoning to reclassify the asset as a level 3 investment and to designate the financial instrument as measured at fair value through the other comprehensive income and expenditure (under IFRS9). We understand the council's reasoning as to why this was not formally designated prior to the year of audit.	Green
Critical judgements	The draft financial statements included statements on critical judgements on agency arrangements . Following the work on Investment properties we agreed that this was no longer a critical policy as the element that was a critical judgement was not material, although there should be some disclosure in the more general accounting policies that the Council has not complied with the code by adopting a rolling programme, although the impact is not considered to be material in view of the value of the assets not valued. Accounting for voluntarily aided and voluntary controlled schools- the judgement around whether individual schools are on or off balance sheet is likely to result in a material value of assets included or excluded from the balance sheet depending on the assessment. The Council had a clear document setting out the assessment and reasoning but had not included as a critical judgement within the financial statements.	**Accounting for schools** As part of the audit we considered the historic assessment the Council had made around its control of voluntary aided and voluntarily controlled schools, and whether they should be accounted for as Council assets. An assessment was undertaken for both land and buildings for each school and a judgement made whether the control was with the governors of the individual schools, Sandwell Land and Buildings Company or the Council. Subject to separate considerations on SL&P outlined separately in this report, we concluded that we were satisfied with the approach adopted and consequently a number of school buildings/ and or land are not recognised in the Council's financial statements.. As the value of the schools is highly material, we did consider that this was a critical judgement and should be disclosed as such in the financial statements.	Green

Significant findings – key judgements and estimates

	Summary of management's policy	Audit Comments	Assessment
Critical judgements (continued)		**Children's Trust pension** Detail on this matter is included earlier in this report. We concluded that the judgment around the children's Trust pension being included within the single entity pension liability was a critical judgement, and officers agreed to disclose the mater as such. **Group accounts** We consider that the basis for preparation of group accounts is a critical judgment, however it was not included as such within the draft financial statements.	●
Assumptions Made About the Future and Other Major Sources of Estimation Uncertainty	The draft accounts contain disclosures on: • Investment property (rolling programme) • Pensions liability • Long term investment Birmingham airport • Non domestic rates provision for appeals • Fair value measurement	We would expect disclosures to be made where the uncertainty could have a material impact on the accounts. For these items we would expect there to be sensitivity analysis to inform the reader over the likely impact of a change in assumption on the item within the financial statements. **Investment properties:** We agreed that following the change in approach on investment properties then this disclosure was no longer required as the amount subject to the rolling programme was unlikely to result in a material misstatement.. **Pension liability** – we agreed that the note should be extended to include the other matters which had been highlighted by the actuary as significant and this is now appropriately disclosed **Birmingham airport shareholding** – it is possible although not likely that assumptions on the valuation could result in a material impact on the accounts. The in year impact is set out as £0.081m but does not make clear under what circumstances there could be a material impact on the accounts or the nature of the of the uncertainty. We do not consider that this is a major source of estimation uncertainty. **Non domestic rates provision**. The note sets out what the Council considers to be a material judgement and the basis of that judgement. We have reviewed the underlying information as part of our audit procedures . We note that a number of other councils have made a different judgement on the ATM matter and included as a provision, however we understand the Councils judgement on the matter. We do not consider that this is a major source of estimation uncertainty. **Fair value measurement;** this narrative sets out the basis of the judgment but not the nature of the estimation uncertainty or how that might have a material impact on the accounts. Other areas where judgments have a could potentially material impact are: • Depreciation around the approaches to calculation of materiality where a change in assumed asset lives could potentially be material • Assumptions around impairment allowance • Regional discount factor on housing stock valuation However the Council has judged that these are not material uncertainties	

Significant findings – matters discussed with management

This section provides commentary on the significant matters we discussed with management during the course of the audit.

	Significant matter	Commentary	
1	Significant events or transactions that occurred during the year	• Children's Trust: We discussed the Council's assessment of its relationship with the Children's Trust and the basis of preparation of group accounts. We discussed the accounting treatment of the associated pension fund liabilities	**Auditor view** • Covered in detail earlier in this report **Management response** n/a
2	Business conditions affecting the Group, and business plans and strategies that may affect the risks of material misstatement	• Officers had not prepared a specific going concern paper to support this assertion within the financial statements. When the accounts were drafted reference was made to the medium term financial plan and the level of council balances, which at the time we judged to be reasonable. COVID- 19 has had a significant impact on many councils, both in terms of additional costs including the costs of social care, but also on expected revenue and collectability of debt. Several councils are reporting significant financial pressures as a consequence. The position is likely to impact on the assumptions made within the MTFP. We have therefore requested that management provide us with a going concern assessment before we can issue the opinion. • We have discussed with officers and considered the findings of the audit of the Children's Trust and are aware that additional assurances were provided from the Council to the children's trust in order to provide the auditors with sufficient assurance that the Children's Trust is a going concern.	**Auditor view** • The Council should provide specific reference on the position on the Children's Trust within the financial foreword. of the accounts because the Trust accounts are consolidated into the Council's financial statements.. **Management response** • Will reflect in the 2019/20 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).

Going concern commentary

Management's assessment process	**Auditor commentary**
The Councils medium term financial plan (MTFP) is the basis of the going concern assertion. The going concern assertion is prepared by the S151.	• The medium term financial plan demonstrates that the Council does not rely on the unplanned use of balances to support general fund expenditure. The level of balances is currently adequate for a Council of this size and complexity. The MTFP shows that the Council requires relatively modest levels of savings over the next two years. The Council has also considered the level of borrowing required to support the Council’s capital programme, within the MTFP and the level of borrowing will remain broadly comparable with the other metropolitan councils locally. • We have requested that management provide a cashflow forecast to support the going concern assumption.
Work performed	**Auditor commentary**
We have reviewed the MTFP, budget setting and in year reporting as part of our review. A cash flow forecast is not prepared.	• We consider that the disclosures are adequate.
Concluding comments	**Auditor commentary**
	• There are no matters which would impact adversely on our audit opinion in relation to the going concern assertion.

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**	• We have not been made aware of any 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**	• We are not aware of any related parties or related party transactions which have not been disclosed.
3	**Matters in relation to laws and regulations**	• You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations. With the exception of the item below we have not identified any other incidences in relation to law and regulations from our audit work. • As referred to earlier in our report, the original transfer of the school buildings and land in 2011, was not formally approved by the secretary of state for education, this was referred to in Counsels advice sought in 2017. This arrangement has not subsequently been challenged by the secretary of state, although a challenge was received from an academy school. It is uncertain whether the Council has fully complied with all laws and regulations. However, as the Council is planning to transfer the assets back to the Council from SL&P we do not plan taking any further action.
4	**Written representations**	• A letter of representation has been requested from the Council, including specific representations in respect of the Group] which is included in the Audit and Risk Assurance Committee papers. • We are requesting no specific representations.
5	**Confirmation requests from third parties**	• As part of our usual procedures we requested confirmation from the bank of year end balances. For our sample of 10 schools, the bank was not prepared to release this information to us for 4 schools because the authorisation from the individual schools to the bank to release the information to the auditor did not match the mandate signature held at the bank. We have therefore undertaken alternative procedures to obtain our assurance over the school balances included in cash.
6	**Disclosures**	• There are a number of disclosure changes as a consequence of the audit. These are detailed in Appendix C.
7	**Audit evidence and explanations/significant difficulties**	• All information and explanations requested from management was provided. • There were a number of matters which required additional procedures to be undertaken and these are detailed within the report. There were some delays in obtaining transactions listings for some of the balance sheet items as they had not been run at the year end, and these should be incorporated in 2019/20 year end procedures • In addition, the Council should review the policy for valuation of PPE at 1 April as a year end valuation would reduce the level of uncertainty associated with PPE year end valuations and would streamline the audit process.

Other responsibilities under the Code

	Issue	Commentary
1	**Other information**	• We are required to give an opinion on whether the other information published together with the audited financial statements (including the Annual Governance Statement and Narrative Report, is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. • The annual Governance statement should include reference to matters in relation to the Group – but doesn't currently make specific reference to group entities. In particular the children's trust. No inconsistencies have been identified. We plan to issue an unmodified opinion in this respect – refer to appendix E
2	**Matters on which we report by exception**	We are required to report on a number of matters by exception in a numbers of areas: • If the Annual Governance Statement 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 We have nothing to report on these matters
3	**Specified procedures for Whole of Government Accounts**	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. As the Council exceeds the specified group reporting threshold of £500m we examine and report on the consistency of the WGA consolidation pack with the Council's audited financial statements. Our work is not yet completed and we will agree the timescale for completion of the procedures with officers following receipt of the submission document to be audited.
4	**Certification of the closure of the audit**	We are unable to certify the closure of the 2018/19 audit of Sandwell Metropolitan Borough Council in the audit opinion, as detailed in Appendix E.

Value for Money

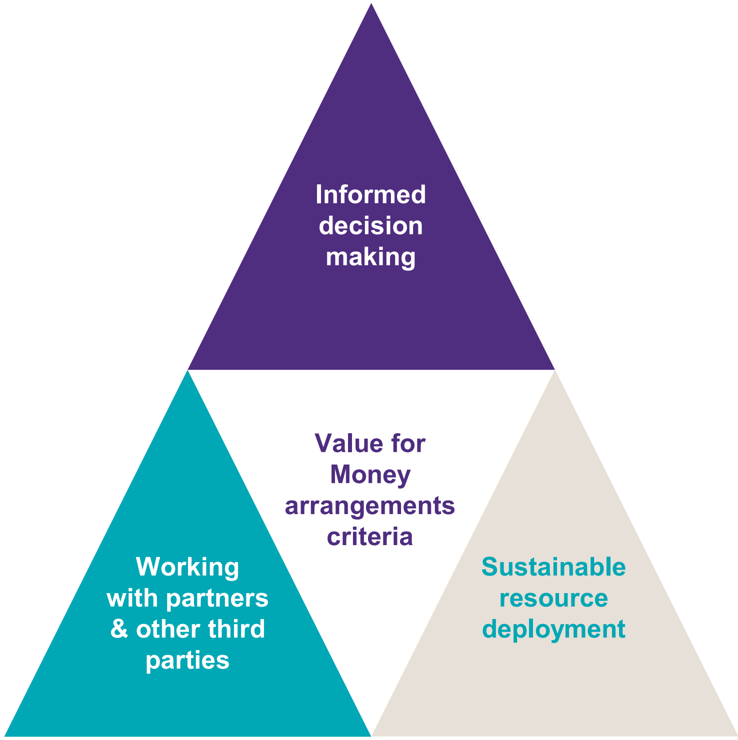
Background to our VFM approach

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 December 2018 and identified two 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 March 2019.

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
- Budget Planning

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 pages 37 to 49.

Overall conclusion

We have completed our risk based review of the Council's value for money arrangements with regard to budget setting and have no issues to report to you on this matter.

Except for the matter we identified in relation to Children's Services, the Council had proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We therefore propose to give a qualified 'except for' conclusion.

The text of our proposed report can be found at Appendix E.

The text of our proposed report can be found at Appendix E.

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: Children's Services

Risk areas: Informed decision making, Sustainable resource deployment, and Working with third parties.

Risk

OFSTED have rated the provision of Children's Services in Sandwell as inadequate. Following consideration of the findings of Inspectorates, KPMG issued an 'except for' value for money conclusion for in this area in 2017/18. The Council has responded to recommendations by setting up a Children's Trust from 1st April 2018. However children's services retain an inadequate assessment and this presents a significant value for money risk.

We have considered how the Council is responding to the inadequate inspection assessment, in particular how the Council is establishing its commissioning arrangements with the Children's Trust.

Findings

The Sandwell Children's Trust became fully operational from 1 April 2019 when over 400 former Sandwell Council staff transferred. The establishment of a Trust was a key requirement of the Secretary of State in response to the inadequate Ofsted assessment. The Council retains legal responsibility for the services, and the Trust has operational responsibility . The Trust is a limited company, 100% owned by the Council although the Board and management team are independent (only 1 manager and board member are from the Council).

The Council and the Trust have together developed an Improvement plan which was signed off at the first Improvement Board and was submitted to Ofsted in May 2018. The improvement plan has eight key priorities and supports the service's 'journey' to 'requires improvement' by 20121and 'good' by 2022.

There is a contract between the Trust and the Council effectively commissioning services from the Trust over the 10 year contract term. The Council has a performance management role in monitoring the contract with the Trust. There are no financial contract penalties for non performance and we understand that the Council does not have a formal financial guarantee with the Trust (for example to support any overspend).

However from discussion with the Director of Children's services and from committee papers it is clear that the Council still has a developing but close relationship with the Trust management, in particular the Director of Children's services meets regularly with the Trust and is clearly closely sighted on developments - such as the development of the medium term financial plan and savings plans.

Whilst operationally independent of the Council there are appropriate governance arrangements in place to involve the council meet its responsibilities, both at an operational level and committee level. Both committee and council management receive performance reports which includes assurance around the progress around the Ofsted improvement plan. These reports are readily accessible on the council website.

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.

Children's Services

Findings (cont.)

The Council has had a number of targeted Ofsted visits over the past year, a full Ofsted inspection is not yet expected. The feedback from Ofsted on these inspections has been positive in some areas, particularly in terms of direction of travel, however evidence of measurable improvement is not yet there. For example the January foster care inspection assessed the Council as inadequate and gave the Trust 3 directions (2 of which have now been lifted).

The financial resources available to the Trust to invest in improvement to achieve better Ofsted ratings, are limited. Relatively early in the financial year, an overspend was identified, and this increased over the financial year. The outturn overspend was over £6.9m, and the Council agreed to fund £5m of this after the year end (draft accounts excluded the £5m commitment) although this had been assumed by the Trust as committed in its draft financial statements. There is an assumed overspend in 2019/20 and currently no clarity as to how the Trust will achieve a balanced budget, although development of a medium term financial plan is a priority.

The overspend this year was due to a combination of factors which include a potentially unrealistic budget but crucially a significant increase in looked after children increasing by 200 in the year. The Trust is an outlier relative to its neighbours on looked after children. In addition there has been invest to improve activity and increased expenditure on staffing (to improve services) including agency and staff retention measures.

The Council has made clear that it does not have the resources to effectively underwrite the Trust's overspends and is not contractually required to do so. This year's overspends were in part funded by reserves and the Council MTFP does not make assumptions around funding future overspends. There is not currently in place a MTFP to demonstrate how investment upfront by the Council will lead to savings down the line and development of such a plan, which is affordable to the Council, must be a priority. The current financial position poses a risk to the Trust ambitions of improved ratings but also provides a risk to the Council.

This first year of the Trust has inevitably been challenging both operationally but also in establishing/ understanding the role of the council relative to that of the children's Trust. Arrangements are bedding in.

Overall we can see that there have been considerable changes with the establishment of the Trust and there is appropriate reporting on the Ofsted improvements, however there is insufficient evidence to demonstrate that children's services would no longer be assessed as inadequate were there to be a full inspection. The emerging financial challenges at the Trust pose a risk to the Trust in delivering the improvement plan in the current timetable.

Conclusion

We are unable to conclude that the identified risk has been mitigated and therefore we are proposing an 'except for' value for money conclusion.

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 : Budget Planning

Risk areas: Informed decision making, Sustainable resource deployment and Working with third parties

Risk

The sector faces continuing financial pressures due to the reductions in central government grants. Council approved a balanced budget for 2018/19. Following the provisional settlement in December 2018, a balanced position is anticipated until 2020 when additional pressures of £5.5m are anticipated for the following two years. Due to the continuing pressures and uncertainties in the sector we consider that this is a significant risk. We will consider your arrangements for managing and reporting your financial resources and the Council's arrangements for achieving savings

Findings

Budget setting/ Medium Tern Financial Plan

The Council has a good track record for managing its finances, this was commented on by the follow up Peer review in January 2019, who highlighted that setting balanced budgets was a particular strength for the council. The medium term financial plan (MTFP) shows that there is a growing gap between funding and expenditure and the Council will be seeking savings to meet the gap. There is an identified funding gap of £5.6m over the next three years and a challenge group has been established to manage the position and ensure savings are identified and agreed.

2018/19 outturn

The 2018/19 outturn report shows some variance between budget and out-turn over the council departments, however, with the exception of children's services, this was managed within in year. The Council operates a 3 year budget programme, which means that underspends in some departments is approved to be rolled forward into subsequent years where there is an agreed purpose (e.g. invest to save). At the 2019 year end there is £22m in GF reserves for these purposes.

The 2018/19 out-turn report sought approval of £5m to be used to support the Children's Trust £6.5m overspend.

Capital programme

The draft financial statements are showing a £10m reduction in need to borrow during 2018/19 despite £79m (£87.5m 2017/18) of capital investment. Over the next three years the Council has a relatively large capital programme of £318m, to be funded partly by an increase in borrowing of £145m, resulting in an overall increase in borrowing of 27% to £670m.

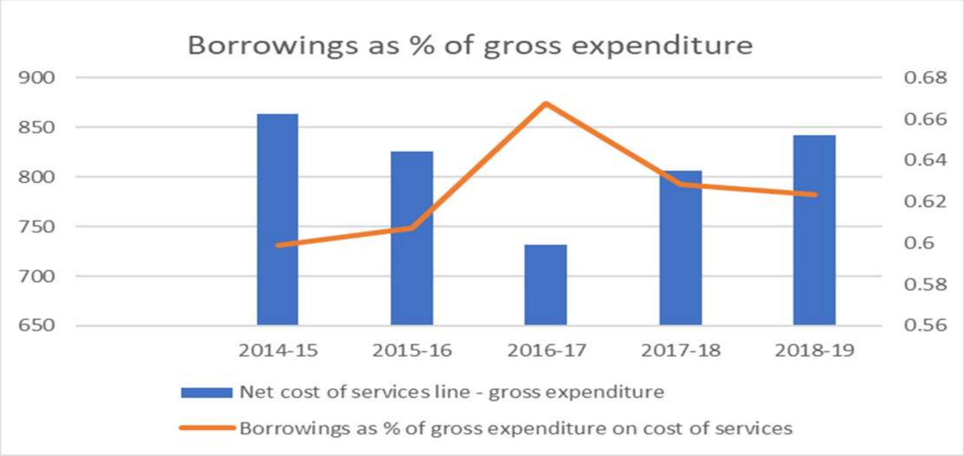
Reserves and borrowing

Review of GF balances indicates a net reduction in General Fund balances compared to the prior year, whilst the Housing Revenue account is showing a £5m (15%) increase in year end reserves (based in draft accounts).

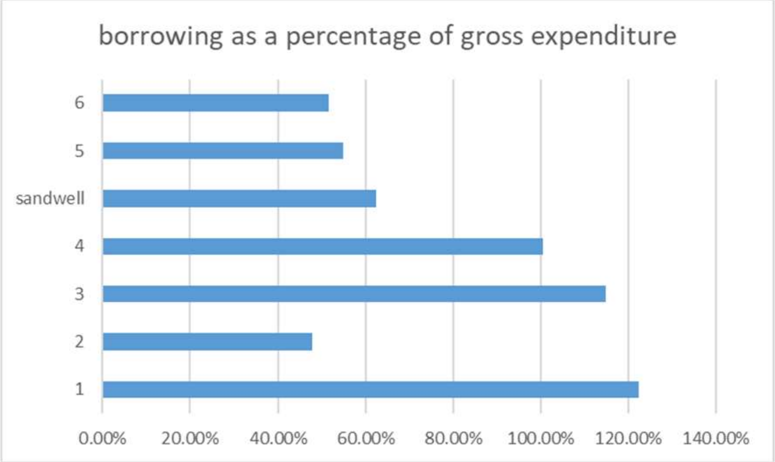
Sandwell council	2018/19 £000	2017/18
Housing Revenue account	40,436	35,281
Total General Fund Comprising:	**117,961**	**133,676**
School balances	32,551	33,551
Earmarked general	23,373	24,916
Departmental surpluses	22,203	17,257
Other GF	39,834	57,952

We have reviewed the level of borrowing against other similar local metropolitan councils and the trend over the last 5 years. (see below)

Sandwell Council



Midland Metropolitan Councils 2018/19



Note: 2016/17 had a £102m reversal of income which skewed GE in that year

Children’s Trust

There is an ongoing financial risk associated with children services, particularly in relation to the children's trust. The Council does not have operational control over the Trust but is the main source of funding to the Trust. This year the council funded most of the Trust overspend from reserves (£5M). For the Trust to remain a going concern the council has provided assurance that it will provide ongoing financial support to the Children's Trust. The overspend on the children's trust was not formally agreed to be funded by the council until June 2019. The draft accounts did not reflect the Councils commitment (although the Trusts accounts included a corresponding debtor) and it was not transparent in in year financial reports the scale of this risk. The Trust is expecting a potentially similar level of overspend during 2019/20 and has relatively limited alternative funding sources. Whilst the potential risk is known by officers and key members it is not transparent in forward financial plans

Conclusion

In common with other councils, Sandwell is highlighting in committee reports and the MTFP that there are a number of uncertainties in relation to its forward forecasting. Consequently assumptions have been made and the future financial position is subject to risk due to funding uncertainties. However in view of the track record of the council and current financial position, we are satisfied that the council is well placed to manage these financial risks in the near future.

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.

	Fees £	Threats identified	Safeguards
Audit related			
Certification of Housing Benefits subsidy	£16,000	Self-Interest (because this is a recurring fee), self review and management.	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 of £153,000 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. We are not expecting material changes to accounting entries as a result from our work and any amendments required to forms are made by officers who have the authority and understanding of the relevant area rather than us. These factors all mitigate the perceived threats to an acceptable level. 2017/18 audit undertaken by KPMG
Certification of Teachers pension*	£5,000	Self interest (because this is a recurring fee) self review and management.	We have been asked to undertake this work, however the terms of the engagement and fee have not yet been agreed. It is unlikely that the recurring fee will exceed £5000, and therefore not considered a significant threat to independence in comparison to the total fee for the audit of £153,000 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. We are not expecting material changes to accounting entries as a result from our work and any amendments required to forms are made by officers who have the authority and understanding of the relevant area rather than us. These factors all mitigate the perceived threats to an acceptable level. 2017/18 audit undertaken by KPMG
Educations Skills Funding Agency Grant*	tbc	Self interest (because this is a recurring fee) self review and management.	We have been asked to undertake this work, however the terms of the engagement and fee have not yet been agreed. It is unlikely that the recurring fee will exceed £5000, and therefore not considered a significant threat to independence in comparison to the total fee for the audit of £153,000 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. We are not expecting material changes to accounting entries as a result from our work and any amendments required to forms are made by officers who have the authority and understanding of the relevant area rather than us. These factors all mitigate the perceived threats to an acceptable level. Audit not undertaken n 2017/18.
Non-audit related	£12,500	Self interest	The fee is a subscription fee. However, the fee for this work is negligible in comparison to the total PSA's turnover overall. It is also a fixed fee with no contingent element. These factors all mitigate the perceived self-interest threat to an acceptable level. The CFOi service is provided on a fixed fee basis. There is no contingent element.

These services are consistent with the group's policy on the allotment of non-audit work to your auditors. All services have been approved by the Audit and Risk Assurance Committee. None of the services provided are subject to contingent fees.

Action plan

We have identified 10 of recommendations for the group /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 risk	Recommendations
1	● (Medium)	Aged debt We estimate that the council has material balances of potentially uncollectible debt, particularly in revenues. We are content that much has been provided for and consequently there is not a material misstatement in the balance sheet. It is indicative of poor housekeeping that such balances have not been cleared and it also means that there is a lack of clarity around which old debts are being actively pursued .	• A review should be undertaken of debts over 2 years and balances considered uncollectible should be written off. • officers should finalize and implement the Revenues debt collection policy as discussed with officers. **Management response** • A strategy has now been produced by the Revs and Bens Team and signed off. I have asked for it to be updated to reflect an analysis of aged debts up to 31st March 2020. Once this has been completed management will share with GT.
2	● (Medium)	Children's Trust pensions We are satisfied that the accounts reflect the children's trust pensions consistent with the intention of both parties. However the paper trail to support the accounting was poor, although following discussions and legal letters was adequate for audit purposes.	• The council and Trust and pension fund should more formally set out the position on the pension in a tripartite agreement • As discussed with the S151 the Trust a fixed contribution rate should be confirmed as payable by the children's trust **Management response** agreed
3	● (Medium)	Pension guarantees The accounting impact of pension guarantees had not previously been considered and the 3 guarantees with the largest staff transfer was undertaken on audit request.	• There should be a working paper prepared annually to support the council's assessment of pension guarantees and this should be extended to cover all guarantees. **Management response** • A working paper is now produced annually as per the recommendation but the assessment of pension guarantees has not been extended to cover all 18 guarantees. We agreed to only focus on the three biggest contracts. Details of the other 15 schemes are given in the working paper appendix.

Controls

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

Action plan (continued)

	Assessment	Issue and risk	Recommendations
4		PPE valuations: Valuations are undertaken at 1 April which results in a risk of material misstatement as it does not reflect in year changes. There were some significant changes in valuation which had not been challenged by staff before the audit. Officers should have better ownership and understanding of the valuations before reflecting in the asset register and accounts.	• Valuations should be undertaken at the year end rather then the current policy of 1 April. • Officers should review all valuations for reasonableness before applying to the asset register and investigate outliers. **Management response** Valuations will be undertaken as at the 31st December in 2019/20. Valuations will be reviewed before being applied to the registers and anomalies raised with the Valuers via the Valuation Log.
5		PPE valuations: The Council values its investment properties on a cyclical basis, although all significant assets were valued this year following discussions. The Code requires that the carrying amount (the recognised value) of investment property shall reflect market conditions at the balance sheet date. This means that the rolling valuation programme approach may only be used for investment property where the carrying amount does not differ materially from that which would be determined if the property were revalued at the balance sheet date. This effectively means that unless market conditions are static or are moving in a manner that does not materially affect values, investment property should be valued annually.	• The Council should comply with the requirements of the code in valuing Investment properties. **Management response** This has been discussed with the Councils Valuers. Due to the number of Investment Properties held by the Council it is not possible to get all of these valued each year. For 2019/20 all Investment Properties with a carrying value greater than £1m will be re-valued annually. The remaining assets will be re-valued every 3 years and those that are not due to be revalued will be assessed against market indices to establish if a more current valuation is required.
6		PPE valuations Officers should take steps to ensure that the approach to valuation is in line with the code and be able to demonstrate this to auditors. The covering reports to valuations setting out assumptions in the valuations were received late in the audit and did not set out all assumptions. We noted that better information was used in later valuations, for example more accurate floor areas based on GIS information; we had to seek confirmation that the MEA approach had been properly adopted in schools valuations with the assumption that schools current occupation met needs and there was no excess land – as this was not set out in working papers. Management, supported by internal valuers should ensure that external valuers are provided with full information on any changes to the buildings such as extensions or impairments, and check all returned valuations for reasonableness prior to them being applied to the fixed asset register.	• Officers should ensure that key assumptions to demonstrate that he council and valuers have met the requirements of the code should be more clearly set out. • Valuers should ensure that the best information available is used in undertaking valuations, this is set out in working papers and where there are changes in assumptions these are clear and any indication of errors in previous years has been considered. **Management response** Agreed

Action plan (continued)

7	●	Support for debtor and creditor year end balances: Transactions listing were not easily available for year end balances to facilitate our sample testing. It is not always possible to run such listings.	• Year end closedown procedures should incorporate preparing transactions reports as at the year end for the balance sheet **Management response** agreed
8	●	PFI schemes Officers had not updated ether the accounting or the operators model on the council's PFI schemes. This meant that there are differences between the accounts and the accounting models which reflect known changes. The accounts reflect an assessment outside of the model which take into account known changes in assumptions. However when the accounting model was updated at audit request it did not correspond with either the accounting model or the accounts. We understand the PFI 'expert' has recently left the council Discussions with officers revealed that there officers did not have a full understanding of the basis or operation of the model.	• Officers should update the accounting model for all the PFI schemes for the 2019/20 financial statements. This should be completed in readiness for the for the Grant Thornton interim visit, to enable audit procedures to be undertaken in a timely manner. • The PFI team should seek appropriate training on PFI and the basis of the models. **Management response** • Total Schools balance has been corrected in 2019/20 , however the by Portway remains unresolved. Management have stated that they will aim to correct this in 20-21. • Appropriate training on PFI and the basis of the models was planned but could not be fully delivered due to Covid 19 which was out of our control and was therefore deferred until 20-21.
9	●	Sandwell Land and Property Company As outlined in the report, we have had extensive discussions with officers around the accounting for SL&P property but also around the history and purpose of the company. We agree with management view that the company should be wound up as soon as possible.	Council representatives should discuss with the Directors of the company the ongoing purpose of the company and whether it should continue in its current form **Management response** agreed
10	●	Accounting policies and disclosures We agreed with officers changes to disclosures in accounting policies where we considered that they did not reflect material matters. We found that the notes contained some matters which would be more appropriately reflected within accounting polices.	As part of the closedown process, the Council should consider annually the disclosures in key areas such as critical judgements, significant estimates and accounting policies generally to ensure that they remain appropriate and reflect the basis of material transactions or assumptions **Management response** agreed

Follow up of prior year recommendations

We identified the following issues in the audit of Sandwell Metropolitan Borough Council's 2017/18 financial statements, which resulted in 11 recommendations being reported in the 2017/18 Audit Findings report. We have followed up on the implementation of the recommendations and note 2 are still to be completed.

Assessment	Recommendation previously communicated	Update on actions taken to address the issue
✓	**Performance of bank reconciliations** Management should ensure that bank reconciliations are completed and reviewed on a monthly basis. Management should review the current process for performing bank reconciliations to identify if it can be made more efficient, whilst still providing the same assurance.	**Management Response** A review of the process has been undertaken and findings reported back to management. Risks raised in 2017-18 have been mitigated as there is now a permanent employee (Senior Accountant) in post, key procedures have been established and the process more thoroughly understood. As a result key errors will be identified during the monthly reconciliation processes and highlighted much sooner. A full reconciliation is sent to the Principal Accountant at the end of each month to review (highlighting errors found) and authorise. The process has been streamlined to make it more easily understood and more transparent. **Audit Team Response** We have undertaken a review of the bank reconciliations completed by the Local Authority (task completed in November 2018 and as part of year-end procedures), and have not identified any issues. All related reconciliations were complete in a timely manner and were appropriately authorised.
X	**Unrecorded liabilities & cut off procedure** Management should refresh financial training, and circulation of guidance to the wider team involved in the closedown process to ensure that they understand what is required. Also see recommendation 11 review of closedown process.	**Management Response** The timetable has also been reviewed thoroughly and updated and regular Principal Accountants meetings are taking place to ensure that all teams are aware of their responsibilities and deadlines. **Audit Team Response** It has been established through our testing of year-end creditor balances, that a number of accruals in place at 31st March 2019 were not appropriately accounted for. This has resulted in an overstatement of trade creditors on the Council's balance sheet. Although we acknowledge that further training has been provided to the team to help support closedown procedures, this recommendation has not been met given the level of errors identified as part of our substantive work.
✓	**Review of closedown/ period 13 journals** Management should review their journal review process, in particular around period 13 journals made as part of the close-down process. This could include analysis of all journal postings made during this period and an assessment of which of those should be reviewed in more detail.	**Management Response** Still on track to be implemented for 2018/19 closedown. **Audit Team Response** No issues have been identified from our testing undertaken in regard to the recommendation made.
✓	**School closedown process and accruals completeness** Management should review their schools close-down process, in particular around the use of estimates, unpresented cheques and school bank account reconciliations.	**Management Response** The Principal Accountant for Schools will now be undertaking the entire process with regard to consolidating school balances on to the corporate balance sheet. Also, for 2017/18, the use of February estimates to close down the schools ledger was trialled but it has been decided that this will not continue in 2018/19. Both of these should assist in addressing the issues highlighted. **Audit Team Response** No issues have been identified from our testing undertaken in regards to the recommendation made.

Assessment
✓ Action completed
X Not yet addressed

Follow up of prior year recommendations

Assessment	Recommendation previously communicated	Update on actions taken to address the issue
✓	**Valuation of Council Dwellings** Management should ensure that all key guidance is followed, and that checks are made for updated guidance on a timely basis. Management should undertake a review of the guidance to identify areas where improvements can be made.	**Management Response** A full review of the process was carried out. As a result, the beacon selection and valuation process has been re-procured. A procurement exercise was carried out in order to appoint a suitably qualified valuer to carry this out, ensuring that all guidance was followed. This included management check and challenge, along with director sign off at each stage of the process. **Audit Team Response** No issues have been identified from our audit testing in relation to the recommendation made. We are satisfied that the Local Authority have used the most relevant guidance to support their valuation of Council Dwellings.
✓	**TB mapping** Management should ensure that key accounts production documentation is reviewed, and made available at the start of the audit process.	**Management Response** The Trial Balance has been reviewed and the new format agreed with Grant Thornton. **Audit Team Response** No issues have been identified from our audit testing in relation to the recommendation made.
✓	**Non-current asset (Academy School) de-recognition** Management should review the process by which finance are notified of any changes in status of land.	**Management Response** Finance have met with colleagues from Schools (SFS) Financial Services and Sandwell Asset Management (SAM) to review and agree the process. The Capital Team have liaised with Legal Services and Property Services to re-iterate the need for Finance to be notified of all Property Sales in a timely manner. **Audit Team Response** No issues have been identified from our audit testing in relation to the recommendation made.
✓	**Contract Monitoring** Ensure that the contract monitoring process is improved by obtaining a clear position of each large contract as at year-end, and maintaining a clear audit trail as to how this position has been derived.	**Management Response** Procurement team are currently in the process of implementing the contract management module of In-Tend. This should provide clearer and more robust information about the contracts held by the council. **Audit Team Response** No issues have been identified from our audit testing in relation to the recommendation made.

Follow up of prior year recommendations

Assessment	Recommendation previously communicated	Update on actions taken to address the issue
✓	**Payroll reconciliation** Management should ensure that the payroll reconciliation (and all other key financial control reconciliations) are completed on a timely basis, and that reconciling items are appropriately investigated.	**Management Response** A review of the process has been undertaken and the findings reported back to senior management. Risks raised in 2017-18 have been mitigated as there is now a permanent employee (Accountancy Assistant) taking on the role. Where there are reconciling items outstanding at the month end, these will be investigated by the Accountancy Assistant who will contact the HR department to request further details and ensure that the necessary corrections are made. The Accountancy Assistant will monitor progress and if items are still outstanding after 3 months will escalate the queries to the Principal Accountant who will liaise with the necessary managers to get them resolved. **Audit Team Response** No issues have been identified from our audit testing in relation to the recommendation made.
✓	**Closedown process** Management should review the closedown process. This should include; clarification of key deliverables and the timetable on which they should be provided; updating of roles and responsibilities; as well as identifying training needs particularly of staff outside the core Finance team who are involved in the close-down process. This should also factor in the other recommendations as set out above, with a particular focus on journals and accruals made (or missing) during closedown.	**Management Response** The timetable has also been reviewed thoroughly and updated and regular Principal Accountants meetings are taking place to ensure that all teams are aware of their responsibilities and deadlines. **Audit Team Response** No issues have been identified from our audit testing in relation to the recommendation made.
X	**Monthly review of journals process** Management may wish to consider review of the control over circularisation of monthly journal postings and consider whether additional assurance is required. This could include requiring returns from budget holders (with evidence of what has been reviewed), or identifying key or unusual postings for which individual confirmation of review is required.	**Management Response** The process has been reviewed and additional controls have been agreed and implemented. Principal Accountants must complete a monthly return formally agreeing journals processed in year. Journals due to be posted during period 13 need to be approved in advance of processing. Journals to be processed after account closure will need to be authorised by a Service Manager. **Audit Team Response** As part of our year-end testing of manual journal entries, we identified two errors, these were: - An inconsistency within the approval process. It was established that service managers were approving monthly journals (which included period 13), via a set pro-forma or via the use of an email. We were satisfied that all entries were appropriate however there needs to be a level of consistency/ formality within the Council's approach to ensure a more robust process . - We identified a total of 5 journals (out of 18 tested), where approval was given verbally. We concluded that the entries themselves are reasonable based on the data supplied, however, we were unable to confirm that they had been appropriately authorised due to no audit trail being available. The Council need to ensure that approval of monthly journal entries including period 13 are documented.

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 ending 31 March 2019.

	Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000
1	Note 35 grants: we identified from our testing that the note was overstated by £1.1m, relating to the adult social care grant and war pensions – these had been double counted in the note, but correctly stated in the CIES (as charged to services	n/a – disclosure in the note	n/a– disclosure in the note	n/a – disclosure in the note
2	Note 10- council houses disclosure. The brought forward and carry forward gross depreciation, contained a balance of £18.7m which should have been adjusted for some years ago. This provided a spurious carry forward of £18.7m of accumulated depreciation, even though it should have been eliminated on revaluation, some years ago. Officers were unclear the rationale for the impairment balance and have adjusted gross assets and carry forward depreciation to eliminate the balance. As material, the prior year balances have also been adjusted. The council has not provided a clear rationale for the source of the balance, however eliminating the balance on revaluation is an appropriate response.		n/a – adjustment made within the note 10 and adjustment to opening balance is highlighted.	
3a	Pensions; McCloud judgement: adjustment due to revised actuary report	Cost of services £16,103	Pension fund liabilities £16,103	£16,103
3b	Pensions; GMP: Our auditors expert (Actuary) had a different view of the impact of the GMP ruling to the council's actuary. The Council's Actuary has reconsidered the position and the accounts have been updated accordingly	Cr cost of services £3,136 Dr actuarial gains £3,136	Pension fund liabilities (£3,136)	(£3,136)
4	Adjustment for schools valuation general fund:		(£17,784) PPE 17,784 unusable reserves	

Audit Adjustments

Impact of adjusted misstatements (continued)

	Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000
5	Adjustment for other valuation (includes net effect of SL&P in prior year net adjustments) SL&P separately identified in 17/18 adjustments overleaf		Revaluation gain (£87,548) Revaluation loss £47,020 Net adjustments re previous years (£14,352) academy disposal £1113 Dep't| £56 Other £144 Unusable reserves £53,568	
6	Creditors: item identified as creditor, should be treated as reserve PFI Sinking fund	(£3700)	creditors (£3,700 Useable Reserves £3,700	(£3,700)
7	PFI: adjusted error in liabilities as a consequence of updating the PFI model (riverside)	(£5,968) HRA £5,967 MRP contribution	Finance lease creditor (£5,967) CAA £5,967	£nil
8	Adjustment in single entity accounts for children's Trust Creditor not accrued (but reflected in the children's Trust accounts)	£5000 children's services	Creditors £5000 Useable Reserves (£5000)	£5,000
9	SL&P: Adjustment to investments on single entity balance sheet for the investment in SL&P		Long term investments £28,682 Reserves (£28,682)	
10	SL&P further adjustment for the school land incorrectly transferred to SL&- corresponding reduction in investment		Long term investments(£2,396) Reserves £2,396	

Audit Adjustments

Impact of adjusted misstatements (continued)

	Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000
	2017/18 adjustments			
11	Portway and Sandwell sixth form – a deferment factor was applied to the valuations for these 2 assets in 2018/19, but included gross in the prior year. Management was unclear the rationale for the treatment. We consulted with the Grant Thornton valuation specialist who confirmed that the 2018/19 approach was correct and as the council is making prior period adjustments, changes were made to the prior year accounts to correct the error.		Non current assets (£9.5m) Revaluation reserve £9.5m	
12	SL&P: Adjustment to single entity balance sheet for school land transferred to SL&P at current value. This is then reflected in the group balance sheet on consolidation.		GF PPE (£51,274) Revaluation reserve 35,881 Capital adjustments account £15,393	
13	2016/17 valuation adjustments (net of SL&P)		Valuation gain £72,950 Valuation loss ((£43,843) Derecognition SL&P (£51275) Unusable reserves 22168	
14	2017/18 valuation adjustments		Prior year adjustments (£22,166) Depreciation 284 Revaluation gain 7146 Revaluation loss (65) Academy disposal 471 Other (322) Unusable reserves 14352	

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.

Disclosure omission	Detail	Auditor recommendations	Adjusted?
Accounting policies	Updated to remove reference to Scottish standard, new standards IFRS9 and 15 and accounting policy for pooled budgets	Updated disclosures as detailed	✓
Significant estimates	Reference to Investment policy removed as change in approach to valuation removes the need for disclosure, however the accounts should make clear that some Investment assets are assessed on a rolling programme which is not in line with the code but not judged to be material Pensions- agreed that the council should include more detail on pension sensitivity as impact could be material	Updated disclosures as detailed	✓
Critical judgements	Critical judgments omitted in a number of areas including: accounting for schools, judgement around inclusion of Children's Trust as a subsidiary and resulting preparation of group accounts, accounting treatment around children trust pensions, PFI / IFRIC 12 assessments for accounting for assets on balance sheet, SL&P investment in the company, reference to HRA discount factor , basis for impairment of debts and reference to pension guarantees.	Updated disclosures as detailed	✓
Note 30: pooled budget	The note in the draft accounts was unclear, it contained matters that set out accounting policies The note also set out all the transactions in relation to the pool, however not all the transactions are reflected in the council's accounts because under IFRS11 each party should account for its own transactions – and thus including all transactions is misleading as the note is a note to Sandwell's accounts.	• A footnote has now been added to the note to clarify the accounting. • An accounting policy (xxxi) has been added and removed from the note. Superfluous information has been deleted from the note.	✓

Audit Adjustments

Misclassification and disclosure changes continued

Disclosure omission	Detail	Auditor recommendations	Adjusted?
Comprehensive income and expenditure statement	The CIES included the net position for the prior year.	The accounts should show the gross income and expenditure for the prior year, to comply with the code and t facilitate the users understanding of the financial statements.	✓
External audit costs (note 33)	The accounts disclosure does not make clear that some of the fees payable to KPMG relate to the previous financial year, does not include known fees payable to Grant Thornton for 2018/19 for audit of grant claims or the statutory audit of the subsidiary. These fees are set out in Appendix D.	The accounts should clearly set out the fees associated with the audit year to which the accounts relate.	✓
Note 36 related parties	Updated to reflect information not available at draft accounts stage	none	✓
Financial instruments note 18	There were a number of disclosure matters in relation to financial instruments:: • We considered that there was insufficient reference to LOBOs which have a different risk profile to other council debt • There was no fair value for PFI liabilities so valuations were sought – these have yet to be finalised and adjustment should be reflected on pages 68,69,70 and 71 • Not all level 3 disclosures were made • Financial assets had incorrectly been included in contractual debt and creditors had incorrectly included prepayments. (prior year matter also)	Adjustments broadly result in required disclosures. Recommend further consideration is given to the layout of both the note and the accounting polices withing the 2019/20 accounts to improve the disclosure and relationship with the primary statements **Management response** agreed	✓
MIRS	The MIRs should show the movement between the available for sale reserve and the financial instrument reserve split between the opening adjustment of application of IFRS 9 and true movements in the year	Not considered material	

Audit Adjustments

Misclassification and disclosure changes continued

Disclosure omission	Detail	Auditor recommendations	Adjusted?
Note 31: officer remuneration	Minor numerical errors in the table for director of regeneration and growth and Director of public health. officers, now updated: 85,109 should be 85,131 93,949 should be 91073 13,796 should be 13006 The table of other employees over £50k in bandings had been omitted from the draft accounts	Required adjustments made.	✓
Note 43	Fair value of scheme assets incorrectly stated 2018/19 as £1,403,323, revised to £1,386,323 CPI incorrectly stated as 2.3% should be 2.4%	Required adjustments made.	✓
Accounting policies on financial instruments are insufficient (policy xi)	Policy contain insufficient detail on: • Financial assets held at amortised costs - • Application of the expected credit loss model • FVOCI - the airport is on this basis but it doesn't say so in the policy - • expanded policy setting out the fair value measurements applied.	The accounts should reflect accounting policies in sufficient detail in the accounting policies section – rather than relying on disclosures within the notes. As referenced above, further consideration should be given to the layout of both the note and the accounting polices withing the 2019/20 accounts to improve the disclosure and clarity of relationship with the primary statements	partly
Group accounts	Note 2 to the group accounts has been updated, however is still misleading because the council has prepared group accounts, consolidating on a line by line basis, because the Council has determined it does have control and that the entity is a subsidiary. Accounting policy xv: • describes group accounts as 'supplementary' but group accounts are not supplementary and shouldn't be described as such. • There is reference to SL&P as a subsidiary – however it has not been consolidated and included in the group accounts which would be expected for a subsidiary – however the impact on the draft accounts is not material because the property assets are currently accounted for within the single entity accounts (see section of the report on SL&P)	Note 2 to the group accounts should be clearer on the basis of consolidation. Reference to supplementary should be removed and the accounting policy on SL&P should be reworded	partly

Audit Adjustments

Impact of unadjusted misstatements and uncertainties

The table below provides details of adjustments identified during the 2018/19 audit which have not been made within the final set of financial statements. The Audit and Risk Assurance Committee is required to approve management's proposed treatment of all items recorded within the table below:

	Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000	Reason for not adjusting
1	Depreciation: prior year useful economic lives and component split have been used to determine depreciation, for expediency and with the assumption that it is reasonable not to expect useful lives to change significantly year on year. From our reperformance using UEL as per the valuers report we have estimated that this has resulted in a £1m overstatement of depreciation	(£1,100)	£1,100	(£1,100) reduction in expenditure as overstated	It is reasonable for the council to make such an estimate if the impact is not material.
2	Note 10: The council undertakes a rolling programme of valuations. We have considered whether there is an indication whether the assets not revalued in year are materially misstated. We have undertaken this review using the indices provided by the auditor expert Gerald Eve. We have concluded that by conducting a rolling programme, the assets not valued in year are likely to be understated by £5.1m		Non current assets £5,100 Revaluation reserve (£5,100)		Not material
3	Investment properties: We have compared the revaluation movement of investment properties with the auditor expert, Gerald Eve indices and have identified a difference to our estimate of £6.8m (balance sheet understated). This represents an uncertainty rather than an error and consists of: • Valued assets - A difference of £3.8m between our estimated value using indices and the actual valuation • Unvalued assets – a difference of £3m between the balance sheet value and our estimate.	(£6,800)	Non current assets £6,800	£nil	Officers consider that the valuation made by the councils valuation expert is reliable and the difference is not material.

Audit Adjustments

Impact of unadjusted misstatements (continued)

:

	Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000	Reason for not adjusting
4	Difference between balance sheet and valuer reports: • Investment Properties: we noted a difference between the balance sheet and the valuer's report, suggesting the Balance sheet is overstated by £604k. • Other land and buildings: Variance identified between the balance sheet and the valuer's report, Balance sheet is overstated by £214k.	£604	Non current assets (£604) Non current assets (£261) Revaluation reserve £865	£nil	Considered immaterial
5	Perryfield academy – the 2017/18 valuation process recently undertaken to restate school values also identified that an extension to the school had not been taken into account in the 2018/19 valuation. This has resulted in an understatement of the 2018/19 valuation of around £2.1m – based on the 2017/18 valuation. This amount is not exact as the 2018/19 valuation has not been updated	n/a	£2,100 increase in land and buildings (£2,100) revaluation reserve	n/a	A valuation for 2018/19 has not been updated and so the 'adjustment is approximate and is unlikely to result in a material misstatement
	subtotal	(£7,296)	£14,235		

Audit Adjustments

Impact of unadjusted misstatements (continued)

The table below provides details of adjustments identified during the 2018/19 audit which have not been made within the final set of financial statements. The Risk and Assurance Committee is required to approve management's proposed treatment of all items recorded within the table below:

	Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000	Reason for not adjusting
6	Debtors: We noted that the debtors balances included large balances of aged debt. At our request officers undertook a review of balances which had not moved year on year and we noted £2.38m was unchanged when compared with the prior year. £1.3m did not have a corresponding provisions for bad debt, consequently debtors are likely overstated. We understand that the CFO will be reviewing all these balances and recommending write offs as appropriate	£1,341	Short term debtors (£1,341)	£1,341 reflecting an increase in provision- increased charge to CIES	Considered immaterial
7	Council tax arrears: there is £6.1m of debts pre 2013/14 which are likely to be uncollectible and therefore should be written off. As these have been 100% provided for then there is no impact on the accounts, but remains a house keeping matter. To recognise a debt there should be some expectation of collection,	n/a	n/a	n/a – fully provided for.	The view of the Head of Revenues is his is still being collected in small amounts and is therefore not uncollectible.
8	Creditors: receipt in advance for council tax, no evidence provided to enable us to test the balance and much of the balance is over 2 years old which seems unusual for this type of debt. This represents an uncertainty rather than an error.	(£3,800)	(£3,800) creditors £3,800 general fund	(£3,800) reduction in expenditure	Immaterial. Officers did not consider it necessary to provide an audit trail to support this balance as they were not specifically asked to do so, and the report cannot be re-run after the year end.
9	Errors identified in testing of creditors items incorrectly included – extrapolated error	(£1,300)	(£1,300) creditors £1,300 general fund	(£1,300) reduction in expenditure	Immaterial and extrapolated figure considered too crude to apply

Audit Adjustments

Impact of unadjusted misstatements

The table below provides details of adjustments identified during the 2018/19 audit which have not been made within the final set of financial statements. The Risk and Assurance Committee is required to approve management's proposed treatment of all items recorded within the table below:

	Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000	Reason for not adjusting
10	PFI: Differences between the balance sheet and the accounting models: Total schools Portway Rowley BSF		(pfi long term creditors) (£1,891) (£1,305) CAA £3,196	(£3,196)	Without further analysis the error cannot be confirmed
	Overall impact	£11,055	£4,598		

Impact of unadjusted misstatements re 2017/18

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000	Reason for not adjusting
2016/17 Subsequent to the adjustment for revised valuations for 2016/17 and 2017/18 further valuations were received.	n/a	(£1,022) non current assets £1,022 revaluation reserve	n/a	Not material
2017/18 As above	n/a	£1,330 non current assets (£1,330) revaluation reserve		

Fees

Audit Fees

	2017/18 fee	2018/19 Planned fee	Final fee
Council Audit	£198,878	£153,136	£204,536
Total audit fees (excluding VAT)	**£198.878**	**£153,136**	**£204, 536**

Required Additional Work	Description of work required	Proposed fee
Core fee		£153,136
Assessing the impact of the McCloud ruling	The Government's transitional arrangements for pensions were ruled discriminatory by the Court of Appeal last December. The Supreme Court refused the Government's application for permission to appeal this ruling. As part of our audit we considered the impact on the financial statements along with any audit reporting requirements.	£3,000
Pensions – IAS 19	The Financial Reporting Council has highlighted the need for more in depth work by audit firms in respect of IAS 19. Accordingly, we have increased the level of scope and coverage in respect of IAS 19 this year.	£3,000
PPE	The Financial Reporting Council has highlighted the need for more in depth work by audit firms in respect of PPE. We have increased the volume and scope of our audit work to reflect this. This work revealed a number of matters around the approach to valuations which required additional time to resolve and an number of restatements of valuations and adjustments were made which required consideration and review.	£6,000
PPE valuations	The GT valuer was used to support the team, to liaise with the Council external valuer and to form a view of the reasonableness of assumptions. This was because the council had made historic judgements which adjusted the valuation provided by the valuer which could not be explained.	£4,100
Group accounts	First time preparation and of group accounts has required additional work reviewing the consolidation and new disclosures	£5400
Children's Trust pension	The accounting treatment of the Children's Trust pension was initially unclear and additional work was undertaken, including consultation with the council layers and out own technical team to be satisfied that the approach adopted was appropriate	£3000

Fees

Audit Fees (continued)

Required Additional Work	Description of work required	Proposed fee
Sandwell Land and Property Company	The accounting treatment of the interest in the company and the associated land and buildings was unclear in the draft accounts and due to the elapsed time there was a limited understanding at the council. This matter took some time to resolve	£10500
PFI	Additional work and specific technical advice was required to be satisfied that the proposed adjustments to the draft accounts was appropriate.	£6500
IFRS 15 implementation	We considered the paper provided by the council to support its assumptions around the application of IFRS15 (revenue for contracts around customers) new application in 2018/19 accounts.	£1500
IFRS 9 implementation	We considered the councils application of IFRS9 this year and the disclosures in the accounts, particularly within Financial Instruments – new application in 2018/19 accounts	£1500
Debtors and creditors	The council did not initially have available working papers to support a number of the debtors and creditors balances to enable us to sample and test items. This therefore required work over and above that we would expect to obtain and test these populations. We also investigated unusual balances due to their age or lack of movement year on year, to establish whether items included as debt or creditors were valid.	£1500
Completion	Additional time to review revised financial statements	£5400
Total audit fees (excluding VAT)		**£204,536**

The final fees are subject to review and agreement with PSAA Ltd and have not been included in the 2018/19 statements

Other Fees

We confirm below our final fees charged for the provision of audit and non-audit services.. Grant Thornton did not undertake any work at the council during 2017/18.

Other Audit Fees	Proposed fee	Final fee
Audit of subsidiary company Sandwell Children's Trust	£23,000	£23,000
Total audit fees (excluding VAT)	**£23,000**	**£23,000**

Non Audit Fees

Fees for other services	Final fee
Audit related services	
• Housing benefit subsidy claim proposed fee	£24,000 tbc
• Teachers pension return proposed fee	£5,000
Non audit Services CFO insights annual subscription	£12,500
Total non audit fees (excluding VAT)	**£41,500**

Notes:

- Fees disclosed in the financial statements payable to KPMG are for matters relating to the 2017/18 audit of accounts and grants and returns which were raised in the 2018/19 financial year.
- The additional fees listed on the previous pages have yet to be agreed with PSAA and are therefore excluded from the financial statements.

Audit opinion

We anticipate we will provide the Group with an unmodified audit report

Independent auditor's report to the members of Sandwell Metropolitan Borough Council
Report on the Audit of the Financial Statements
Opinion
We have audited the financial statements of Sandwell Metropolitan Borough Council (the 'Authority') and its subsidiary (the 'group') for the year ended 31 March 2019 which comprise the, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement, the Movement in Reserves Statement, the Housing Revenue Account Income and Expenditure Statement, the Movement on the Housing Revenue Account Statement, the Collection Fund Statement, the Group Comprehensive Income and Expenditure Statement, the Group Balance Sheet and the Group Cash Flow Statement, the Group Movement in Reserves Statement and notes to the financial statements, including a summary of significant accounting policies.
The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2018/19.
In our opinion, the financial statements:
- give a true and fair view of the financial position of the group and of the Authority as at 31 March 2019 and of the group's expenditure and income and the Authority's expenditure and income for the year then ended;
- have been prepared properly in accordance with the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2018/19; and
- have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

Basis for opinion
We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the 'Auditor's responsibilities for the audit of the financial statements' section of our report. We are independent of the group and the Authority in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.
The impact of macro-economic uncertainties on our audit
Our audit of the financial statements requires us to obtain an understanding of all relevant uncertainties, including those arising as a consequence of the effects of macro-economic uncertainties such as Covid-19 and Brexit. All audits assess and challenge the reasonableness of estimates made by the Executive Director of Resources and the related disclosures and the appropriateness of the going concern basis of preparation of the financial statements. All of these depend on assessments of the future economic environment and the group's and Authority's future operational arrangements.

Covid-19 and Brexit are amongst the most significant economic events currently faced by the UK, and at the date of this report their effects are subject to unprecedented levels of uncertainty, with the full range of possible outcomes and their impacts unknown. We applied a standardised firm-wide approach in response to these uncertainties when assessing the group's and Authority's future operational arrangements. However, no audit should be expected to predict the unknowable factors or all possible future implications for an authority associated with these particular events.
Conclusions relating to going concern
We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:
- the Executive Director of Resources' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Executive Director of Resources has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the group's or the Authority's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

In our evaluation of the Executive Director of Resources' conclusions, and in accordance with the expectation set out within the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2018/19 that the Authority's financial statements shall be prepared on a going concern basis, we considered the risks associated with the group's and Authority's operating activities, including effects arising from macro-economic uncertainties such as Covid-19 and Brexit. We analysed how those risks might affect the group's and Authority's financial resources or ability to continue operations over the period of at least twelve months from the date when the financial statements are authorised for issue. In accordance with the above, we have nothing to report in these respects.
However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the Authority or group will continue in operation.
Other information
The Executive Director of Resources is responsible for the other information. The other information comprises the information included in the Statement of Accounts, other than the Authority and group financial statements and, our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.
In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge of the group and Authority obtained in the audit or

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otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Other information we are required to report on by exception under the Code of Audit Practice

Under the Code of Audit Practice published by the National Audit Office on behalf of the Comptroller and Auditor General (the Code of Audit Practice) we are required to consider whether the Annual Governance Statement does not comply with the 'Delivering Good Governance in Local Government: Framework (2016)' published by CIPFA and SOLACE or is misleading or inconsistent with the information of which we are aware from our audit. We are not required to consider whether the Annual Governance Statement addresses all risks and controls or that risks are satisfactorily addressed by internal controls.

We have nothing to report in this regard.

Opinion on other matter required by the Code of Audit Practice

In our opinion, based on the work undertaken in the course of the audit of the financial statements and our knowledge of the Authority gained through our work in relation to the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources, the other information published together with the financial statements in the Statement of Accounts, for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

Under the Code of Audit Practice, we are required to report to you if:

- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make a written recommendation to the Authority under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or;
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014, in the course of, or at the conclusion of the audit.

We have nothing to report in respect of the above matters.

Responsibilities of the Authority, the Executive Director of Resources and Those Charged with Governance for the financial statements

As explained more fully in the Statement of Responsibilities for the Statement of Accounts , the Authority is required to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the Executive Director of Resources. The Executive Director of Resources is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2018/19, for being satisfied that they give a true and fair view, and for such internal control as the Executive Director of Resources determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Executive Director of Resources is responsible for assessing the group's and the Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless there is an intention by government that the services provided by the Authority will no longer be provided.

The Audit and Risk Assurance Committee is Those Charged with Governance. Those charged with governance are responsible for overseeing the Authority's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Report on other legal and regulatory requirements - Conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

Qualified Conclusion

On the basis of our work, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in November 2017, except for the effects of the matter described in the basis for qualified conclusion section of our report, we are satisfied that, in all significant respects, Sandwell Metropolitan Borough Council put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2019.

Basis for qualified conclusion

Our review of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources identified the following matters:

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The Council's children's social care service has been subject to an improvement notice since March 2010. In June 2015 Ofsted reported findings with an overall judgement that children's services were inadequate, and consequently the Council implemented an improvement plan. The required improvements in performance were not made and on 6 October 2016 the Council was issued with a Statutory Direction, from the Secretary of State for Education, to set up a Children's Trust to deliver children's social care services.

In response to this Direction, the Council set up a Children's Trust, with the service ultimately transferring on 1 April 2018. However, the basis of the findings of the Ofsted and CQC inspection of local area services for children and young people with special educational needs and/or disabilities, published on 27 March 2017, in addition to the reports of the current Ofsted inspection programme into children's services, most recently published on 29 January 2018, was that Children's services in Sandwell were still inadequate. There have been six monitoring visits since the last inspection. Ofsted have recognised that improvements in the service are being made but have noted that further progress is needed if the issues raised in their last inspection report are to be fully addressed.

Having considered the findings and conclusions of Ofsted's inspections and monitoring visits, together with the results of our audit work, we have concluded that there are weaknesses in the Authority's arrangements for delivering services for children in need of help and protection, children looked after and care leavers. These matters are evidence of weaknesses in proper arrangements for understanding and using appropriate and reliable financial and performance information to support informed decision making and performance management.

Responsibilities of the Authority

The Authority is responsible for putting in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

Auditor's responsibilities for the review of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to be satisfied that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in November 2017, as to whether in all significant respects the Authority had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined this criterion as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2019.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to be satisfied that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

Use of our report

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the Authority's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

Signature to be added

Mark C Stocks, Key Audit Partner
for and on behalf of Grant Thornton UK LLP, Local Auditor

Birmingham

Management Letter of Representation

Dear Sirs

Sandwell Metropolitan Borough Council
Financial Statements for the year ended 31 March 2020

This representation letter is provided in connection with the audit of the financial statements of Sandwell Metropolitan Borough Council and its subsidiary undertakings, Sandwell Children's Trust and Sandwell land and Property Company for the year ended 31 March 2020 for the purpose of expressing an opinion as to whether the group and Council financial statements are presented fairly, in all material respects in accordance with International Financial Reporting Standards and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 and applicable law.
We confirm that to the best of our knowledge and belief having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:
Financial Statements

i. We have fulfilled our responsibilities for the preparation of the group and Council's financial statements in accordance with International Financial Reporting Standards and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 ("the Code"); in particular the financial statements are fairly presented in accordance therewith.

ii. We have complied with the requirements of all statutory directions affecting the group and Council and these matters have been appropriately reflected and disclosed in the financial statements.

iii. The Council has complied with all aspects of contractual agreements that could have a material effect on the group and Council financial statements in the event of non-compliance. There has been no non-compliance with requirements of any regulatory authorities that could have a material effect on the financial statements in the event of non-compliance.

iv. We acknowledge our responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud.

v. Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable. We are satisfied that the material judgements used in the preparation of the financial statements are soundly based, in accordance with the Code and adequately disclosed in the financial statements.

vi. We confirm that we are satisfied that the actuarial assumptions underlying the valuation of pension scheme assets and liabilities for IAS19 Employee Benefits disclosures are consistent with our knowledge. We confirm that all settlements and curtailments have been identified and properly accounted for. We also confirm that all significant post-employment benefits have been identified and properly accounted for.

vii. Except as disclosed in the group and Council financial statements:
a. there are no unrecorded liabilities, actual or contingent
b. none of the assets of the [group and]Council has been assigned, pledged or mortgaged
c. there are no material prior year charges or credits, nor exceptional or non-recurring items requiring separate disclosure.

viii. Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards and the Code.

ix. All events subsequent to the date of the financial statements and for which International Financial Reporting Standards and the Code require adjustment or disclosure have been adjusted or disclosed.

x. We have considered the adjusted misstatements, and misclassification and disclosures changes schedules included in your Audit Findings Report. The group and Council financial statements have been amended for these misstatements, misclassifications and disclosure changes and are free of material misstatements, including omissions.

xi. We have considered the unadjusted misstatements schedule included in the appendix. We have not adjusted the financial statements for these misstatements brought to our attention as they are immaterial to the results of the Council and its financial position at the year-end .

xii. The financial statements are free of material misstatements, including omissions.

xii. Actual or possible litigation and claims have been accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards.

xiii. We have no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the financial statements.

xiv. The prior period adjustments disclosed in Note 7 to the financial statements are accurate and complete. There are no other prior period errors to bring to your attention.

xv. We have updated our going concern assessment and cashflow forecasts in light of the Covid-19 pandemic. We continue to believe that the group and Council's financial statements should be prepared on a going concern basis and have not identified any material uncertainties related to going concern on the grounds that current and future sources of funding or support will be more than adequate for the Council's needs. We believe that no further disclosures relating to the group and Council's ability to continue as a going concern need to be made in the financial statements.

xvi. We have considered the legal issues with regard to the issues of shares issued to SLAP as documented on page 26 of the External Auditors report. We consider that it is appropriate for the Council to recognise a contingent liability with regard to any claim by the company against the Council for the incorrect issues of shares by the company. We do not consider that the Council will be liable to make any claim made by the company.

xvii. We have reviewed the accounting with regard to SLAP. We consider that it is appropriate for the Council to recognise school buildings on its balance sheet as at 31 March 2019 despite the buildings having been transferred to SLAP in return for the issue of shares Information Provided

Management Letter of Representation

xviii. We have provided you with:
a. access to all information of which we are aware that is relevant to the preparation of the group and Council's financial statements such as records, documentation and other matters;
b. additional information that you have requested from us for the purpose of your audit; and
c. access to persons within the Council via remote arrangements, in compliance with the nationally specified social distancing requirements established by the government in response to the Covid-19 pandemic. from whom you determined it necessary to obtain audit evidence.

xix. We have communicated to you all deficiencies in internal control of which management is aware

xx. All transactions have been recorded in the accounting records and are reflected in the financial statements.

xxi. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.

xxii. We have disclosed to you all information in relation to fraud or suspected fraud that we are aware of and that affects the group and Council, and involves:
a. management;
b. employees who have significant roles in internal control; or
c. others where the fraud could have a material effect on the financial statements.

xxiii. We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the financial statements communicated by employees, former employees, analysts, regulators or others.

xxiv. We have disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing financial statements.

xxv. We have disclosed to you the identity of the group and Council's related parties and all the related party relationships and transactions of which we are aware.

xxvi. We have disclosed to you all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements.

Annual Governance Statement

xxvii. We are satisfied that the Annual Governance Statement (AGS) fairly reflects the Council's risk assurance and governance framework and we confirm that we are not aware of any significant risks that are not disclosed within the AGS.

Narrative Report

xxviii. The disclosures within the Narrative Report fairly reflect our understanding of the group and Council's financial and operating performance over the period covered by the financial statements.

Approval

The approval of this letter of representation was minuted by the Council's Audit Committee at its meeting on 3 September 2020.

Yours faithfully

Name................................