The Audit Findings for Sandwell Metropolitan Borough Council

Year ended 31 March 2020

March 2021

Contents

Your key Grant Thornton team members are:

Mark Stocks
Key Audit Partner
T: 0121 232 5437
E: mark.c.stocks@uk.gt.com

Zoe Thomas
Manager
T: 0121 232 5277
E: zoe.Thomas@uk.gt.com

Kathryn Kenderdine
Assistant Manager
T: 0121 232 5316
E: kathryn.a.kenderdine@uk.gt.com

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 2020 for those charged with governance.

Covid-19	The outbreak of the Covid-19 coronavirus pandemic has had a significant impact on the normal operations of the group and Council. The finance team has been working remotely since March 2020 but has also had the added pressure of the S151 being unavailable during the closedown period and audit, and another key member of the team on maternity leave. This has meant that several members of the team have been covering other roles, as well as dealing with the new pressures surrounding Covid-19 and closedown, along with finalisation of the 2018/19 accounts. Authorities are still required to prepare financial statements in accordance with the relevant accounting standards and the Code of Audit Practice, albeit to an extended deadline for the preparation of the financial statements up to 31 August 2020 and the date for audited financials statements to 30 November 2020. A draft set of accounts was available by 31 August 2020, and as outlined in this report we are anticipating issuing an opinion on the accounts in March 2021.	We updated our audit risk assessment to consider the impact of the pandemic on our audit and issued an audit plan addendum on 15 May 2020. In that addendum we reported an additional financial statement risk in respect of Covid -19 and highlighted the impact on our VfM approach. Restrictions for non-essential travel has meant both Council and audit staff have had to adapt to ensure we have gained sufficient audit evidence for the balances with the financial statements. This has meant a greater reliance on video calling for many aspects of the audit, particularly in terms of the use of sharing of screens to watch transaction listing being run. Where information is normally provided in a spreadsheet format, we have undertaken additional levels of testing to ensure that the information provided hasn't been manipulated prior to being sent to the audit team. Inevitably the remote working has impacted on delivery and additional resources have been necessary on both sides to complete the work in accordance with the new extended reporting timetable.

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 2020 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; 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 204. 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 draft financial statements were presented for audit to the revised timetable of 31 August 2020. The statements were supported by adequate working papers in many areas and we had good support from the finance team in particular. Due to the relatively late production of the draft accounts and the immediate start of the audit, there was limited opportunity for a thorough quality review of the working papers supporting the accounts. This meant that a number of the working papers were initially incorrect and required updating. We commenced our post-statements remote audit in late August and as at 11 February our audit is substantially complete. We have yet to complete some aspects of our work and this may result in further adjustments. As at 11 February 2021 our audit has identified the following significant issues: • CIES – we have made total adjustments to the comprehensive income and expenditure statement of £13m, resulting in a net increase in deficit of £4.1m. • Provisions – we have substantially adjusted the provision made by the Council. The gross adjustment is £11m and the net impact is £1.8m. Provisions in relation to business rates appeals have also been adjusted. We consider that the Council's arrangements for managing provisions is poor. We note that a proportion of the debt and associated provision relating to housing benefit claims was omitted from the accounts in its entirety. Again we consider this to be poor practice. • Cash/ Creditors - we have identified a material error of £35m between cash and creditors on the balance sheet. There is no loss to the council from this adjustment. It is unusual in our experience to identify errors in cash or creditors of this magnitude. While this is a classification issue we would have expected the Council's quality control procedures to have identified this error • Other adjustments – we have adjusted debtors, provisions revenue grants and long term liabilities. The adjustment to the balance sheet is an increase in useable reserves of £1.3m and a reduction in usable reserves of £5.5mm. • Group accounts - there is also a large adjustment on the group accounts in relation to the valuation of school land, currently at £18m increase in value. • Cashflow - there are material adjustments to the cashflow forecast. There have, also been several amendments to the presentation of the notes particularly in relation to the valuation of property plant and equipment and on debtor balances due to changes in provisions for contractual and non contractual debtor balances. We discuss these in more detail on the next page.

Headlines

Financial Statements (continued)

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; 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 204.

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.

We encountered substantial delays in receiving all the evidence we needed to support the property plant and equipment (PPE) valuations testing. We have also discussed with officers the complexity of the asset registers to record PPE as this is undertaken on 22 separate excel workbooks. This is time consuming to update annually and also takes excessive time to audit. It is not, in our view, appropriate for the Council to maintain its PPE financial records on excel spreadsheets.

In addition we have seen that there is not a comprehensive database for maintaining asset records in the property department. As a result, it took substantial amounts of audit and officer time to collate the information needed to support the valuation of assets. This significantly delayed the audit process. Management has agreed that there is a need for the council to invest in a more fit for purpose system for managing its property portfolio and for recording associated financial transactions that are input into the financial statements.

As outlined earlier, we challenged management on the basis of the provisions for contractual and non contractual debtor balances, similarly for provisions for business rates appeals. It took some time for management to review and revise these, but as a consequence we are more confident that these are more reliable estimates. We noted a disconnect between the accounts preparation process and the departments managing the debt which we feel contributed to a lack of evidence that the provisions were based on a clear assessment of the collectability of the debt, (i.e. an estimate of future cashflows) as expected under the Code.

We have concluded that the other information to be published with the financial statements is consistent with our knowledge of your organisation. The financial statements we have audited is up until 31 March 2020 which was prior to the outbreak of the Covid-19 coronavirus pandemic.

Subject to a number of outstanding queries being resolved, and completion of our work on whole of Government accounts we anticipate issuing an unqualified audit opinion (detailed in Appendix E) following the Audit Committee meeting on 25 February 2021.

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 anticipated audit report opinion will be unqualified and include an Emphasis of Matter paragraph highlighting the material uncertainties disclosed in the financial statements in respect of Property Plant and Equipment.

Our audit has identified significant weaknesses in control with regard to a number of areas. This includes PPE, debtors, provisions, creditors, cash, journal postings and IT. Urgent action is needed by the Council to resolve these issues.

Headlines

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 have updated our VfM risk assessment to document our understanding of your arrangements to ensure critical business continuity in the current environment. We have not identified any new VfM risks in relation to Covid-19. We therefore anticipate issuing a qualified 'except for' value for money conclusion, as detailed in Appendix E.
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 and expect to be able to certify the completion of the audit when we give our audit opinion.

Acknowledgements

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

Audit approach

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 have been discussed with management.

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

2019/20 is the second year that SMBC has produced group accounts, which include Sandwell Children's Trust and Sandwell Land and Property Company (SL&P). Our audit approach was based on a thorough understanding of the group's business, 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 concurred with the Council's view that group accounts were appropriate and conducted the audit on this basis. A separate audit of Sandwell children's Trust was completed by Grant Thornton colleagues, and we have completed sufficient procedures to be satisfied on the SL&P balances; and
- Substantive testing on significant transactions and material account balances, including the procedures outlined in this report in relation to the key audit risks

Audit approach (continued)

We have had to alter our audit plan, as communicated to you on 15 May 2020 to reflect our response to the Covid-19 pandemic. This has included gaining an understanding of the impact of pandemic on the operations of the council, in particular on the ongoing financial position. This has required a thorough understanding of the basis of the Council's adoption of the going concern assertion and this has required the preparation of, and our review of the Council's cashflow forecast up to December 2021

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 Governance meeting on 25 February 2021, as detailed in Appendix E. These outstanding items include:

- Completion of our work on group accounts, in particular review of evidence to support the SL&P assets on consolidation into the group accounts
- Review of the updated cashflow forecast for 12 months from the anticipated opinion date.
- Update of the audit fees disclosure
- Finalisation of the work on the pooled budgets
- Finalisation of our work on property plant and equipment
- Completion of our work on whole of government accounts
- receipt of management representation letter; and
- review of the final set of financial statements.

Our approach to materiality

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

Materiality levels remain the same as reported in our audit plan

Audit approach (continued)

Our approach to materiality

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

Materiality levels remain the same as reported in our audit plan

	Group Amount (£)	Council Amount (£)	Qualitative factors considered
Materiality for the financial statements	12.0m	12.1m	Materiality has been based on 1.4% of the Authority and Group's gross expenditure
Performance materiality	8.4m	8.4m	Our performance materiality has been set at 70% of our overall materiality
Trivial matters	0.6m	0.6m	This is set at 5% of financial statements materiality and reflects a level below which stakeholders are unlikely to be concerned by uncertainties
Materiality for senior officer remuneration	0.1m	0.1m	The senior officer remuneration disclosure in the statement of accounts has been identified as an area requiring lower materiality due to its sensitive nature

Significant audit risks

Risks identified in our Audit Plan	Auditor commentary
The revenue cycle includes fraudulent transactions (rebutted) **This risk relates to the Group and Authority** Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue. This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition. Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the Authority, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because: • there is little incentive to manipulate revenue recognition • opportunities to manipulate revenue recognition are very limited • the culture and ethical frameworks of local authorities, including Sandwell Metropolitan Borough Council, mean that all forms of fraud are seen as unacceptable.	We have reconsidered this as part of our audit work on the financial statements and have not changed our assessment and therefore we confirm that we do not consider this to be a significant risk for the Council. Note 17 short term debtors reflects Gross debtors, net of impairments. We noted that the analysis of sundry debtors was incorrect because the entirety of the impairment had been allocated against trade debtors which meant that trade receivables were understand and other receivables overstated by £23m. We identified issues in relation to the impairment of receivables and these have been adjusted, leading to an adjustment to the overall debtors balances. This is referred to in more detail later in the report. Our audit work has not identified any issues in respect of improper revenue recognition.
Management override of controls **This risk relates to the Group and Authority** Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. We 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.	We have: • Evaluated the design effectiveness of management controls over journals, • Analysed the journals listing and determined 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 by management and considered their reasonableness with regard to corroborative evidence, and • Evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions. Our audit work has not identified any issues in respect of management override of controls although we do refer later in the report to deficiencies in IT controls which meant we increased our assessment of risk and extent of testing on expenditure and creditors. The delay in implementation of the new ledger has impacted on management’s ability to address the identified weakness in controls.

Significant audit risks

Risks identified in our Audit Plan	Auditor commentary
Valuation of land and buildings The group revalue its land and buildings on a rolling five-yearly basis. Some assets are likely to be valued annually, such as some school buildings. This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved (£2 billion) and the sensitivity of this estimate to changes in key assumptions. Additionally, management will need to ensure the carrying value in the Authority and group financial statements is not materially different from the current value or the fair value (for surplus assets) at the financial statements date, where a rolling programme is used. . We therefore identified valuation of land and buildings, particularly revaluations, as a significant risk, which was one of the most significant assessed risks of material misstatement.	We have: • Evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work • Evaluated the competence, capabilities and objectivity of the Council's valuation expert • Written to the valuer to confirm the basis on which the valuation was carried out to ensure that the requirements of the Code are met • Challenged the information and assumptions used by the valuer to assess completeness and consistency with our understanding • Engaged our own valuer to assess the instructions to the Authority's valuer, the Authority's valuer's report and the assumptions that underpin the valuation • Tested revaluations made during the year to see if they had been input correctly into the Authority's asset register • Evaluated the assumptions made by management for those assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value at year end. In line with RICS guidance, the external valuer included reference to a material uncertainty in the final valuation report. Officers reflected this in note 4 of the financial statements. We noted that the valuer also referred to a material valuation uncertainty in relation to high rise buildings and the pension fund accounts also make reference a material uncertainty in relation to property assets. These matters were not referenced in the note to the draft accounts however we expect that this will be referred to in the final draft statement. We will include an emphasis of matter paragraph in the audit opinion to reflect the uncertainty surrounding asset valuations at year end. The emphasis of matter paragraph refers to this disclosure in the accounts and draws attention to it for the readers of the financial statements. This is in line with other similar local authorities.

Significant audit risks

Risks identified in our Audit Plan	Auditor commentary
Valuation of land and buildings (CONTINUED)	On consolidation the SL&P school land has to be restated from the SL&P accounts to be on the same basis as the council accounts which is a material adjustment on consolidation. As part of our review of the restated land values we agree to valuation certificates provided by the valuers. We noted that the land valuations from the prior year had been rolled forward and did not reflect the new valuations. A proposed adjustment of £18m is required, an overall 14% increase year on year. The increase in value is not in line with our expectations because the general indices provided by WHE indicate a land increase of 0% in 2019/20 and Gerald eve are suggesting land values have reduced by 2.5% and therefore we queried with management why land has increased in value above the expected tolerances. The reason is because there has been a change assumption on the key assumption in the valuation of land. We are currently seeking further clarification on this matter. Further details on the audit of the valuation of PPE are included in key estimates section.
Valuation of pension fund net liability The Authority's pension fund net liability, as reflected in its balance sheet as the net defined benefit liability, represents a significant estimate in the financial statements and group accounts. The pension fund net liability is considered a significant estimate due to the size of the numbers involved (£759.7 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 pension fund net liability as a significant risk, which was one of the most significant assessed risks of material misstatement.	We have: • updated our understanding of the processes and controls put in place by management to ensure that the Authority's pension fund net liability is not materially misstated and evaluated 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 pension fund valuation • assessed the accuracy and completeness of the information provided by the Authority 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 • obtained assurances from the auditor of Worcestershire 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. Our audit work has not identified any issues in respect of valuation of the net liability.

Significant audit risks

Risks identified in our Audit Plan	Auditor commentary
COVID-19 The global outbreak of the Covid-19 virus pandemic has led to unprecedented uncertainty for all organisations, requiring urgent business continuity arrangements to be implemented. We expect current circumstances to have an impact on the production and audit of the financial statements for the year ended 31 March 2020, including and not limited to; • Remote working arrangements and redeployment of staff to critical from line duties may impact on the quality and timing of the production of the financial statements, and the evidence we can obtain through physical observation • Volatility of financial and property markets will increase the uncertainty of assumptions applied by management to asset valuation and receivable recovery estimates, and the reliability of evidence we can obtain to corroborate management estimates • Financial uncertainty will require management to reconsider financial forecasts supporting their going concern assessment whether material uncertainties for a period of at least 12 months from the anticipated date of approval of the audited financial statements have arisen; and • Disclosures within the financial statements will required significant revision to reflect the unprecedented situation and its impact on the preparation of the financial statements as at 31 March 2020 in accordance with IAS1, particularly in relation to material uncertainties.	We have: • worked with management to understand the implications the response to the Covid-19 pandemic had on the organisation’s ability to prepare the financial statements and update financial forecasts and assessed the implications for on our audit approach. No changes were made to materiality levels previously reported. The draft financial statements were provided on 28 August 2020; • liaised with other audit suppliers, regulators and government departments to co-ordinate practical cross-sector responses to issues as and when they arose. • evaluated the adequacy of the disclosures in the financial statements that arose in light of the Covid-19 pandemic; • evaluated whether sufficient audit evidence could be obtained through remote technology; • evaluated whether sufficient audit evidence could be obtained to corroborate significant management estimates such as asset valuations and recovery of receivable balances; • evaluated management’s assumptions that underpin the revised financial forecasts and the impact on management’s going concern assessment; • discussed with management the implications for our audit report where we have been unable to obtain sufficient audit evidence. Our audit work, has not identified any significant issues in respect of COVID-19 risks. This is not to say that there has been being no impact . The Council has highlighted a material uncertainty in relation to land and building valuations within note for. The West Midlands pension fund auditors letter of assurance also highlighted materials and certainties in relation to their land, building and investment property holdings. This is referenced in note 4 of the accounts.

Significant findings arising from the group audit

Component	Component auditor	Findings	Group audit impact
Sandwell Children's Trust (SCT)	Grant Thornton	An unqualified audit opinion of Sandwell Children's Trust was issued by Grant Thornton on 16 December 2020. No significant issues were identified.	Our audit at SMBC has considered the consolidation of the accounts into the group accounts. We have considered the findings from the audit of SCT in our work. We note that Sandwell MBC has provided a letter of support to Sandwell Children's Trust to support the gang concern assumption
Sandwell Land and property Ltd (SL&P)	N/a	We have undertaken sufficient procedures on the information available at the council in relation to SL&P. The SL&P accounts are prepared under FRS102 and the land is valued at cost. On consolidation into the group accounts the land is revalued to be on on a consistent basis with the single entity. We have yet to be assured on the valuation of the land. In the 2018/19 audit findings report we refer to ongoing legal considerations in relation to the original transfer of land an issue of shares. These matters are still ongoing.	We are currently seeking from management more information on the valuation of schools land, as referenced on page 11. The first draft accounts did not reflect the 2019/20 valuation. The revised draft accounts showed a material change in valuation of land. The reason for the change is driven by a change in judgement by the external valuer on the classification of land and this has driven a significant change in land value per hectare. We are seeking further evidence as to why the new classification is judged to be more appropriate and the rationale for not applying this classification previously. The 2018/19 audit finding report detailed a number of matters in relation to SL&P, including matters in relation to the historic issue of shares and transfer of properties. External advisors to the Council indicated that the SL&P should recognise a debtor (and the council a creditor) where shares were issued and SL&P did not receive a consideration in the form of an asset. Management consider it unlikely that the company will require payment of this debt and have recognised the potential liability as a contingent liability to reflect the position. The legal matters in relation to the share issue reported last year remain ongoing and no further decision has been made on the future of the company.

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
IT systems and general controls Work on the IT control environment was undertaken by our IT specialists and a report was issued and findings and recommendations agreed with management. The assessment of the IT control environment informs our assessment of risk in the opinion audit and our testing strategy.	Oracle Security & Access Controls: Control weaknesses were noted in the Security and Access of SMBC's Oracle system. These weaknesses include: • Users self-assigning responsibilities in Oracle EBS • Leaver account with system administration responsibilities • System administrator accounts with excessive elevated finance responsibilities • Forms that allow SQL code to be executed • Access to critical functions in Oracle E-Business Suite • Users with 'processes tab' functionality • Lack of formalised working practices and procedures to support interface processing • Removing leavers' access rights • Audit trail is not enabled on the Oracle EBS application and database • Password deficiencies • Excessive privileges assigned to generic accounts in Oracle EBS	A total of 6 'significant deficiencies' and 5 'deficiencies' were identified from our work. We consider this creates an elevated level of IT risk. The risks were detailed in a report to management in the summer and conclusions and recommendations agreed. We discussed with management the impact on financial controls in order to inform our testing strategy. We concluded that the risk impacted specifically on our assessment of risk in relation to operating expenditure. We therefore extended the extent of sampling on creditors and operating expenditure in response to our assessment of the heightened level of risk. Management anticipate that many of the weaknesses identified will be resolved once the council has migrated to the new cloud based financial ledger 'Fusion' which is planned to be implemented during the 2021/22 financial year.

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
Bank overdraft, creditors, error made in draft accounts	It has been concluded that adjustments upon consolidation of £37.4 million were double counted which has overstated the cash overdrawn balance by £37.4 million and understated creditors by the same amount. The error arose as follows. A journal was raised to reflect the split between creditors and cash overdrawn but the adjustment was also included within cash in transit within the balance sheet. This led to the adjustments being applied twice. Adjustments for this error have impacted on the bank overdraft and creditors and further detail is contained within the misstatements section of the report appendix C. While this is a classification issue, as the error impacts on cash, we would have expected the Council's quality control procedures to have identified this error. This is a balance sheet adjustment only.	We would expect that errors of this magnitude should have been prevented through controls, such as an authorisation of journals by someone other than the preparer, bank reconciliation review and also through management review of the draft accounts, prior to issue. Management should review procedures and consider whether there are sufficient checks and balances in place to prevent such errors being made in the future.
Expenditure testing	We request a listing of all debit items and all credit items within expenditure from which we sample. We test a sample of items above our assessment of performance materiality and other items randomly. Our sample included a debit and credit item for £55m. This related to an invoice for £7k which had been posted incorrectly. The error was identified before any payments was made and reversed. Management has stated that when postings are above a 10% tolerance a warning is highlighted but this can be overridden.	Whilst the matter was identified prior to any payment being made, and reversed, we would expect that procedures would prevent such a large item being posted in error in the first place. Management should implement controls and procedures so that postings above a particular tolerance are prevented or require further authorization.
PFI disclosures	PFI- Portway. There is a difference of £1.287 million between the PFI model and the long term liabilities in the note and balance sheet. This is the same issue as well as reported in 2018/19 because the model has not been updated to reflect changes including the unit repayments. The intention was that training would be provided on how to update the model during the year but this has not occurred due to COVID-19 restrictions.	The information to support the PFI disclosures was significantly improved on the prior year. Two of the models had been updated and in all cases other than PFI Portway the accounts agreed to the PFI models. Management should ensure that to support the 2020/21 accounts there should be comprehensive working papers in place to include the operators and financial models for each scheme to support the disclosures in the accounts

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
Pooled budgets	We noted that the 2019/20 pooled budget was not signed. The joint board approved the agreement but the document was not signed. We have seen that the 2020/21 pooled budget agreement has been signed. The pooled budget note 30, is showing a cumulative underspend of £10.7m, which should be available for the fund in the future. SMBC has recognised the income in the accounts, although officers have acknowledged the need for a specific earmarked reserve to be set up to set aside underspends carried forward.	The Council should ensure that all pooled budget agreements are signed in advance of the financial year to which they relate. The Council are to adjust the accounts to recognise a specific earmarked reserve for this balance.

Significant findings – key estimates and judgements

Accounting area	Summary of management's policy	Auditor commentary
Long term provisions: **Provision for business rates appeals £3.952m (draft accounts revised to provision of £10m)**	Note 4: *assumptions made about the future and other major sources of estimation and certainty*. (as per draft accounts received August 2020) Following the introduction of the retained business rate scheme in April 2013 the collection fund is now liable for the settlement of any successful appeals lodged against the rateable value of business properties. A provision of £3.536 million has been set aside for the Council's share of any potential appeals. The provision has been based on a report from Analyse Local which is a specialist revenue forecasting company. The report includes total potential net losses of £6.863 million. Appeals in relation to cash points have been excluded from the total provision as a Supreme Court decision in May 2020 concluded that ATMs were not liable for additional business rates. (ATM provision was £3.290 million) This note will be revised in the final version of the accounts to reflect the inclusion of ATMs and other adjustments)	We noted that the Supreme Court decision had been overturned and as the consequences the account should reflect the provision in relation to ATMs and GP surgeries. This increased the provision required to £7.289m. We also noted that the council had not made a provision in relation to unlodged appeals. At our request the council undertook further consultation with Analyse Local who are the council's management expert, and has amended the provision to reflect unlodged appeals. The impact is to increase the provision for business rate appeals by a further £2.791m. In total we consider that the provision should be £10.080m. Further detail is contained within the misstatements section of this report (Appendix C). As such the original provision was significantly understated. We also consider that the Council should: • disclose a contingent liability for threats not provided for which we estimate to be between £8m and £9.6m. • include some sensitivity analysis around the disclosures in Note 4 as, depending on the assumptions made, then there is a range of values for the provision/ contingent liability. We considered the experience and qualifications of Analyse Local in their role as management expert in determining this estimates and judged that they were appropriate to support management in their work.

Significant findings – key estimates and judgements

Accounting area | **Summary of management's policy**

Impairment allowances (provisions)

We reviewed the evidence and assumptions supporting the Council's provisions/credit loss allowances.

We challenged management on the basis of these arrears because it appeared that management had not undertaken an assessment of the collectability of the debt in determining the provisions.

Some provisions were set at 100%, for arrears greater than two years and in other areas for more recent arears no provision had been made at all. We also noted that management had included an earmarked reserve for current HRA arrears which is not correct accounting

Management has undertaken extensive work during the audit to review the provisions and a number of the Impairment allowances have been restated as a consequence..

We are currently awaiting management to finalise their review of these provisions.

Trade receivables

We consider that the impairment allowances for trade receivables are reasonably stated.

Year invoiced raised	Impairment assumed	Arrears £000	Arrears as at 31/1/21 £000	% collected As at 31/1/21	Auditor commentary
2019/20	0% (unless specific provision identified)	11,287	3,893	66%	**Trade receivables:** The total impairment allowance is £2.6m, against a total arrears figure of £17.7m. The Council has relatively good collection rates of current arrears. However it seems likely that there will be arrears at the year end, which will become increasingly difficult to collect once they are older than 1 year. The impact of the accounting under IFRS9 is that the Council should be recognising provision for impairments sooner so potentially the Council should be more realistic about the collectability of current debt, rather than waiting for it to be 1 year+ old. .
2018/19	25% (unless specific provision identified	2,067	1,834	11%	
2017 +	100%	3,718	3,319	11%	

Significant findings – key estimates and judgements

Accounting area	Summary of management's policy
Impairment allowances continued	**Housing benefits – claimants no longer receiving benefits** We consider that the impairment allowances for housing benefits are overstated.

	Arrears £000	Original Impairment allowance	Impairment allowance £000	Revised allowance	Revised impairment allowance	Auditor commentary
All stages – invoiced benefits	6,938	100 %	6,870	80%	5,550	The original provision was set at 100%. The revised provision was agreed at 80% of all debt, reducing the previous provision by £1.388m. In view of the collection rate of around 25% over the last 3 years then the revised provision appears reasonable.

Housing benefits - ongoing claimants

The Council has not historically accounted for the arrears in relation to ongoing claimants. The Council has estimated that this is likely to be in the region of £5m for 2019/20. This balance has not been recognised as a debtor in the financial statements.

The Council needs to undertake further work to assess the actual impact on the accounts because the position will need to be considered in the context of housing subsidy that relates to these claimants and work will also need to be undertaken on assessing an appropriate provision for impairment.

Significant findings – key estimates and judgements

Accounting area

Impairment allowances
(Continued)

Gross Council tax arrears/ impairment of receivables

Our review of impairment allowances indicates that they are overstated by c£3.3 million

	Arrears at 31/3/20 £	Impairment allowance draft accounts		Revised impairment allowance		Auditor commentary
2019/20	6,982,143	1% of anticipated Ctax income	1,215,150	21%	1,458,710	Following audit challenge on the basis of provisions, in December management recalculated the provision to be £12.6m and this was applied in the revised accounts. Audit challenged the methodology and further analysis was undertaken resulting in a revised provision as per the table of £13.1m. This was based on a review of the historic collection of debt in order to form a view on an appropriate level of provision. Some assumptions have been made for the anticipated impact of COVID 19 on collection rates in this revised provision. Management judged that a further adjustment would not be made to the accounts as the difference was immaterial and is an estimate. SMBC accounts reflect their share of the provision at 87%. The revised provision appears reasonable, although there is some risk in relation to assumption around the impact of COVID-19 on future collection rates and we would expect the 2020/21 accounts to reflect further review.
2018/19	3,336,376	1% of anticipated Ctax income	1,037,875	33%	1,114,214	
2017/18 - 2012/13	9,868,203	100%	9,868,203	41%-95%	6,115,472	
2011/12 +	4,435,526	100%	4,435,526	100%	4,435,526	
Total	**24,544,281**	**67%**	**16,460,900**		**13,123,922**	

Significant findings – key estimates and judgements

Accounting area

Impairment allowances

(Continued)

NNDR arrears/ impairment of receivables

We are unable to confirm the adequacy of the provision due to a lack of management information. We are satisfied that it is not materially misstated.

	Arrears £000	%	Bad debt provision £	Auditor commentary
Total	**3,661**	**60**	**2,200**	The Council has suspended active recovery action in response to the COVOD-19 pandemic and we understand this is to restart in the near future. The assessment of collectability is therefore complicated by this and the additional available reliefs in the year and Section 31 grants. We would expect management to provide a more robust analysis of the collectability of debt as part of the 2020/21 closedown.

Significant findings – key estimates and judgements

Accounting area

Impairment allowances (continued)

HRA Rent Arrears

For current rent arrears **e**armarked reserves are overstated by £4.7m and provisions understated by £0.53m.

	Arrears at 31/3/20	Earmarked reserves		Revised impairment allowance		
Rent Arrears – Current tenants	5,309,027	90%	4,778,125	10%	530,903	The Council had originally treated this as an earmarked reserve (which is incorrect accounting for a provision). A reserve of 90% was set aside. It has now judged that 90% is collectible based on their assessment of current collection rates. The year end collection rate for current rents was 95.07%. The performance target for 2020/21 is 94.5%. We have reviewed the performance data to support this assessment and the provision appears reasonable in this context..

For former rent arrears and other costs provisions are overstated by £628,729.

		Impairment allowance draft accounts		Revised impairment allowance		
Rent Arrears - Former	4,051,037	90%	3,645,933	90%	3,645,933	The Council has considered the collection of arears to date and has judged that 90% remains appropriate.
Court Costs – Current & Former	1,101,458	95%	1,046,385	10%	520,767	As collected a s part of rents, provision is amended to match above and thus the reduction reflects the reduced provision for current tenants
Other	227,267	60%	137,192	15%	34,081	
total	**5,829,762**		4,829,510		4,200,781	

Significant findings – key estimates and judgements

Accounting area	Summary of management's policy	Auditor commentary
Land and Buildings – Council Housing - £1,134m	The Council owns 28,442 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. The Council has engaged Savills to complete the valuation of these properties. The net year end valuation of Council Housing was £1,133,843m, a net increase of £12m from 2018/19 (£1,121,906m). There was an in year revaluation loss of £19m, and £31m of additions.	Our work involved: • An assessment of management's expert • Assessment of the Completeness and accuracy of the underlying information used to determine the estimate • A review of the consistency of estimate against near neighbours/GE report • A review of the reasonableness of increase/decrease in estimate • Consideration of the adequacy of disclosure of estimate in the financial statements • Consideration of the matters raised by the auditor expert Gerald Eve in relation to the valuation approach adopted by Savills **Gerald Eve** As referenced above we used Gerald Eve as the auditor expert to support our work on property plant and equipment. They reviewed the instructions to the external valuer and the reports from Savills for HRA. The valuer raised a number of matters that we discussed with the Council although there were no significant matters of concern in relation to HRA. **Valuation date** The valuer undertakes a valuation as at 31 December 2020. The Council adjusts the valuation for capital expenditure and other movements in asset holdings between December and the year end. The Valuer provides an assessment percentage of property movements between the valuation date and the accounts date of the 31 March, which the Council then uses to assess whether there has been a material change in the December valuation. The original assessment undertaken by management indicated that by not undertaking a year-end valuation then the accounts were potentially overstated by £6,555m. Unfortunately there was an error in the calculation and thus the value should have been £0.786 undervaluation. Ideally the Council should undertake a valuation as at 31 March and this would minimise the risk of a material error as a result of a December valuation. We note management's view that they do not feel that a 31 March valuation would provide sufficient time for check and challenge prior to submitting accounts at the end of May. We are satisfied that the valuation is not materially misstated.

Significant findings – key estimates and judgements

Accounting area	Summary of management's policy	Auditor commentary
Land and Buildings – Council Housing - £1,134m (continued)		**Assets under construction (AUC)** Sample testing of the movement of assets under construction to other categories of assets highlighted an error with 17 Council Dwellings being transferred from AUC to Council dwelling in 2019/2020 when they were not completed until after year end. The value of the dwellings in AUC was £3,050,285. The assets were revalued and they were valued at £813,288 (existing use value). The loss associated with these assets was £2,236,997. The Council were asked to review the other Council Dwellings which were transferred from AUC. The Council identified a further 8 dwellings which should not have been transferred from AUC to Council Dwellings. The overall values which relate to these dwellings are: Value transferred from AUC: £4,369,945 EUV Value 31/03/2020: £1,356,667 Revaluation Loss: £3,013,278 The Council plan to adjust for this through the revaluation reserve, rather than through a charge to the HRA/CIES, as it is not the Council policy to account for revaluation gains and losses at an individual asset level. The Council should disclose that it is the Council's accounting policy to treat HRA assets on a group basis. There should also be explicit disclosure of the loss incurred on these new assets when brought into use.

Assessment

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

Significant findings – key estimates and judgements

Accounting area	Summary of management's policy	Auditor commentary
Investment properties £73.5m	**Accounting policy xviii. Investment Properties** Investment properties are those that are used solely to generate income and/or for capital appreciation. The definition is not met if the property is used in any way to facilitate the delivery of services or production of goods or is held for sale. Investment properties are measured initially at cost and subsequently at fair value (see accounting policy xxx), based on the amount at which the asset could be exchanged between knowledgeable parties at arm's length. Properties are not depreciated but are revalued annually according to market conditions at the year end. In general, Investment properties receive a physical revaluation on a rolling three-year cycle. However, where the value of a property exceeds £1.000m, a full valuation will be undertaken on an annual basis. Properties that are not due to receive a physical revaluation in a given year are assessed against market indices to determine if there is a significant movement in value from when they were last valued. Where this is the case, additional valuations are carried out in year. Gains and losses on revaluation are posted to the Financing and Investment Income and Expenditure line in the CI&ES. The same treatment is applied to gains and losses on disposal. However, revaluation and disposal gains and losses are not permitted by statutory arrangements to have an impact on the General Fund Balance. They are therefore reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account and, for any sale proceeds, the Capital Receipts Reserve.	The accounting policy has been updated to more closely reflect the actual approach to valuation. As stated in the policy there is an expectation that Investment properties are valued annually, however due to the volume of properties, the Council adopts a rolling programme for the smaller properties. The adopted policy is therefore not in line with the Code and as a consequence the valuation in the accounts is likely to be misstated annually. During COVID-19 investment properties valuations are considered to be at higher risk of market uncertainty, increasing the risk that historic valuations may be in accurate. The Council discloses in note 15 the rolling programme of valuations, showing that almost 73% of the valuation were based on valuations that took place as at 31 March 2020. Applying indices provided by the Council valuer, the Council has determined that the valuation is potentially undervalued by £599k as a consequence of not revaluing the entire Investment property stock. The Council has judged this is not material and therefore has not undertaken further valuations. Using indices provided by Gerald Eve we have determined that the valuation his potentially overstated by £175k. We therefore concur with the Councils view that the investment properties are not materially misstated how's the consequences of adopting a rolling programme.

Significant findings – key estimates and judgements

Accounting area	Summary of management's policy	Auditor commentary
Land and Buildings – Other - £581m	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. 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 (WHE) to complete the valuation of properties as at 31 December 2020 on a five yearly cyclical basis, although the Council has now adopted a policy of valuing all schools annually. 80% of total assets were revalued during 2019/20. In line with RICS guidance, the Council valuer disclosed a material uncertainty in the valuation of the Council's land and buildings at 31 March 2020 as a result of Covid-19. The Council has included disclosures on this issue in Note 4.. The valuation of properties valued by the valuer has resulted in a net decrease of £12m. Management have considered the year end value of non-valued properties, and the potential valuation change in the assets revalued at 31 December 2020 by applying indices supplied by WHE to determine whether there has been a material change in the total value of these properties. Management's assessment of assets not revalued has identified significant but not material change to the properties value. The total year end valuation of Other land and buildings was £581.7m, a net increase/decrease of £0.5m from 2018/19 (£582.2m).	Our work involved: • An assessment of management's expert • Assessment of the Completeness and accuracy of the underlying information used to determine the estimate • A review of the consistency of estimate against near neighbours/GE report • A review of the reasonableness of increase/decrease in estimate • Consideration of the adequacy of disclosure of estimate in the financial statements • Consideration of the matters raised by the auditor expert Gerald Eve in relation to the valuation approach adopted by WHE **Underlying record keeping** Our audit approach involves considering the underlying assumptions and evidence to support the valuations. We do this on a sample basis. It took longer than planned to complete this task due to the availability of source information and agreement to the asset registers. We identified matters in relation to both the fixed asset registers and the property records: • Management should update the fixed asset registers: There are currently 24 fixed asset registers contained on excel spreadsheets. Using this is cumbersome for management and can drive errors in records. There is also a risk of data loss. This approach is not commensurate with a Council of this size and the Council should look to use appropriate software or module to the ledger. • Management has accepted that there is a need for a computerised property records, informed by a programme of property inspections. The underlying property information shared with the external valuer was in various forms and in some cases consisted of outline plans that are several years old. These are open to interpretation in terms floor area measurement, which is a key factor in the assessment of the valuation. There is also some risk that extensions etc are not captured and communicated to the valuer. To obtain assurance over the accuracy of the floor areas used by the external valuer we asked SMBC property team management to make their own assessment of the floor areas and compared those with the external valuer assessment. Overall we were able to conclude that the difference in interpretation did not result in a material difference. Nevertheless this does highlight a weakness in property record keeping where there should be clear records of floor areas for each properties contained in a single database.

Significant findings – key estimates and judgements

Accounting area	Summary of management's policy	Auditor commentary
Land and Buildings – Other - £581m (continued)		**Management challenge** For each property valued the external valuer provides a certificate setting out the key assumptions in the valuation. It was evident that officers had not checked these to source data suggesting a lack of challenge by management in the process. The valuations in the accounts remain the responsibility of management, not the external valuer. Management has agreed that the instructions to the valuer will include the requirement for them to provide evidence and references for the key assumptions made in the valuations, to enable hem to be checked by management. **Alternative basis of valuation** There is an expectation that there is appropriate consideration of alternative methods of valuation. We discussed the valuation of schools on a DRC basis. The alternative basis is on a modern equivalent assets basis. (MEA valuation). We discussed this with the internal and external valuer and our auditor expert. The valuer confirmed that discussions had taken place on the basis of valuation taking into account the occupancy of schools and the availability of information and it was judged that DRC is appropriate. We recommend that such discussions are formally documented as part of the valuation process. **Providence place** The 2019/20 accounts (CIES) reflect a reduction in valuation from £19.2m to £8.7m at 31 March 2020. The asset was purchased in 2014 at a value of £22.7m. The balance sheet valuation reflected the existing use as the Council operational office with regeneration benefits, but now it is to be repurposed as a school the value for the existing use is reduced. The Council will incur a significant loss as a result of the proposed sale. Further reference is made to this as part of the value for money conclusion. **Evidence of rights and obligations** We noted that one asset valued at £2.4m, land at Friary Park was not registered with land registry and we would recommend that records are updated **Work outstanding** We are currently seeking further information from management on the valuation of leisure centres. New assumptions have been applied this year, which have a material impact on valuation. There has been no change in circumstances. The revised approach adopted is reasonable however management need to be clear on the rationale for not applying this approach previously to demonstrate there was not an error in the previous financial year.

Significant findings – key estimates and judgements

Accounting area	
Land and Buildings – Other - £581m (continued)	**Assets not valued in year** Management undertake a rolling programme of valuations, as allowed under the code, however they are required annually to confirm that by adopting this approach then there has not been a material misstatement in valuations. Management use indices provided by Wilkes Head and Eve to identify whether there has been a material movement. Management have instructed the external valuer to undertake valuations as at the 31st of December in order to give them time to adjust underlying records in response to valuation changes by the statutory May deadline. The Council therefore also apply indices to the last quarter to assess whether there has been a material movement in that period. The above table shows the assumed impact of valuation movements using indices. We noted an error in the calculation on HRA properties, and the Investment properties were valued at the year end rather than some as at December and the resulting adjustment provided an increased potential misstatement of PPE. To assess the reasonableness of this approach we use our own expert valuer Gerald Eve's indices and our assessment is included in the table above. As can be seen the two valuers have different assessments of valuation movements. Wilkes Head and Eve have local knowledge and this is likely to account for some of the difference in assessment. However as overall the Council's balance sheet valuation is within the range we are satisfied that the balance sheet is not materially misstated by adopting a rolling programme and December valuations.

	Management assessment £000	GT recalculation using WHE £000	GT Application of Gerald Eve indices £000	GT comment
PPE not valued in year	5,551	5,551	(2,681)	
PPE valued in year	40,25	4,025	1,276	
Investments not valued in year	599	599	(175)	
Investments not valued in year	(311)	-	-	It was confirmed that all valuations were as at 31 March 2020.
beacons applied in year (HRA)	(6,555)	786	(5,526)	Error in the application of indices supplied by Savills
total	3,311	10,963	(7,106)	

Significant findings – key estimates and judgements

Accounting area	Summary of management's policy	Auditor commentary
Net pension liability – £791m	The Council's total net pension liability at 31 March 2020 is £791m (PY £756.5m) comprising West Midlands Local Government and unfunded defined benefit pension scheme obligations and Teachers pension scheme assets. The Council uses Barnett Waddingham LLP to provide actuarial valuations of the Council's assets and liabilities derived from the LG scheme. A full actuarial valuation is required every three years. The latest full actuarial valuation was completed in 2019. A roll forward approach is used in intervening periods which utilises key assumptions such as life expectancy ,discount rates ,salary growth and investment return .Given the significant value of the net pension fund liability, small changes in assumptions can result in significant valuation movements. There has been a net actuarial loss of £444m in relation to the LGPS and £14m in relation to the teachers pension scheme during 2019/20.	We have: • Undertaken an assessment of management's expert • received assurance From the pension fund auditor that the controls over, and accuracy and completeness of source data and over the provision of this source data to the scheme factory are designed effectively. No deficiencies were identified. No concerns were identified in relation to the actuary's roll forward approach taken. • used PwC as 'auditors expert' to assess the accuracy and assumptions made by actuary. Where PwC have identified matters to be considered locally we have undertaken appropriate testing. PwC has provided us with appropriate assurances over the competence of the actuary and his overarching assumptions.

Assumption	Actuary Value	PwC range	Assessment
Discount rate	2.35%	2.4%-2.3%	(G)
Pension increase rate	1.9%	1.85%- 1.95%	(G)
Salary growth	2.9%	2.85%- 2.95% scheme- specific	(G)
Life expectancy – Males currently aged 45 / 65	45:23.8 65:21.9	22.8-24.7 21.4-23.3	(G)
Life expectancy – Females currently aged 45 / 65	45:26 65:24.1	25.2-26.2 23.7-24.7	(G)

No issues were noted with the completeness and accuracy of the underlying information used to determine the estimate.

There have been no changes to the valuation method since the previous year, other than the updating of key assumptions above.

We note from our auditors expert that Barnett Waddington have not made allowance for the actual level of pension increases between triennial valuation dates. However they note that when compounded assumed increases in actual increases have generally been similar, with differences of less than 0.5% (With a broadly equivalent impact on liabilities).

Significant findings – key estimates and judgements

Accounting area	Summary of management's policy	Auditor commentary
Net pension liability (cont)		As such where the impact is c.0.5% of the IAS 19 liabilities they are comfortable that the approach taken of not allowing for actual pension increases is unlikely to lead to material difference in the liabilities as at 31st of March 2020. Total IAS 19 liabilities for Sandwell £2,124m LGPS. Materiality for the Council is £12.1m this is 0.57% of total liabilities. As materiality is greater than 0.5% of the IAS 19 liabilities stipulated by PwC in their report we are satisfied that it is unlikely that no allowance for actual level of pension increases will lead to a material difference. We have confirmed that the Council's share of the pension scheme assets is in line with expectations Disclosure of the estimate in the financial statements is considered to be adequate The liabilities include those in relation to the staff employed by Sandwell Children's Trust. The Council acts as guarantor for a number of other pension schemes where staff had previously TUPE transferred, the largest being Sandwell leisure trust, Serco limited, SIPs education limited. The Council does not recognise any liabilities in relation to these pension schemes on its balance sheet. The Council's actuary disclosed a material uncertainty in the valuation of the Council's pension fund liability at 31 March 2020 as a result of the Fund's direct property holdings.to reflect market conditions at the reporting date as a consequence of Covid-19. The Council is to include disclosures on this issue in Note 4

Significant findings – key estimates and judgements

Accounting area	Summary of management's policy	Auditor commentary	Assessment
Level 3 investments	The Council has an investment in Birmingham Airport Holdings that is valued on the balance sheet as at 31st of March 2020 at £17.8m. Ordinary shares are valued at £15.5m, a decrease of 11 million on the prior year. As the investment is not traded on an open market and the valuation of the investment is subjective, in order to determine the value management Commission a review to ascertain the valuation of the investment as at the balance sheet date using an earnings based approach. Earnings multiples are based on an average of the lower quarterly earnings and transaction multiples for the industry in this case airports.	The valuation is led by Solihull Metropolitan borough Council on behalf of all the West Midlands Councils who hold such shares. GT COVID-19 pandemic there is more uncertainty than usual on such investments, particularly given that this investment is in the airport industry which has been hard hit by COVID-19. We have completed a review of the key assumptions in the valuation and are satisfied that the accounts are fairly stated. We reviewed the adequacy of disclosure of estimate in the financial statements and note that subsequent to the balance sheet date, the Covid-19 pandemic and continued related Government restrictions on travel have had a significant impact on BAHL's trading. To that end a disclosure has been made to reflect that going forward, BAHL forecasts to retain a satisfactory cash balance, but will not comply with the June 2021 covenants relating to the financing arrangements, unless passenger volumes and revenues recover quickly. The impact of the Coronavirus pandemic on BAHL's ability to meet its covenant tests and to take corrective measures should it not be able to do so is a material uncertainty for BAHL that may cast significant doubt on its ability to continue as a going concern. Some BAHL shareholders have agreed to provide support to the airport in the form of a loan which will be drawn down when required. Sandwell MBC has made the decision not to do this. However, it is possible that there may be an impact on the valuation of the Authority's investment in BAHL.Such corrective action could have a significant impact on the valuation of the Authority's investment in BAHL.	
Other accruals and estimates	The Council continues to apply estimates and judgments in a number of areas, such as: accruals of income and expenditure recognition of school assets the preparation of group accounts.	The policies for these items are in line with accounting standards and the requirements of the code of practise on local authority accounting. Disclosure of the estimates in their financial statements is considered to be adequate . As part of our testing we have reviewed the judgement supplied by the Council relating to these items and significant balances within these have been discussed with management in detail. We have found no material misstatements in the financial statements relating to these balances.	

Significant findings – 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 material uncertainty disclosures

It has been a challenging year due to the Covid-19 pandemic and the impact of this impacted operationally including administration of grants to businesses, closure of schools, leisure centres and car parks with additional challenges of reopening services under new government guidelines. The Council has suspended recovery action in areas including Council tax and business rates during 20/21 in recognition of the pressures on the population due to the pandemic.

Whilst there has been a financial impact across many services, the position has been managed through planned use of reserves and one- off corporate resources and use of the COVID -19 central government emergency grant.

We have considered the evidence provided by management to support its future cashflows, including a cashflow forecast, and concur with management's view that that whilst there are ongoing pressures, it is appropriate for the accounts to be prepared on a going concern basis.

Due to the delay in preparation of the accounts, the current cashflow forecast will need to be extended from December 2021 to March 2022.

Going concern commentary.	Auditor commentary
Management's assessment process	Management has referenced the medium term financial plan and budget reports to management, including those specifically on the impact of COVID 19, and have prepared a cashflow forecast in response to audit requires, to support management assessment of going concern. Management has not routinely prepared a cashflow forecast as part of management process, but one was prepared to support the assessment.
Work performed	We did not identify a material uncertainty in relation to going concern and we did not require the Council to make any additional disclosures in relation to this, although disclosure has been made within note 6 Events after the reporting period of the impact of COVID-19 on the financial statements. We have interviewed the Acting S151 and the finance service leads, in addition to reviewing the evidence provided by management to support the assessment. We have also considered the committee finance reports along with the month returns prepared to support the COVID-19 grant. We have considered the assumptions in the cashflow forecast, challenged these and considered reasonableness relative to the in- year expenditure in 2019/20 and known risks. We have also considered the level of balances.
Concluding comments	There is no impact on our audit opinion as the consequences of our work ongoing concern. We are satisfied that management disclosures are adequate.

Other matters for communication

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	Auditor commentary
Matters in relation to fraud	We have previously discussed the risk of fraud with the Audit and Risk Committee. We have not been made aware of any other incidents in the period and no other issues have been identified during the course of our audit procedures.
Matters in relation to related parties	We are not aware of any related parties or related party transactions which have not been disclosed
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 and we have not identified any incidences from our audit work.
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 Committee papers
Confirmation requests from third parties	We requested from management permission to send confirmation request for bank balances, investments and loans. This permission was granted and the requests were sent and all of these requests were returned with positive confirmation
Disclosures	Our review identified the need for additional disclosures in several notes to the accounts. See appendix a for the most significant amendments made to the disclosures will stop in addition to these a small number of amendments were made to improve clarity for the reader.
Audit evidence and explanations/significant difficulties	We experienced significant delays in obtaining the required information to support our testing on property plant and equipment. We also experienced difficulties in agreeing the accounts to the multiple fixed asset registers. We also noted that the information supplied to the external valuers in many cases was historic outline plans which we found could be interpreted differently by different valuers. These factors create risk that the valuations could be misstated due to the source data not reflecting the current structure of the assets or due to different interpretations being made. This creates risk in the valuation of assets. The valuations reflected in the accounts are the responsibility of the Council. However we noted that there was limited scrutiny and check and challenge by management of the information supplied by the external valuers. Management agreed that there was a need to improve the scope of the terms of reference between the Council and the valuer to more clearly set out the scope of the work and the expected output. We have discussed with management the need to improve processes to support the audit but also to improve the underlying record keeping. In particular the Council needs to update the asset register. Currently there are 24 asset registers which are held on manual excel spreadsheets. This is outdated for a council the size of SMBC. Management has agreed that there is a need to implement a reliable database of property records which contains up to date records of all council assets. This would be supported by a programme of property surveys to ensure that the information retained is current. Whilst the need for improvement has been agreed with management, it is likely that improvement in the underlying records will take some time to implement and so similar difficulties may be experienced in the audit of the 2020/21 accounts. Our audit of provisions and business rate appeals has also taken significantly longer than planned due to the significant amendments required. There have also been issues with regard to cash, creditors, and IT controls. All of these issues have significantly lengthened our audit and increased the cost to the Council.

Other matters for communication

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	Auditor commentary
Audit evidence and explanations/significant difficulties (continued)	Over the past six months the current Covid-19 pandemic has had a significant impact on all of our lives, both at work and at home. The impact of Covid-19 on the audit of the financial statements for 2019/20 has been multifaceted. This includes: **Revisiting planning** We have needed to revisit our planning and refresh risk assessments, materiality and testing levels. This has resulted in the identification of a significant risk at the financial statements level in respect of Covid-19 necessitating the issuing of an addendum to our original audit plan as well as additional work on areas such as going concern and disclosures in accordance with IAS1 particularly in respect to material uncertainties. **Management's assumptions and estimates** There is increased uncertainty over many estimates including property, pension and other investment valuations. Many of these valuations are impacted by the reduction in economic activity and we are required to understand and challenge the assumptions applied by management. There are similar challenges for management and ourselves on areas such as credit loss allowances, financial guarantees, and other provisions. We have include an Emphasis of Matter in the Audit Report in respect of the material uncertainty on the value of property, plant and equipment as well as on the property fund assets in the local government pension scheme to which the Council contributes. We have also needed to resolve prior year issues with the valuation of assets and have needed to consider the valuation of Birmingham Airport. **Financial resilience assessment** We have been required to consider the financial resilience of audited bodies. Our experience to date indicates that Covid-19 has impacted on the financial resilience of all local government bodies. This has increased the amount of work that we need to undertake on the sustainable resource deployment element of the VFM criteria necessitating enhanced and more detailed reporting in our ISA260. **Remote working** The most significant impact in terms of delivery is the move to remote working. We, as other auditors, have experienced delays and inefficiencies as a result of remote working. In many instances the delays are caused by our inability to sit with an officer to discuss the query or working paper . Gaining an understanding via Teams or phone is more time consuming. We have been discussing this issue with PSA over the last few months and note these issues are similar to those experienced in the commercial sector and NHS. In both sectors there has been a recognition that audits will take longer with commercial audit deadlines being extended by four months and then NHS deadlines by a month. The FRC has also issued guidance to companies and auditors setting out its expectation that audit standards remain high and of additional work needed across all audits. The link attached FRC COVID-19 Response I Financial Reporting Council (see guidance for auditors) sets out the expectations of the FRC. To reflect the significance of the additional work required we are proposing an uplift to our fees for 2019/20 of 15%. Please note that these proposed additional fees are subject to approval by PSAA in line with the terms of appointment.

Other responsibilities under the Code

Issue	Commentary
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. We identified a number of inconsistencies in the narrative statement and have agreed with officers that these will be updated. Subject to clearance of these matters we plan to issue an unmodified opinion in this respect – refer to appendix E
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.
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 we examine and report on the consistency of the WGA consolidation pack with the Council's audited financial statements. That work is not yet completed and we intend to complete the work when all agreed amendments have been made to the accounts.
Certification of the closure of the audit	We intend to certify the closure of the 2019/20 audit of Sandwell Metropolitan Borough Council in the audit report, as detailed in Appendix E.

Value for Money

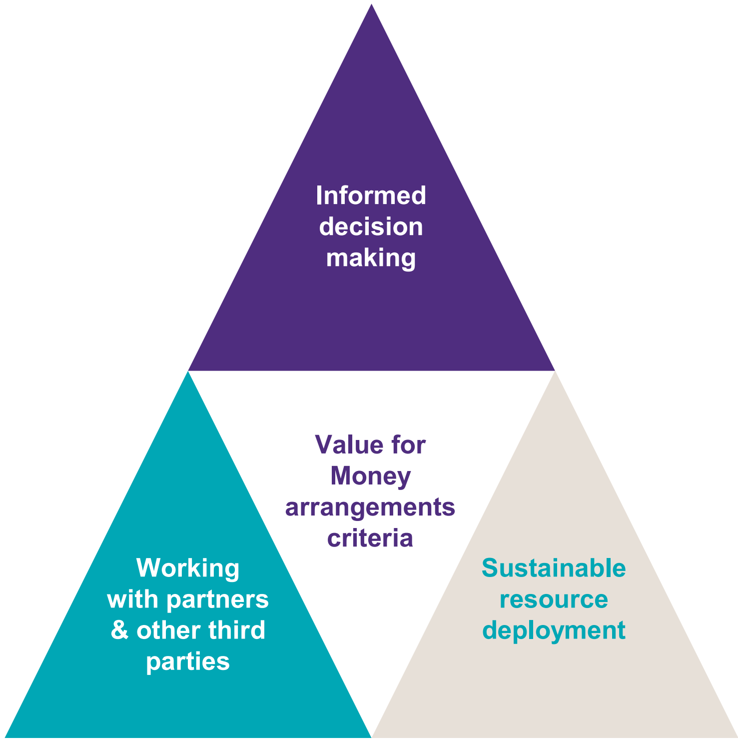
Background to our VFM approach

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 April 2020. 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 during February and March 2020 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 2020.

We considered whether COVID-19 was a new significant risk, however due to the timing of the pandemic judged that it did not present a new significant risk to our value for money conclusion.

We have continued our review of relevant documents up to the date of giving our report. As part of this we have considered the decision during the financial year to dispose of providence place and this is referenced in the following pages. We have not identified any other 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:

- Sustainable resource deployment: Planning finances effectively to support the sustainable delivery of strategic priorities and maintain statutory functions: Budget planning
- Informed decision making: Understanding and using appropriate and reliable financial and performance information to support informed decision making and performance management including where relevant, business cases supporting significant investment decisions.
- We have set out more detail on the risks we identified, the results of the work we performed, and the conclusions we drew from this work on the following pages.

Overall conclusion

Based on the work we performed to address the significant risks, we are satisfied that the Council had proper arrangements for securing economy, efficiency and effectiveness in its use of resources except for the matter we identified under the criteria informed decision making relating to the inadequate assessment by OFSTED on Children’s services. We therefore propose to give a qualified 'except for' conclusion.

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

Matters from our work

During our work we discussed progress with management, reviewed management and committee reports, considered the findings from the monitoring visits and considered the arrangements in place for monitoring the improvement plan.

These documents and management indicated a positive direction of travel for the service. However COVID- 19 has impacted significantly operationally on the service and on the OFSTED inspection regime, meaning that the expected full inspection has not yet taken place. We consulted with the national value for money panel to ensure consistency in our findings but overall we concluded that we had insufficient evidence to rebut the identified risk.

Significant difficulties in undertaking our work

Our work was undertaken remotely during 20202. 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.

Value for Money

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. This commentary relates to our findings in relation to the 2019/20 financial year as required under the Code.

Significant risk	Findings	Conclusion
Sustainable resource deployment: budget planning The sector faces continuing financial pressures due to the reductions in central government grants. The Council medium term financial plan (MTFP) highlights considerable uncertainties in funding beyond 2020/21 due to the new formula for funding settlement. Significant cuts in funding for older people are anticipated. The MTFP is currently assuming that the Council will have a broadly balanced position over the life of the plan. The latest budget report for 2019/20 is anticipating an overspend of £0.058m. £10.681 of earmarked reserves are anticipated to be utilised during the year, resulting in an overall overspend of £10.739m. Any overspend by the Children's Trust may provide a further budget pressure. 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.	**Budget reporting:** There is regular and relative timely budget reporting - with quarter one reported to cabinet in August and Quarter two reported in October. Finance reports during the year forecasted a relatively small overspend in 2019/20 and the outturn was a small underspend at directorate level of £1.5m. This position provides us with some assurance over the accuracy of the budget reporting. **Medium Term financial plan** The current MTFP is referring to negligible shortfalls in the Council's overall financial position - i.e. a cumulative shortfall of £0.7m by 2022/23. There is reference to 'pressures' of £4m, particularly in relation to SEN Transport. In year public reporting does not refer to the need to make savings or report on the delivery of savings. **Children services** The majority of the non schools children's services costs are reflected in the contract with the Sandwell Children's Trust (SCT). The contract with the Trust has been updated to reflect increase in payments although there is no commitment to pay for any overspends as the Trust is projecting a balanced position over the life of the agreed medium term financial plan. There are continuing pressures in the service during 2019/20 which have to date been funded through application of reserves. In 2019/20 the Trust made a deficit of £4.3 m (£1.5m PY) after additional payment of £5m by the Council. As referenced above SEN transport is a continuing cost pressure for this department which continues into 2020/21.	**Overall conclusion** We have seen that the Council, even before COVID-19 is facing increasing cost pressures and is likely to require further focus on delivering savings, particularly in Adult social care and children's services. As with most councils COVID- 19 has impacted significantly operationally and financially. However management are currently forecasting that the impact is manageable, particularly as the central government grant is offsetting much of the additional cost and income pressures in 2020/21. The Council currently has good levels of balances relative to many other councils. Overall we are satisfied that the VFM risk has been mitigated.

Value for Money

Significant risk	Findings
Sustainable resource deployment (continued) The sector faces continuing financial pressures due to the reductions in central government grants. The Council medium term financial plan highlights considerable uncertainties in funding beyond 2020/21 due to the new formula for funding settlement. Significant cuts in funding for older people are anticipated. The MTFP is currently assuming that the Council will have a broadly balanced position over the life of the plan. The latest budget report for 2019/20 is anticipating an overspend of £0.058m. £10.681 of earmarked reserves are anticipated to be utilised during the year, resulting in an overall overspend of £10.739m. Any overspend by the Children's Trust may provide a further budget pressure. 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.	**Adult social care** We have seen that adult social care had an overall budget pressure this year of £10m. This was funded in the main by IBCF £3m and planned use of earmarked reserves £5.3m, relating to previous year budget underspends. At the time of our review the service was facing budget pressures of £11m in 2020/21 and in £14m 2021/22. It is assumed that IBCF will be available for these 2 years, in addition the service will use the reminder of the earmarked reserves in 2020/21, however with these fully utilised by 2021/22 then there is a current projected shortfall of £3.6m in 2021/22. Covid-19 has impacted on the department during 2020/21 and the projected financial position in 2020/21, and as at quarter 3 the directorate is anticipating an underspend of over £9m. This is due to some restriction of services, reduction in agency costs and reductions in placements. **Reserves** The draft accounts show total overall general fund balances as at 31 March 2020 to be £112.5m compared to £118m in the prior year, although we have seen these balances reduce by 16% since 2018. The Council has an arrangement with directorates that any historic underspends are earmarked for agreed purposes in future years. We have seen that £13m of these balances were applied in year with £8.6m remaining to carry forward plus an additional £1.5m added for underspends. After 2020/21 it is not anticipated that there will be these available balances to support departmental pressures, and further savings are likely to be required. In the opinion audit we have noted the need to transfer £10m of the pooled budget underspend to earmarked reserves. This will reduce the level of GF available balances. The level of free balances are in line with the targets set by the S151 Officer and Council at £11.4m.

Value for Money

Significant risk	Findings
Sustainable resource deployment (continued) The sector faces continuing financial pressures due to the reductions in central government grants. The Council medium term financial plan highlights considerable uncertainties in funding beyond 2020/21 due to the new formula for funding settlement. Significant cuts in funding for older people are anticipated. The MTFP is currently assuming that the Council will have a broadly balanced position over the life of the plan. The latest budget report for 2019/20 is anticipating an overspend of £0.058m. £10.681 of earmarked reserves are anticipated to be utilised during the year, resulting in an overall overspend of £10.739m. Any overspend by the Children's Trust may provide a further budget pressure. 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.	**Capital** The draft accounts show capital balances stand at £23m at the end of 2019/20, up from £7m in 2018/19. The capital strategy indicates that the Council plans to spend £318m to 2023, increasing prudential borrowing by £145m. During 2019/20 capital expenditure was £122m, including £39m spent on schools (£18m on academy schools) and £35m on the housing stock. The accounts reflect that £66m of capital expenditure was funded by grants and other external sources of funding. **COVID-19.** During 2020-21 the Council is required to prepare monthly returns to MHCLG detailing the forecast financial impact of COVID- 19 and the planned application of grant. At the time of writing the Council has received £33m of grant. As reported in the most recent return in January 2021 it has fully allocate this grant to services. Discussion with officers indicates that the grant funding will be sufficient to cover COVID related cost pressures this year. Income has been adversely affected with uncertainties around business and council tax income in particular. It is estimated that the COVID 19 grant funding will be sufficient to cover losses. The Quarter 3 cabinet report indicates that the Council has received over £121m in COVID-19 related funding. Much of this is ringfenced for specific purposes or has been passported on to other organisations or the community

Value for Money

Significant risk	Findings	
Informed decision making The Council's Children's services were assessed as 'inadequate' in January 2018 and Children's Trust was subsequently established. The most recent monitoring report in December 2019 highlighted that improvements had been made but the pace of change needed to accelerate. As the service continues to be assessed as 'inadequate' this presents a significant value for money risk.	**Children's services - progress since last inspection** Children's Services was rated as 'inadequate' in January 2018. The Children's Trust has had 13 visits since it was established. The March 2020 monitoring report was the sixth since the 'Inadequate' inspection in January 2018. The Monitoring visits focus on specific areas and do not provide an overall assessment of performance as with a full Ofsted review, thus it is difficult to definitively assess a trend in the overall direction of travel from these reports. The more recent reports do contain a number of positive observations around improved practice although highlighting a need for an increased pace of change. There is also reference to progress being made on recruitment, although there is still some way to go on this as further referenced below. In November 2019 there was a full inspection of fostering and this reported in January 2020. This assessed the service as 'requires improvement' which was improved from the previous assessment of 'inadequate'. A revised direction was issued to Council in July 2019. This transfers some of the functions previously undertaken by the Trust/ Council to the regional adoption agency. Reporting from the Trust to the Council was increasingly positive during the financial year with a stated expectation that when the Trust next receives a full inspection then it will improve its rating to 'requires improvement'. It is now clear that the Trust will not receive a full inspection for some time. Any OFSTED visits are likely to focus on arrangements during the pandemic. There are six-monthly visits from the DFE. The notes from the last meeting with the DFE have been shared with us and we can see that operational staff are interviewed as part of this process. This feedback refers to a strong response to the COVID 19 pandemic as a result of 'strong leadership' and references 'good partnership working between the Trust and the Council', 'good engagement with the Chair of the improvement Board'. We note that the Trust has now appointed a new Chief Executive and also SMBC itself is going through a management restructure. The Trust has relatively recently recruited a new finance lead and is going through a management restructure itself. These factors could provide some distractions at a senior level and potentially some short term instability.	**Conclusions** The Ofsted inspection report of children's services, published in January 2018, concluded that Children's services in Sandwell were 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.

Value for Money

Significant risk	Findings
Informed decision making The Council's Children's services were assessed as 'inadequate' in January 2018 and Children's Trust was subsequently established. The most recent monitoring report in December 2019 highlighted that improvements had been made but the pace of change needed to accelerate. As the service continues to be assessed as 'inadequate' this presents a significant value for money risk.	**Children's services - progress since last inspection continued** The DFE feedback sets out the ongoing challenges faced by the Trust, which remain familiar; difficulties with the level of staff vacancies and over-reliance on agency staffing. In addition, OFSTED highlights the continuing financial pressures associated with a demand led service and the sizeable savings target. **Children's services - Governance** With the establishment of the Trust, the Council does not have direct management responsibility for day to day the operations of the Trust, although the Council remains statutorily responsible for the function. The Council manages its responsibility through its contract with the Trust. As well as setting out the financial contract sum, the contract also sets out performance standards and key PIs which are also related to the Trusts OFSTED improvement plan. The Council has a member led Education and Scrutiny committee which receives some reporting on the performance of the Trust. As part of the contract the Committee should receive a report twice yearly, however we note no reports on performance were presented in the 2019/20 financial year, although there was a presentation on how the Trust is managing the services through the current pandemic. There is an officer led operational performance Board with senior management from the Trust and the Council and a Strategic Partnership Board which has a wider membership including at a Chief Executive level. All these meetings are formal meetings and we have seen the this reports regularly on performance including at a performance indicators level. Minutes indicate there is appropriate dialogue and challenge in these meetings. In addition there is the Improvement Board which specifically considers the progress against the Trust's improvement plan. Overall Governance arrangements are appropriate, although there should be at least an annual update to the scrutiny committee of members on the progress against the OFSTED improvement plan so that members are fully sighted on this.

Value for Money

Significant risk	Findings
Informed decision making The Council's Children's services were assessed as 'inadequate' in January 2018 and Children's Trust was subsequently established. The most recent monitoring report in December 2019 highlighted that improvements had been made but the pace of change needed to accelerate. As the service continues to be assessed as 'inadequate' this presents a significant value for money risk.	**Children's Services - Performance** The Trust presented to the June 2020 the performance dashboard against the key performance measures. Of the 18 indicators, 11 were rated as green (on target); 5 were amber (within acceptable tolerances) and 2 were red. The red indicators related to staffing vacancy rates and the visits to looked after children. In the May 2020 Partnership Board the SCT Chief Executive highlighted that due to the impact of the pandemic and the absence of a full inspection the Trust would struggle to deliver the contract requirement of achieving 'requires improvement' status by 2021. The Trust reported to the Scrutiny Board earlier in the year on the impact of the pandemic and this indicates that the Trust has had to fundamentally change its approach with most staff home based and many of the visits transferring to an online rather than face to face. **Children's Services - Finances** The Trust, in agreement with the Council has put in place a medium term financial plan for 2019/20 +. This plan requires savings of £13.8m, with the aim of the Trust breaking even by 2022/23. The Trust has reported an overall deficit of £4.2m in 2019/20, taking the cumulative deficit to £5.8m. SMBC accounts reflect spend of £64m against a £58.2m base contract, adjusted for agreed variations including a further £5m uplift to reflect demand which was agreed by members as part of the MTFP consultation process. This was funded from reserves. The Council has recognised that continuing funding from reserves is not sustainable and the Trust should be delivering against its MTFP. As highlighted above, the Trust continues to face challenges around vacancies, with the Trust relying on agency staffing which provides an ongoing cost pressure for the Trust During 2019/20 the Trust has seen reductions in some of the demand led services, with the reduction in the number of looked after children and in the number of children having protection orders to a level more in line with the local Mets Midlands demand. The impact on children's services of the pandemic on the demand for children's services has yet to fully play out and this therefore provides further uncertainties to the costs of children's services. Both the Council and Trust are concerned about funding continued improvements to the service after the latest round of DfE improvement funding comes to an end.

Value for Money

Significant risk	Findings
Informed decision making The Council's Children's services were assessed as 'inadequate' in January 2018 and Children's Trust was subsequently established. The most recent monitoring report in December 2019 highlighted that improvements had been made but the pace of change needed to accelerate. As the service continues to be assessed as 'inadequate' this presents a significant value for money risk.	**Children's Services - Summary** The Trust was rated inadequate in January 2018. There has not been a full inspection since and one is not expected due to the ongoing pandemic. We have seen that the Trust has made improvement in practice in many areas supported by a strong leadership team. The SMBC Director of Children's services is satisfied that significant progress has been made since the establishment of the Trust, although more needs to be done. Reports to the Council earlier in 2020 indicated that the Trust expected the service to improve its assessment with the next inspection. The June 2020 performance report indicates improved performance on many of the indicators with the majority showing performance at, or close to target. However, as recognised by the Chief Executive of the Trust in May 2020, they are now unlikely to meet the contract expectations of rated as 'requires improvement' by 2021/22 because of the impact of the current pandemic. This is likely due to the inspection timetable but also due to changes in operational arrangements and general uncertainties caused by the pandemic. The financial management of the Trust is improved on the prior year as a MTFP is now in place. The level of savings to be delivered is high and in view of the annual overspends is likely to be very challenging, along with the ambition of a breakeven at the end of the MTFP period. Whilst there is clear evidence of improvement in the 2019/20 financial year, the pandemic has introduced further uncertainty into our assessment. There is not currently sufficient certainty that children's services would improve its assessment if inspected and therefore we conclude that the identified VFM risk has not been sufficiently mitigated.

Value for Money

Significant risk

Significant risk	
Informed decision making In June 2019, the Department for Education approved the provision of a new, 750 place secondary free school in West Bromwich, to be delivered in partnership with Shireland Academy and the City of Birmingham Symphony Orchestra (CBSO). It is proposed that the Council sell the freehold interest of 1 Providence Place, West Bromwich, with vacant possession, along with a development plot to the DfE for £8.46m	We have reported on this matter separately to the Audit Committee

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 May 2020 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

Details of fees charged are detailed in Appendix D

Independence and ethics

Audit and Non-audit services

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council. The following non-audit services were identified which were charged from the beginning of the financial year to January 2021as well as the threats to our independence and safeguards that have been applied to mitigate these threats.

	Fees £	Threats identified	Safeguards
Audit related			
Certification of Teachers Pension Return	6,000	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £6,000 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. These factors all mitigate the perceived self-interest threat to an acceptable level.
		Self review (because GT provides audit services)	To mitigate against the self review threat , the timing of certification work is done after the audit has completed, materiality of the amounts involved to our opinion and unlikelihood of material errors arising and the Council has informed management who will decide whether to amend returns for our findings and agree the accuracy of our reports on grants.
Certification of Housing Benefit Claim	16,000	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £16,000 in comparison to the total fee for the audit 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. These factors all mitigate the perceived self-interest threat to an acceptable level.
		Self review (because GT provides audit services)	To mitigate against the self review threat , the timing of certification work is done after the audit has completed, materiality of the amounts involved to our opinion and unlikelihood of material errors arising and the Council has informed management who will decide whether to amend returns for our findings and agree the accuracy of our reports on grants.
CFO Insights Subscription	12,500	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £12,500 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. These factors all mitigate the perceived self-interest threat to an acceptable level. These fees have not been reflected in the accounts because of the timing of CFO Insights The CFO insights service provides the Council with access to various data sources, which they decide how to use and make their own decisions about the delivery of services, therefore we do not believe there is an impact on the value for money conclusion.

Action plan

We have identified a number of recommendations for the Council as a result of issues identified during the course of our audit. We have agreed our recommendations with management and we will report on progress on these recommendations during the course of the 2020/21 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
● high	Asset registers: The Council asset register currently consists of 24 excel spreadsheets. There is no detailed asset register for the HRA. This is not commensurate with a council with the number and value of assets held by SMBC. The records are cumbersome to update.	Management should modernise the record keeping by investing in a bespoke asset register or by acquiring an asset register module in the new ledger upgrade.
● high	Underlying asset property records: are not held in a single property data base. Data provided to the external valuer is variable and open to interpretation.	Management should undertake a programme of property inspections to ensure that all property records are up to date. Management should invest in a modern property database.
● high	Management has not adequately challenged and checked valuations provided by the external valuer. It took considerable time to obtain evidence to support the valuations in our sample testing. We noted that there was inconsistency in the valuation report provided for investment properties in relation to valuation dates, and this had to be checked by audit with the external valuer	Management should include in the instructions to the valuer that they will supply evidence to support the assumptions in the valuations so that management can check and challenge the valuations before applying to the asset register and accounts.
● medium	Management has assured us that appropriate discussions took place with the external valuer to support the principle that alternative valuation approaches have been considered. This was noted in particular in relation to the valuation of schools on a DRC basis, as opposed to MEA approach.	Management should ensure that there is formal documentation of such discussions with the external valuer.

Controls

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

Action plan

Assessment	Issue and risk	Recommendations
medium	We noted one asset in our testing was not recorded at the land registry. Discussion with management indicated that there may be a number of properties that had not been recorded appropriately.	Management should ensure that all assets are appropriately recorded at the land registry
medium	Providence place is to be disposed of to be converted into a new free school. The asset is being sold at considerably less than the original purchase price, which is in part due to the change in council strategy for office accommodation and the asset being considered surplus. It is clear that there should have been greater challenge applied to the original purchase price.	Management should ensure that all purchases and sales of assets are clearly aligned with the council's accommodation strategy.
high	Debtors: management had excluded the housing benefit debtors arrears in relation to overpaid benefit from ongoing claimants from the accounts and not determined an associated provision for impairment of receivables.	Management should ensure that there are appropriate checks in place to ensure that arrears from subsidiary systems are accurately reflected in the accounts. Specifically in elation to HB arrears management should undertake appropriate analysis to ensure the position is correctly reflected in the 2020/21 accounts (we have included this year as an uncorrected misstatement)
high	We noted that a highly material error was made in the cash (overdraft) and creditors balances due to an error in a journal posting this was not identified through procedures of approval of the journal nor from a review of the bank reconciliation. We also noted a material error in posting to expenditure, which was identified by management and reversed, however the safeguards preventing such postings in the first place do not appear to be adequate.	Management should look to simplify the bank reconciliation as currently it is extremely difficult to review by both management, which is probably a factor as to why the error was undetected by review but also for audit purposes. Management should review controls over journals to ensure that such large journals are reviewed and approved. Management should look at the controls and safeguards and controls around payments to prevent postings being made that are outside appropriate parameters.
medium	Management should undertake further review of the weaknesses identified in our IT report and ensure that appropriate controls are implemented as part of the ledger upgrade and until management should continue to to review staff access in particular.	Management should ensure the recommendations made in the IT report are addressed.
high	Our review of impairments to receivables indicated that management had not recently reviewed the basis of provisions, with proper regard to their collectability, as expected under the code and IFRS9.	Management should continue to review impairment of receivables, building on the work done as part of the final accounts and considering further the impact of COVID-19 on the collectability of debt, as recovery procedures are implemented. Communication between the finance team and the revenues departments should be strengthened in the process of making estimates.
high	The council had not adequately provided for known risks to collected business rates from appeals. The position is less clear due to the implementation of the check and	Management should review the provision for appeals annually using he most up to date analyse local information and knowledge of the sector.

Follow up of prior year recommendations

We identified the following issues in the audit of [insert client name] Council's 2019/20 financial statements, which resulted in [x] recommendations being reported in our 2018/19 Audit Findings report.

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
X	Aged debt: We estimate that the council has material balances of potentially uncollectible debt, particularly in revenues. 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. We recommended that there should be a review 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 has reviewed some of the policies and aged debt, however our work this year on provision for bad debts indicates that there is still more that can be done in terms of understanding the profile of arrears. Our expectation is that the provisions for bad debts is based on management assessment of collectability of the year end debt. There seems to be a focus by officers on the policy for recovery of arrears as a basis of provisions rather than an assessment of collectability of year end debt. This has led to some challenge from the audit team on the basis of provisions in the accounts. We have seen the council either applying an overarching 100% provision for all arrears in a particular area or for 2018/19 and 2019/20 debts no provisions being made because the council has a policy to 'actively pursue' debt in relation to these years. This is despite an analysis of arrears as at 31 Jan 21 indicating that collection of year end debt in relation to these 2 years is limited, suggesting an under provisions for bad debts in relation to those years. We are also aware that the council has had a policy of not actively chasing debt in 20/21 due to COVID-19, and this will inevitably have increased the risk of bade debts in relation to prior years, but this hasn't been taken into account in assessing 2019/20 year-end provisions.
X	Children's Trust pensions: We were 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. We recommended • a fixed contribution rate should be confirmed as payable by the children's trust • The council and Trust and pension fund should more formally set out the position on the pension in a tripartite agreement.	Officers will incorporate these matters in the next revision too the contract.

Assessment

✓ Action completed

X Not yet addressed

Follow up of prior year recommendations

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
x	**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.	A working paper was provided however it was updated at audit request and management has declined to review all 18 guarantees in future years but to focus on the three larger contracts where three is judged to be a more material risk. We would recommend that all schemes are reviewed at least once to ensure that the understanding of the council's commitment under the guarantees is understood and then the larger schemes updated annually.
partly	**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 to investigate outliers.	The council had the valuations undertaken as of 31 December 2019 for the majority of its assets, although investment properties were valued at the year end. This is to allow officers time to check and challenge the information supplied by the valuer and incorporate into the asset registers in time for the production of the statement of accounts by the statutory deadline. A year end valuation date is judged to be impracticable as it would put delivery of the financial statements by the year end at risk. After the year end the council undertakes an exercise to assess what impact on the valuation the last quarter property valuations would be through applying indices provided by the valuer , in order to be assured that the year end position is not materially misstated by adopting a 31 December valuation date. This approach provides a reasonable estimate, although there is some risk that further valuations be required where there is an indication of a material movement in values in the last quarter. In order to minimise the risk of material misstatements the council has also undertaken to value the schools annually. We have made further recommendations within the report on the process adopted by the council for check and challenge of valuations.
x	PPE valuations: The Council values its investment properties on a cyclical basis, although 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.	Management response was that due to the number of Investment Properties held by the Council it is not possible to get all of these valued each year. 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. It was also noted that surplus assets are also valued on a rolling programme, and these too should be valued annually. The council's accounting policy is not in line with the CIPFA Code.

Follow up of prior year recommendations

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
x	**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.	Further commentary on this is provided in the detail of the report. Management has agreed to undertake further improvements in the PPE valuation process.
✓	**Support for debtor and creditor year end balances:** Transactions listing were not easily available for year end balances to facilitate our sample testing. Year end closedown procedures should incorporate preparing transactions reports as at the year end for the balance sheet	This was addressed and year end listings were available to support our testing
Partly	**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. We recommended that: • 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.	The council had updated the models for 2 of the schemes and the Total Schools imbalance has been corrected in year. We were able to reconcile the accounts to the models in all but 1 case, where there is a rolled forward difference of £1.3m, which we have included in the errors and uncertainties (appendix C) . Training has yet to be provided due to COVID 19 Progress has been made however further work is required to ensure there is a clear basis and audit trail from the accounts to the PFI models.

Follow up of prior year recommendations

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
x	**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	The matter has been discussed with company directors, who have requested additional assurance around the security of schools assets should the company be wound up before a decision is made on the future of the company. The company is unlikely to be wound up in the 2020/21 financial year.
✓	**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	We have made recommendations for some further enhancements to disclosures as detailed within the report.

Audit adjustments

Adjustments to notes	Detail	Auditor commentary/ adjustment	Adjusted?
Narrative statement	Consistency with the accounts	We noted that a number of the financial references in the accounts did not tie up	
Debtors note 17 Financial instruments note; financial assets note 16	Allocation of impairment for receivables Recalculation of impairment for receivables	All the impairment for receivables was allocated to trade debtors in the draft accounts in error. When restated this also impacts on the financial instruments note, increasing trade debtors from £57m to £23m Further adjustments are required to reflect the revision to impairment of receivables as per the adjustments table	tba
Note 4: Assumptions made about the future and other major sources of estimation uncertainty	Material valuation uncertainty	The note should make reference to the material uncertainty in relation to multi- story buildings as per the valuation report, but also to the Material valuation and certainty in relation to the pension fund property assets.	tba
Events after the reporting period (note 6)	Disclosure in relation to the shareholding in Birmingham Airport	The council has a significant shareholding in Birmingham Airport Holdings Ltd (£15.557m 5.62% holding) as at 31/3/20. Since March 2020 the company has been adversely affected by the pandemic and the restrictions on travel. The accounts reflect a reduction of £11m in the fair value valuation of the shares, and there is an ongoing risk to the future valuation of the investment in the company. Management has made disclosure in the note of the ongoing risk within the revised financial statements.	✓
Note 10: property plant and equipment	Depreciation	Gross costs and gross depreciation agreed to be amended be consistent with the asset registers opening balance other land and buildings reduced by £15,418. no impact on primary statements.	✓
Short term creditors: note 20	Imbalance due to PFI Adjustment due to cash	Further detail is contained in the misstatements section as this has impacted in primary statements Note 20 increased from £65109 to £99,907	✓
Note 28: Other service expenditure	Note updated to reflect errors in allocation	GT use this note to drive much of the sample testing and therefore it is important to our approach that it reconciles to underlying records. We have agreed with management a number of changes however changes to this note does not impact on primary statements	✓
CIES	Disclosure of prior comparators	The draft financial statements do not include the gross income and gross expenditure for 2018/19, only net. Code requires gross disclosures to enable the reader to compare year on year	✓
Collection fund	Disclosure of prior comparators introduction	The 2018/19 accounts did not show the comparators for council tax and business rates, only the totals Primary statements should include a description of purpose, but this was missing	✓

Audit adjustments

Adjustments to notes	Detail	Auditor commentary/ adjustment	Adjusted?
HRA note 2 and note 10	Disclosures in the note to the HRA Balance sheet movement in HRA non current assets	A number of adjustments have been made to the brought forward balances in the note as it did not agree to underlying asset records i.e. the FAR	✓
Accounting policies	HRA componentisation policy xxi MRP Policy xviii capital accounting	The council has not componentised windows kitchen etc on the HRA stock we have suggested that the council makes clear in the accounting policy the useful lives and assumptions around componentisation of HRA as it is not currently covered MRP useful life incorrectly stated as 38 years, should be 50 Investment property: note states that investment property is valued annually but then goes on to say only those over £1m valued annually rest on a rolling programme. Notes is updated to make clear the use of indices in the process. The accounting policy should explicitly make clear that the council is accounting for HRA capital on a 'group basis rather than movements on individual assets accounted for. The accounts also needs to make explicit reference to the loss on the new HRA build which would have been recognised through the CIES had a group approach not been taken	Tba ✓
Note 33: Audit fees/ group note 8	Note is incomplete	The audit fees note does not make it clear which fees relate to KPMG or all fees agreed. To be updated	tba
Note 31 senior officer disclosure	Incorrect analysis of staff	Jan Britton included in senior officer bandings Anne in the other employees listing despite the note saying that senior officers are excluded	✓
Note 43: defined benefit pension	Disclosure of liability teachers pension McCloud	The original disclosure was incorrect at £11.749m. Restated as £14.5m Additional disclosure agreed around the assumptions made by the actuary in relation to Mccloud ruling	✓ tba
Narrative statements	Consistency with the accounts	We noted that there was inconsistency between the numerical disclosures in the narrative statement and the accounts. These have been adjusted for but will need to be further reviewed due to subsequent changes to the accounts	tba
Balance sheet	Typo in draft accounts	Balance sheet was incorrectly entitled cashflow statement	✓
Events after the reporting period (note 6)	Disclosure in relation to the shareholding in Birmingham Airport	The council has a significant shareholding in Birmingham Airport Holdings Ltd (£15.557m 5.62% holding) as at 31/3/20. Since March 2020 the company has been adversely affected by the pandemic and the restrictions on travel. The accounts reflect a reduction of £11m in the fair value valuation of the shares, and there is an ongoing risk to the future valuation of the investment in the company. Management has made disclosure in the note of the ongoing risk within the revised financial statements.	✓

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 2020.

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000
Incorrect adjustments on consolidation. Bank overdraft overstated and creditors understated	Balance sheet only adjustment	Dr bank overdraft £35.455m Cr short term creditors£35.455m	nil
Finance Lease creditor did not agree to the model.	Dr Schools expenditure £1.891m	Cr unusable reserves £1.891m	£1.891k increase in expenditure
Incorrect figure included in the balance sheet for Receipts in Advance		Cr Receipts in advance £0.666m	Nil
Decrease in Housing Benefit impairment allowance	DR HB Impairment Allowance £1.433m CR Service Resources £1.433m	DR CIES £1.433m CR General Fund £1.433m	£1.433m increase in income
Decrease in the Council Tax Impairment Allowance	DR Council Tax Impairment Allowance £3.628m CR Council Tax Income £3.628m	DR CIES £3.628m CR Collection Fund Adjustment Account £3.628m	£3.628m increase in income
Adjustment to NNDR appeals Provision	DR NNDR Appeals Provision £6.442m CR Collection Fund surplus/ (deficit) £6.442m	DR Collection Fund Adjustment Account £6.442m CR CIES £6.442m	£6.442m increase in expenditure
Decrease in HRA impairment allowance	DR HRA Impairment Allowance £0.864m CR Housing Service Line £0.864m	DR CIES £0.864m CR General Fund £0.864m	£0.864m increase in income
Incorrect movement of AUC to Council Dwellings	(Balance Sheet only adjustment)	DR Assets Under Construction £4.367m CR Council Dwellings £4.367m DR Council Dwellings £3.013m CR Revaluation reserve £3.013m	nil
Pooled budgets – surplus carried forward on the pooled budget should be clearly earmarked for the purposes as approved by the pooled budget		**Cr General fund reserves £10.6m** **Dr earmarked reserves £10.6m**	**nil**

Continued next page

Audit adjustments (continued)

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000
Movement on reserves	Cr 1,077		
Earmarked reserve		Dr 1,077	
Movement on balances	Dr 1077		
HRA balances		Cr1077	
Earmarked reserve		Dr 3701	
movement on reserves	Cr3701		
Movement on balances	Dr3701		
HRA balances		3701	
Overall impact	**£X,XXX**	**£X,XXX**	**£X,XXX**

Audit adjustments

Impact of unadjusted misstatements

The table below provides details of adjustments identified during the 2019/20 audit which have not been made within the final set of financial statements. The Audit and Governance 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
Debtors: the council has not included debtor arrears in relation to ongoing benefits	5,700	5,700	(5,700)	This is a historic error identified in 2019/20. Against these arrears the council will need to set an impairment of receivables. The position is further complicated by assessing the impact of the related housing subsidy. Management would prefer to undertake further work on this before making an adjustment.
PPE: there is an £18m increase in the valuation of land on consolidation of schools based on WHE valuation, which is a 13.6% increase. WHE indices suggests a 0% movement in land values and Gerald Eve suggest a 2.3% reduction in land values. We have not yet received appropriate explanations for the inconsistency which suggests that the land values.	We are awaiting responses from management for explanation for the variation in land values and assurance as to how management has satisfied themselves that these variations are reasonable before we able to conclude before we can conclude this is a reporting matter.			
Leisure centres: we note that the valuer has extended deferment to all leisure centres to reflect the fact that the assets are leased on a long term contract.	We are seeking confirmation from management the financial impact and if significant, assurance as to whether these adjustment have implication for prior years.			
Overall impact	**£5,700**	**£5,700**	**£5,700**	

Impact of prior year unadjusted misstatements

The table below provides details of adjustments identified during the prior year audit which had not been made within the final set of 2018/19 financial statements.

Audit adjustments

Impact of unadjusted misstatements (continued)

The table below provides details of adjustments identified during the 2019/20 audit which have not been made within the final set of financial statements. The Audit and Governance 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
PFI: we have compared the PFI financial models updated with the GT models, to provide us with assurance over the accuracy and there are differences between the two models as follows: **Riverside:** the model has been updated since the last GT model has been run.		SMBC liabilities > 1 year £19,080k GT PFI > 1 year £23,262k Difference£4.2m	Increase in liabilities £4.2m	SMBC is content that the current PFI model is up to date and accurate**.**
Rowley PFI model: the model has been updated since the last GT model has been run		SMBC liabilities > 1 year £36,891k GT PFI > 1 years £39,815k Difference £2.9m	Increase in liabilities £2.9m	SMBC is content that the current PFI model is up to date and accurate**.**
Portway PFI model. There is a difference between the SMBC model and the ledger because the ledger has not been updated.		SMBC liabilities per model > 1 year £7,080k SMBC liabilities per ledger/ accounts £8,367k Difference £1,287k	Reduction in liabilities (£1.3m)	The model is to be updated with the support of Mazars in 2020/21. management are content the ledger reflect the accurate position
Overall impact		£5,600	£5,600	

Fees

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

Audit fees	Proposed fee £	Final fee £
Council Audit	153,136	
Fee variation agreed February 2020	32,350	
Additional uplift (as per page 33 and 34)	54,514	
Subtotal	**240,000**	**TBC**
Audit of subsidiary SL&P	15,000	TBC
Audit of subsidiary Sandwell Children's Trust	27,250	
Total audit fees (excluding VAT)	**£282,520**	**TBC**

Non-audit fees for other services	Proposed fee	Final fee
Audit Related Services:		
• Housing Benefit Subsidy claim* • Teachers pension return • Housing capital receipts**	16,000 6000 tbc	
Non- Audit Related Services		
Agreed upon procedures Sandwell Children's Trust (annual certification of the expenditure in respect of the Trust's Improvement Grant for DfE) CFO highlights	5,000 12,500	
Total non- audit fees (excluding VAT)	**£39,500**	**tbc**

*Housing benefit subsidy claim is ongoing
**the audit of the 2017/18 and 2018/19 audit is still being finalised by KPMG. We will agree a fee for the 2019/20 audit on finalisation of their work

Fees

Reconciliation of fee to note 8 (group accounts)

	2018/19 £'000	2019/20 £'000	
Fees payable to KPMG the appointed auditor for the year 2017/18 and prior with regard to external audit services carried out in that year	40		
Fees payable to KPMG for the certification of grant claims and returns for 2017/18 and prior	9		
Fees payable in respect of other services provided by KPMG during 2017/18 and prior	35		
Fees payable to Grant Thornton appointed auditor for the year 2018/19 with regard to external audit services carried out for SMBC	153	(18)	2018/19 fee
Fees payable to Grant Thornton appointed auditor for the year 2019/20 with regard to external audit services carried out for SMBC	0	153	Core fee – additional fees agreed see page 44
CFO insights (non-audit service provided by Grant Thornton) 2018/19	13		Check if CFOI insights 2019/20
Fees payable to Grant Thornton appointed auditor for the year 2018/19 with regard to external audit services carried out for the subsidiary audit	23	25	Actual fees for 2019/20 are £27,500 – note 8 to be updated
Total Fess for Appointed Auditor	**273**	**160**	
Certification of 2018/19 Teachers Pension claim		5	£6k agreed – note 8 to be updated
Housing Benefit Audit		16	
PFI Objection		28	Exclude – relates to KPMG
AAS Support		4	????
WEST MIDLAND PENSION FUND		1	?????
Housing Benefits Subsidy Audit		8	????
2018-19 Audit fee for Sandwell Land and Property company		15	2018/19 fee
2019-20 Audit fee for Sandwell Land and Property company		15	
Total Additional Fees	**0**	**92**	

Fees

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

Audit fees	Fee per plan £	Proposed fee £
Council Audit	153,136	153,136
Increased challenge and depth of work	5,000	5,000
Materiality reduction from 1.8% to 1.4%	4,000	4,000
PPE	4,350	18,350
Pensions	3,500	3,500
PFI	3,000	3,000
SL&P accounting	1,500	1,500
Group accounts	3,500	3,500
PPE Valuation – cost of auditor's expert	5,000	5,000
Provisions		10,000
Cash		5,000
Creditors		2,500
IT audit		2,500
COVID 19 / Remote working		23,014
Total audit fees (excluding VAT)	**£185,486**	**240,000**

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 2020 which comprise 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 Balance 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 2019/20.

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 2020 and of the group's expenditure and income and the Authority's expenditure and income for the year then ended;
- have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2019/20; 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 Section 151 Officer 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

Audit opinion

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 Section 151 Officer's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Section 151 Officer 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 Section 151 Officer's conclusions, and in accordance with the expectation set out within the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2019/20 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.

Emphasis of Matter – effects of Covid-19 on the valuation of land and buildings and property investments and material valuation uncertainty- multi-storey buildings

We draw attention to Note 4 of the financial statements, which describes the effects of the Covid-19 pandemic on the valuation of the Authority's and group's land and buildings and to the Authority's share of the pension fund's property investments as at 31 March 2020.

A material valuation uncertainty exists in relation to multi-storey buildings as a result of the wholesale review of the regime relating to building safety in addition to the public inquiry that has been established to investigate the circumstances of the Grenfell fire.

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Other information

The Section 151 Officer 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 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 Edition' 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.

Audit opinion

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 Section 151 Officer and Those Charged with Governance for the financial statements

As explained more fully in the Statement of Responsibilities set out on page 32 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 Section 151 Officer. The Section 151 Officer 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 2019/20, for being satisfied that they give a true and fair view, and for such internal control as the Section 151 Officer 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 Section 151 Officer 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 2020.

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:

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.

Audit opinion

In response to receiving this Direction, the Council put in place and progressed with arrangements to set up the a Children's Trust, with the service ultimately transferring on l 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 April 2020, 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 2020.

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.

Report on other legal and regulatory requirements - Certificate

We certify that we have completed the audit of the financial statements of the Sandwell Metropolitan Council in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice.

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]

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

Birmingham

[Date]