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Your key Grant Thornton team members are:

Mark Stocks
Partner/Engagement Lead
T (0)121 232 5437
M (0)7584 591488
E mark.c.stocks@uk.gt.com

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

Matthew J Berrisford
Assistant Manager
T 0121 232 5306
E matthew.j.berrisford@uk.gt.com

The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit planning process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the Council or all weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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

Name : Mark Stocks
For Grant Thornton UK LLP
Date : 13 March 2023

1. Headlines

This table summarises the key findings and other matters arising from the statutory audit of Sandwell Metropolitan Council ('the Council') and the preparation of the group and Council's financial statements for the year ended 31 March 2021 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 Council's financial statements give a true and fair view of the financial position of the Council and its 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 2014. We are also required to report whether other information published together with the audited financial statements (including the Annual Governance Statement (AGS), Narrative Report is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.	Our findings from the 2020/21 audit are set out within the detail of this Audit Findings Report (AFR). The report references the difficulties we have experienced in completing our work resulting in a significant delay in the issue of this AFR and an unusually large number of adjustments to the accounts. We consider that the quality of accounts and working papers presented for audit to be poor. A significant number of the adjustments are material. All non trivial audit adjustments are detailed in Appendix C (page 58 to 64). The overall impact on the CIES has resulted in a reduction in surplus from £58m to £7m, this is the third year that the audit has had significant adjustments. There remain a number of unadjusted errors. The unadjusted errors do not currently indicate that there is a material misstatement to the accounts, however we are unable to fully conclude on this until the matters listed below are resolved. Our current estimate of the unadjusted errors are detailed at page 65 to 71. Some of the changes made and the unadjusted errors do impact on the useable reserves available to the Council. The impact of the adjustments on useable reserves is £12m. The restated accounts include a third balance sheet, to incorporate a prior period adjustment, due to a material error in the approach to valuation of property. This relates to the assumptions with regard to age, obsolescence and externals. There are some matters that have yet to be resolved before our work is complete: • We have now received the revised model to support the accounting on SERCO which we are currently considering. This indicates that the Council has a cumulative £5m prepayment in 2020/21 and in the prior 2 years. This is currently reflected as an unadjusted error in Appendix C. • In addition, we have yet to fully conclude on the prior period adjustment relating to property valuation and are currently reviewing the supporting notes and disclosures. Our review of this has highlighted further errors in the accounting for PPE impairments which management are currently investigating. We expect the impact of any errors to be on non- useable reserves rather than impacting on GF balances. • We are also awaiting the Council to prepare a revised note 10 to the accounts and supporting memorandum note to reflect the update to the CIPFA Code in relation to infrastructure assets. There is currently an unadjusted error of £2.4m in relation to in year depreciation, reflecting the change in useful lives. • We are currently working through the adjustments in the accounts, to ensure that they are consistent with our expectations. We have concluded that the other information to be published with the financial statements, is consistent with our knowledge of your organisation and the financial statements we have audited, although we are currently awaiting a revised Annual Governance Statement to review.

1. Headlines

Financial Statements (continued)

Audit Opinion

We are satisfied, subject to the resolution of the matters on the previous page, that the financial statements do not contain material areas with regard to the comprehensive income and expenditure statement, balance sheet, movement in reserves statement, cashflow, notes relating to 2020/21, and the 2019/20 comparative information (restated). We do, however, draw your attention to the unadjusted statements listed on page 58 to 59. We plan to issue an unmodified opinion on these areas.

There are a number of unadjusted errors in relation to the comparative information relating to the balances as restated as at 1 April 2019. In our view there is significant uncertainty is in relation to the valuation of land and property and the related capital accounting impacting on unusable reserves. We have discussed this with management and agreed that further work by ourselves and the Council to restate these balances would not sufficiently reduce the level of uncertainty that these balances were not materially misstated and that the work to do so would be disproportionate to the benefit achieved. In forming this view we note that the property and land valuations and the capital accounting reserves as at 31 March 2021 are materially correct and that the comparative information as at 31 March 2020 is materially correct. There is also no impact on useable reserves. The uncertainty and errors therefore relate solely to the land and property valuation and capital accounting reserve comparative information as at 1 April 2019. We have therefore determined that it is appropriate to issue a modified opinion in relation to the comparative information relating to property and land valuation and capital accounting reserves as at 1 April 2019.

Our final opinion is subject to internal consultation processes.

Overall summary

This is the third year of audit and the second year when there has been a substantial delay to completion of our work. We recognise that the council is large and complex and there are technical issues within the accounts as a result. However, the extent of challenge and the number of adjustments to the accounts is much greater at Sandwell than we are seeing at other comparable authorities. Some of the audit challenges have been around relatively complex, technical matters such as property valuation and infrastructure valuation. However, some matters, such as weakness in evidence to support accruals and absence of standard management information to support arrears and to inform the provision for bad debts, is standard information that we would expect to be readily available. This, combined with the excessive time taken to respond to routine audit challenges and queries, is of significant concern to us given the size and capacity of the Council.

The Council has yet to issue a draft set of accounts for 2021/22, partly due to the impact of the delay in completion of the 2020/21 audit and uncertainty over opening balances. However, it is clear to us that the issues within the finance team are deeper than the additional workload associated with servicing a delayed audit. The finance team is clearly stretched, has experienced some turnover in key personnel and difficulties recruiting interims to fill the gaps in the team. References to concerns in budget reporting and other financial management arrangements were also raised in our first governance report in relation to the 2020/21 financial year (although we note that improvement have been made in these areas – as reported in the subsequent follow up governance report dry for 2021/22).

We acknowledge that management has recognised a need to train and improve the technical strength of the team. Training is being rolled out along with a finance team restructure, with the objective of strengthening the team and better supporting council financial management. We are also aware that the team has had some additional temporary support to help deliver both the 2021/22 and 2022/23 accounts and support the audits. It is critical that the finance team has in place a robust resourced delivery plan for the next two years accounts and that this is monitored by the audit committee.

<u>Key improvement areas</u>

Property plant and equipment

Management has listened to the points raised in prior year audits around the quality of the underlying information and has plans to implement an improved database commensurate with a council of this size. We have also seen that management is now undertaking greater check and challenge around the information provided by its valuers. It is fair to say that the expectation around the quality of evidence and the extent of challenge from external auditors across the sector is considerably greater than probably 5 years ago and Sandwell is not alone having audit challenge and adjustments. However as detailed later in the report, we are still finding matters that have a material impact on the accounts and further improvements are required.

1. Headlines

Financial Statements

PFI

We have reported concerns around the accounting and understanding of the PFI schemes reflected in the financial statements, in prior years. This year we considered the smaller SERCO scheme which relates to the refuse contract. It is clear that there is not a good understanding within the Council of PFI accounting. To better understand the accounting for the SERCO contract we requested that the Council remodel the contract to provide a clear estimate of its costs and liability under the contract. We also raised concerns in our governance report around the management of the SERCO contract. The Council should invest in improving its understanding of PFI accounting and accountants designated to individual schemes should have a working understanding of the schemes, payments being made and the contract so that there is a better understanding of what is actually being included in the financial statements.

Creditors and accruals

Errors were identified in our testing of creditors to supporting evidence and this meant we had to extend our testing. Some of the evidence to support creditors queries took several weeks to be provided and this area of the audit took substantially longer than it should. Much of the information and judgements to support accruals is determined by budget holders and instructions are issued by the central finance team on closedown procedures and timetable. In the main we established that accruals were being raised appropriately although the accuracy of these were not good with a tendency to over accrue – including accruing to budget and making estimates when actual invoices were available in April. Management should consider rolling out further training to budget holders, ensuring that the audit trail to support the selection of samples is better, checking larger balances before including in the financial statements for 2021/22 and putting a time target for departments to respond to audit queries.

Debtors

The absence of reliable management information, in particular the age of debtors for rent arrears and benefits is a factor leading to uncertainty around the adequacy of impairment allowances. The absence of this information provides us with some concern around how debt is being managed as well as providing uncertainty on debtor balances within the financial statements. Management should seek to obtain this information and use it to support the assessment of impairment allowances.

Overall conclusion

The Council needs to make significant improvements in its arrangements to deliver accurate financial statements in a timely manner and to support an efficient audit. We have escalated one of improvement recommendations within the VFM conclusion to a 'significant weakness' to reflect our findings from the audit and our concerns. As noted earlier, this is the third year where there have been delays to the completion of our work and where there has needed to be a significant volume and value of adjustments to the accounts.

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.

1. Headlines

Value for Money (VFM) arrangements

Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to consider whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. Auditors are now required to report in more detail on the Council's overall arrangements, as well as key recommendations on any significant weaknesses in arrangements identified during the audit.

Auditors are required to report their commentary on the Council's arrangements under the following specified criteria:

- Improving economy, efficiency and effectiveness;
- Financial sustainability; and
- Governance.

We have completed our VFM work and our detailed commentary is set out in the separate Auditor's Annual Report. This has previously been presented to the Council as an interim report. With the conclusion of the financial statement audit we have updated it for the findings from this audit. The final report is presented alongside this report. We identified a number of significant weakness in the Council's arrangements and so are not satisfied that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. Our draft report was issued in July 2022.

On 3 December 2021, we also issued a governance report, and within in that we issued a number of key recommendations and improvement recommendations. A follow up to this governance report has recently been completed (December 2022) demonstrating improvement in several areas by the Council.

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.

The governance report set out three Statutory Recommendations and these are set out in section 4 of this report.

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 and issue the final AAR for 2020/21 .

Significant Matters

As can be seen in the commentary within this report, and the adjusted misstatements appendices, there were an unusually high number of issues arising from our work across a range of items of account. Some of these matters led to further sample testing or took some time to come to a successful resolution. A large number of adjustments have been made as a consequence of our work.

2. Financial Statements

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 and the Audit and Risk Assurance Committee.

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

Audit approach

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

- An evaluation of the Council'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.
- Substantive testing on significant transactions and material account balances, including the procedures outlined in this report in relation to the key audit risks

We have not had to alter our audit plan, as communicated to you in March 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 performance Committee meeting in February, as detailed in [Appendix E]. These outstanding items include:

- We have now received the revised model to support the accounting on the SERCO contract which we are currently considering. This indicates that the Council has a cumulative £5m prepayment in 2020/21 and in the prior 2 years. This is currently reflected as an unadjusted error in Appendix C.
- In addition, we have yet to fully conclude on the prior period adjustment relating to property valuation and are currently reviewing the evidence to support the revised notes and disclosures.
- We are also awaiting the Council to prepare a revised note 10 to the accounts and supporting memorandum note to reflect the update to the CIPFA Code in relation to infrastructure assets.

The unadjusted errors do not currently indicate that there is a material misstatement to the accounts, however we are unable to fully conclude on this until the above matters are resolved and we have consulted with a partner panel.

We have concluded that the other information to be published with the financial statements, is consistent with our knowledge of your organisation and the financial statements we have audited

Acknowledgements

We would like to take this opportunity to record our appreciation for the assistance provided by the finance team and other staff. As the audit has taken longer than planned, we will agree with management an appropriate fee variation to reflect the additional work undertaken.

Signed : Mark C Stocks

Key Audit Partner

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

	Group Amount (£000)	Council Amount (£000)	Qualitative factors considered
Materiality for the financial statements	13,300	12,750	Materiality is assessed as 1.4% of gross expenditure. Here we have considered the business environment and external factors.
Performance materiality	8700	8,287	We have determined performance materiality at 65% of the materiality. We have decreased the percentage from the 2019/2020 audit of 70%. In both 2018/2019 and 2019/2020 there have been significant misstatements arising as a result of the financial statements audits. In addition senior management and key reporting personnel in the finance team.
Trivial matters	666	637	Triviality is set at 5% of Headline Materiality.
Materiality for Senior officer remuneration	100	100	Due to the sensitive nature of these disclosures, a separate, lower materiality threshold is set.

2. Financial Statements - Significant risks

Significant risks are defined by ISAs (UK) as risks that, in the judgement of the auditor, require special audit consideration. In identifying risks, audit teams consider the nature of the risk, the potential magnitude of misstatement, and its likelihood. Significant risks are those risks that have a higher risk of material misstatement.

This section provides commentary on the significant audit risks communicated in the Audit Plan.

<table>
<tr><th>Risks identified in our Audit Plan</th><th>Commentary</th></tr>
<tr><td>Management override of controls

Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities.

We 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.</td><td>Journals

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 that they are in line with business purpose.
• gained an understanding of the accounting estimates and critical judgements applied made by management and consider their reasonableness with regard to corroborative evidence – this work focused on pensions and investments which have been documented in full as part of the related significant / other risks
• evaluated the rationale for any changes in accounting policies, estimates or significant unusual transaction – none identified

We noted a control weakness because journals Period 1 to period 12 are only approved retrospectively as opposed to being approved prior to being posted to the Ledger (which is what we expect). Oracle produces a list from the system of all journals posted by each user where each user self check their postings. Batch checks are then completed on a monthly basis to identify and errors or unusual entries before the period is closed. These checks are helpful but are not sufficient to mitigate the weakness in control.

Only period 13 Journals are approved via assigned authorisers list, where the assigned authoriser approves a proposed journal over Email before it is processed in Oracle.

We have raised this as a control deficiency as Journals should be approved before posting by a senior officer. We understand that approval of all journals is challenging to due to the large number of journals posted and we understand management are looking at ways in which the number of journals could be reduced

Recommendation: As a minimum management should set financial parameters above which journals posted should be authorised.</td></tr>
</table>

2. Financial Statements - Significant risks

Risks identified in our Audit Plan	Commentary
Improper revenue recognition 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 Council, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because: there is little incentive to manipulate revenue recognition opportunities to manipulate revenue recognition are very limited the culture and ethical frameworks of local authorities, including Sandwell Metropolitan Borough Council mean that all forms of fraud are seen as unacceptable.	No changes have been made to our assessment reported in the audit plan. Our audit work has not identified any issues in respect of revenue recognition. We do reference later in the report that the Council has received a number of COVID- 19 related grants. These raise a number of considerations around how income is recognised and some adjustments were made to the accounts as a consequence. This is covered in more detail in the sections on receipts agreed in advance and cash.
The expenditure cycle includes fraudulent transactions Practice Note 10: Audit of Financial Statements of Public Sector Bodies in the United Kingdom (PN10) states: "As most public bodies are net spending bodies, then the risk of material misstatement due to fraud related to expenditure may be greater than the risk of material misstatements due to fraud related to revenue recognition". Public sector auditors therefore need to consider whether they have any significant concerns about fraudulent financial reporting of expenditure which would need to be treated as a significant risk for the audit. We have rebutted this presumed risk for Sandwell Metropolitan Borough Council because: • expenditure is well controlled and the Council has a strong control environment; and • the Council has clear and transparent reporting of its financial plans and financial position to the Council. We therefore do not consider this to be a significant risk for the majority of the Council expenditure streams. We consider that there is a risk around COVID 19 related grant expenditure.	We rebutted the presumed risk of fraud in expenditure except in relation to COVID 19 grant related expenditure and this did not change in the course of the audit. We: - Gained an understanding of the COVID 19 related grant streams - We considered the proposed accounting treatment (agent/ principal) - We made an assessment of the residual risk associated with grant related expenditure within the financial statements where the Council is the decision maker on the application of grant. Some amendments have been made to the accounts as a consequence of this work, including a significant adjustment to the pre-draft version of the accounts explained later in this report. We have also raised some concerns around the accruals process where there is a need to strengthen year end procedures. We refer to this in more detail within the Creditors section and the misstatements sections of this report (appendix C).

2. Financial Statements - Significant risks

Risks identified in our Audit Plan	Commentary
Valuation of land and buildings and Investment property The Council revalue its assets on a minimum rolling five-yearly basis; and revalue schools and leisure centres every year. This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved (£1.9b) and the sensitivity of this estimate to changes in key assumptions. Additionally, management will need to ensure the carrying value in the Council's financial statements is not materially different from the current value at the financial statements date, where a rolling programme is used. For assets not revalued in year, an Analysis of Indexation is completed, which comprises a cumulative index to identify if any material movements in value have occurred. We have identified valuation of land and buildings, particularly revaluations and impairments, as a significant risk, which was one of the most significant assessed risks of material misstatement, and a key audit matter.	We: • 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 valuation expert; • wrote to the valuer to confirm the basis on which the valuation was carried out; • challenged the information and assumptions used by the valuer to assess completeness and consistency with our understanding, the Council'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 Council's asset register; and • evaluated the assumptions made by the valuer for those assets revalued at 31 March 2021. For any assets not formally revalued in year we will assess how management has satisfied themselves that these assets are not materially different to the current value at the year end. The Council has two valuers, Savills for the housing stock valuation and Wilks Head and Eve for the remaining council property holdings. We employed an auditors expert (Gerald Eve) to support our review of the revaluation of land and buildings, including the council housing stock. Overall no concerns were raised around the competency of the respective valuers although Gerald Eve made a number of observations that we were required to follow up as part of the audit. Both valuers flagged a material uncertainty in relation to some aspects of the Council's property stock – mainly investment properties including car parks and retail, but also in relation to the ongoing impact of the Grenfell Tower incident on the valuation of high rise properties. We considered these disclosures in the valuation report and judged it appropriate that management had included reference to these matters within the accounts. We have assessed that the assets impacted are not material to the Council's overall property holding and thus we do not consider that the uncertainty is material relative to the Council's total property holdings. Consequently we do not consider that this is a matter for the opinion or requires an emphasis of matter within our report. We have in previous years raised a number of concerns in relation to the quality of the underlying property source data held within property services and also the continuing use of excel spreadsheets as the council asset register by finance, in view of the size and value of council property holdings. Management is currently implementing a new property data base and this should be supported by a full review of property records to ensure they are up to date and accurate. Large amendments are being made to the PPE balances and disclosures due to matters raised in the audit. These are covered in more detail on in the significant estimates section.

2. Financial Statements - Significant risks

Risks identified in our Audit Plan	Commentary
Valuation of {pension fund net liability } The Authority's pension fund net liability represents a significant estimate in the financial statements due to its value (£1,091 m in the Authority's balance sheet) and the sensitivity of the estimate to changes in key assumptions. The methods applied in the calculation of the IAS 19 estimates are routine and commonly applied by all actuarial firms in line with the requirements set out in the Code of practice for local government accounting (the applicable financial reporting framework). We have therefore concluded that there is not a significant risk of material misstatement in the IAS 19 estimate due to the methods and models used in their calculation. The source data used by the actuaries to produce the IAS 19 estimates is provided by administering authorities and employers. We do not consider this to be a significant risk as this is easily verifiable. The actuarial assumptions used are the responsibility of the entity but should be set on the advice given by the actuary. A small change in the key assumptions (discount rate, inflation rate, salary increase and life expectancy) can have a significant impact on the estimated IAS 19 liability. We have therefore concluded that there is a significant risk of material misstatement in the IAS 19 estimate due to the assumptions used in their calculation. With regard to these assumptions we have therefore identified valuation of the Authority's pension fund net liability as a significant risk, which was one of the most material assessed risk of material misstatement, and a key audit matter.	We have: • updated our understanding of the processes and controls put in place by management to ensure that the Council'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 Council's pension fund valuation; • assessed the accuracy and completeness of the information provided by the Council 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 the West Midlands Pension Fund as to the controls surrounding the validity and accuracy of membership data; contributions data and benefits data sent to the actuary by the pension fund and the fund assets valuation in the pension fund financial statements. The auditor of West Midlands Pension Fund (WMPF) identified an understatement of the Fund's assets in the course of their audit procedures. The auditor reported a quantifiable understatement of level 3 investments of £76m which was then extrapolated to a total potential error of £90m. The Council's share if this total estimated £90m error is approximately £7.883m. This issue arose as a result of a lag in the valuation process for the Fund's hard to value investments. This is a function of the Fund's reporting process and is not considered to be indicative of a control weakness at the Council. This is also not an unusual finding in pension fund audits, with the size of the variance this year being attributable to ongoing market volatility. An adjustment has been made for the quantifiable elements of this issue in the Council's financial statements increasing the Councils share of the pension fund assets by £6.657 m and recognising an impact on the Council's pension reserve. There is no impact on the Council's general fund balance. See Appendix C for further detail. The remaining balance has been treated as an unadjusted error c£1.1m. Further matters are raised in the significant estimates section of the report.

2. Financial Statements – key judgements and estimates

This section provides commentary on key estimates and judgements inline with the enhanced requirements for auditors.

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Land and Building valuations – assets to the value of £475m	The Council has £650,213k of Other Land and Buildings as at 31/03/2021 comprising: • General Fund OL&B per FAR: £557,797,264 • PFI GF L&B: £85,417,177 • HRA L&B: £1,343,135 • General Fund Garages: £5,655,000 Other land and buildings comprises £475.3m of specialised assets such as schools and libraries, which are required to be valued at depreciated replacement cost (DRC) at year end, reflecting the cost of a modern equivalent asset necessary to deliver the same service provision. The remainder of other land and buildings (£6.3m) are not specialised in nature and are required to be valued at existing use in value (EUV) at year end. The Council has engaged Wilks Head and Eve to complete the valuation of properties as at 31 December 2022 on a five yearly cyclical basis. £475,388,007 assets in this category were revalued during 2020/21. We use the auditor expert Gerald Eve to support our review of valuation of other land and buildings. GE support our review of the qualifications and overall approach of the valuer and pose a number of follow up questions that we discuss with management and the external valuer. We then undertake detailed testing of a sample of valuations back to source data. This approach is unchanged on the prior year. OLB Revaluations - Data and Assumptions Testing Our audit approach involves selecting a sample of properties in accordance with a risk assessment focussing on large properties or where year on year variation in valuation is outside our expectations. For these properties we test the key assumptions in the valuation reports back to key documents. A number of matters arose from this work – some of which resulted in adjustments.	Management expert is considered to be appropriately qualified and experienced in the sector Variances in valuation outside the parameters indicated by GE have been investigated and resolved Disclosures are appropriate	

Assessment

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

2. Financial Statements – key judgements and estimates (continued)

Significant judgement or estimate: Land and Building valuations – £475m

Summary of management's approach

Weakness in underlying property records

In the prior year Audit Findings Report we recommended, and management agreed, that there is a need to modernise the council property records. The Council is investing in a new property database to include a fixed assets register. Currently the financial details of all property is contained on multiple excel spreadsheets, which in view of the size and complexity of the property portfolio is not appropriate as there is an inherent risk that there could be errors ins such large and complex spreadsheets. The underlying property records themselves are variable and in some cases poor and there should be a systematic review of these records as part of the implementation plan. We understand that the Council is making good progress on implementing its new property system, which should be available to support the 2022/23 accounts.

For DRC assets (which is the majority of the OLB), valuations are based on the floor area of the property. In many cases the council has high level plans rather than detailed floor plans and this means that the external valuer has to exercise judgement in his assessment of the floor area. Management (SAM team) has undertaken a review of the floor areas and gone through an exercise of validating the external valuer's assessment of floor areas in order to be assured over the valuations which is good practice. This exercise identified some outliers however management did not raise these differences with the external valuer until flagged by audit. Following this challenge, the external valuer revisited his valuations for three properties and the agreed adjustments and the extrapolation of the smaller differences is summarised below: This is reflected in the adjusted and unadjusted misstatements (appendix C)

property	Change in valuation £000
Phoenix Collegiate	1,276 **(2.96%)**
Ingestre hall	(1,847) (22.5%)
Portway lifestyle	1,602 (11.62%)
Other	1, 729 (0.3%)
Total	**6,454**

In addition to the adjustments above, the valuers noted that there were errors in the valuations issued in July and the new valuation certificates supporting the changes above, included some further changes to valuations that have now been adjusted for, with the new adjustment reported in appendix C.

Audit Comments

Management should put together a plan for implementing the new IT property system and undertaking a survey of all property assets to validate the accuracy of current records.

Management should adjust for the three properties where the revised valuation has been agreed between the SAM team and the external valuer.

Assessment

2. Financial Statements – key judgements and estimates (continued)

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Land and Building valuations – £475m (continued)	In the Wilks, Head and Eve report, it was highlighted that the valuer had changed his assumptions in relation to two elements of the valuation; age and obsolescence and secondly externals. Management had taken this to be a change in estimation approach and applied only to 2020/21. SMBC management team identified this issue and made an assessment of the impact of this change in valuation on the 2020/21 valuation and shared this assessment with us: • The total sum added for externals at 17.14% of £621,812,100 would be £106,592,803 • The total sum deducted for A&O at 12.86% of £621,812,100 would be £80,016,247 Net impact £26.5m, which is material. Following audit challenge on this matter, management asked the valuer to undertake an actual revaluation exercise on the 2019/20 position to establish the impact on that year, had the new assumptions been applied. The review concluded that the impact was similar to that estimated by the SAM team above for 2021/22, hence material. Our view is that the valuer had made an error in the prior year valuation rather than it being a change in estimate. We sought confirmation from our valuation expert on this assertion who referenced the BCIS website stating: *"In all studies, the prices are exclusive of External works, Contingencies, Fees, VAT, Finance charges and the like".* This confirms that where BCIS average build costs are taken as the source data they do not include external works, which therefore would need to be separately added. Although the note is dated 2017, this has been the standard approach that BCIS has taken for many years prior to 2017. This confirmed an error had been made in the valuation in the prior year. As the error is material then we requested management to consider the impact on the accounts in line with IAS8. Management are proposing a prior period adjustment (PPA) to the accounts as a consequence and have made the adjustments and disclosures to the draft accounts. Our review of this has highlighted a formula error in the 2018/19 asset register that has a material impact on the capital balances and this is included in the unadjusted balances in appendix C. We also noted another matter in relation to the capital accounting in 2018/19 that has potential implications for future years and this is currently being investigated by management. We anticipate that any errors would be adjusted through the Capital adjustment account and is highly unlikely to impact on general fund balances. A note has been prepared explaining the proposed prior period adjustment (PPA) (note 7). The impact on the primary statements is that the closing balance of Other Land and Buildings increases by £30.772m in 2018/19 and £24.999m in 2019/20. The Net Cost of Services in 2019/20 has decreased by £0.60m for Housing & Communities and £9.220m in schools. The adjustments related to schools and leisure centres, however management has other DRC assets. Management has undertaken further work on the other assets which hadn't been revalued on this basis for 202/21 and the previous two years. We have reviewed this and concluded that the impact was not significant in 2018/19 and 2019/20 and have included an unadjusted error for £1.4m in relation to 2020/21. As part of our review of the new valuations we noted an error in relation to the Sixth form centre where an adjustment for the lease element c£5.2m had not been taken into account in the new valuation (i.e. were on an inconsistent basis for no good reason) The valuer has sent a revised valuation and the £5.2m is included as an unadjusted error. We have requested that the client team undertake further quality assurance of the valuers reports before we are able to conclude that these adjustments are reliable.	We are of the view that the exclusion of external costs (at C17% uplift to all valuations) was an error in prior years, as the information had been available for prior year valuations. Management has agreed that this is indicative of an error in prior year accounts that would require a prior period adjustment. As part of the preparation of the 2021/22 accounts, management should be assured that the changes in assumptions are applied to all applicable DRC properties so that the asset base is valued on a consistent basis.	

2. Financial Statements – key judgements and estimates (continued)

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Land and Building valuations – £475m (continued)	**Impairment of assets under construction (AUC)** The code requires an annual impairment review and this should include a review of the impairment of any assets under construction. We were aware that there was ongoing construction of the Aquatics Centre at 31/3/21 in preparation for the Commonwealth Games in the summer. Enquires indicated that costs had been incurred in relation to COVID, Brexit and the Commonwealth Games which we felt unlikely to be reflected in the final valuation on the Council's balance sheet. We asked management to reconsider if there were triggers for an impairment review and subsequently management undertook a review and confirmed the need to make a £2.9m impairments adjustment to the AUC balance. As this asset does not have an associated revaluation reserve then this will be a charge to the CIES (appendix C adjusted misstatements). **Property Disposals (academy schools)** The Council has not correctly accounted for the disposals of academy schools in the year as reflected on the face of the CIES. In 2020/21 four schools converted, however two of these were VC schools and consequently were not included on the opening balance sheet. For the remaining two schools; Newtown Primary and Shenstone Lodge (Including Brades Lodge PRU) the loss on derecognition is £6,109k. In line with the Code, the loss on the derecognition, as the Council does not receive a consideration on transfer, should be recognised in the financing and investment income and expenditure line of the CIES whereas the draft accounts include it within the '(Gains)/Losses on the disposal of non current assets' line within the Other Operating Expenditure line of the CIES. **Assets not valued** The Council, in line with normal practice, adopts a rolling programme approach to valuations. The Code requires that the Council satisfies itself that by adopting this approach it will not result in a material valuation error. The Council approach also means that even those OLB and HRA assets that are valued, are valued at 31 December, so the final quarter valuation movements have to be considered. To be satisfied that the approach does not result in a material error, management undertake an assessment of what the likely movement in assets not valued would be using indices. We have considered the exercise undertaken by the Council (using indices provided by WHE) and then undertook our own assessment using Gerald Eve indices for other land and buildings and ONS data for housing. SMBC have determined that total PPE is understated by £3m by adopting this approach and we have assessed an understatement of £9.3m. The difference in our assessment to management's is within acceptable tolerances and thus we are content that there is no material misstatement in valuation by undertaking a rolling programme. We are also comfortable that the Council has used local information which is likely to be more accurate than the national data sets we have used, thus we have included the Council figure in the unadjusted misstatements – Appendix C.	In line with accounting policies, the Council should undertake an annual impairment review and this should include assets under construction Management has agreed to the adjustments proposed but should ensure the correct accounting is followed for future academy disposals. Management should value assets as at 31 March in order to improve the reliability and accuracy of the valuation of the Council property assets.	

2. Financial Statements – key judgements and estimates (continued)

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Land and Building valuations – £475m (investment properties balance sheet valuation £77m, increase in nbv £3.4m) net yield 3.8%)	**Fully Depreciated assets** The asset register shows that there are 1,745 fully depreciated assets having a gross carrying value of £39.6m. Discussion with management indicates that there has not been a comprehensive review in recent years of how many of these assets are still in use. The impact of this is potentially twofold: • In accordance with IAS16 there should be an annual review of the appropriateness of asset lives in order to inform the depreciation estimate. If fully depreciated assets are still in use then it is possible that the Council is using inappropriate asset lives in depreciation calculations as they do not reflect the actual asset lives. Without information on these assets the Council is unlikely to be undertaking a reliable annual review of asset lives in line with accounting requirements. • It is likely that the gross value of assets and cumulative depreciation as reflected in note 10 is overstated because it will include assets that have been disposed of or are no longer in use and should have been derecognized from the financial statements. We have not included this as an unadjusted error because we do not know the extent of the error and whilst the gross value and depreciation in the note 10 is likely to be incorrect, the balance sheet reflects the net book value, which is unlikely to be impacted by this. In our view an error in the gross book value and gross depreciation is unlikely to impact the user of the financial statements.	Management should undertake a review of fully depreciated assets and update records accordingly.	
	Depreciation on DRC assets Our auditors expert has noted that Wilks Head and Eve generally apply relatively long useful lives to the DRC assets, on the assumption that these are maintained and so just because an asset is old, it does not necessarily follow that the remaining useful life should be shorter than newer assets. Review of the asset register did indeed highlight that the majority of schools had a useful life of around 40 years. The authority adopts an approach of 'weighted useful lives' to determine depreciation and other factors such as the condition of the asset are taken into account when determining the useful life. We tested this assertion on a sample of school assets and could see that there had been some relatively recent capital expenditure to support the assertion that the assets are maintained. However the condition surveys are not undertaken annually, but on an as needed basis in the judgement of management. Overall we concluded that the impact on depreciation would not be significant. However, we recommend that as part of the process for improving the asset register and property records, that management ensure that there is clear evidence to support the assumptions made by the Council valuer on the useful lives of asset.	As part of the process for improving the asset register and property records, management ensure that there is clear evidence to support the assumptions made by the council valuer on the relatively long useful lives of assets	
	Investment properties As mentioned in prior years, the Council values all significant properties annually and applies a rolling programme to its other properties. We have concluded that whilst this approach is not in accordance with our interpretation of the code, where all assets valued at fair value should be revalued annually, we do not consider that the Council approach has resulted in a material misstatement for the audit.	Management should comply with the code in its valuation of Investment properties.	

2. Financial Statements – key judgements and estimates (continued)

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Valuation of the Council dwellings stock £1,155,185 p/y £1,132,486	The valuation of the Council housing stock is undertaken by the Council valuation expert Savills. Due to the specialist nature of the estimates and judgements used by the external valuer we use our own auditor expert Gerald Eve (GE) to support our work. This is the approach adopted at all larger councils and NHS audits where the valuations are judged to be particularly complex. The GE review gave us assurance over the overall approach adopted by Savills but raised some follow up questions for us. Despite this process being relatively routine the council external valuer objected to our approach and took several weeks to respond. Our audit approach involves gaining an understanding of the key assumptions driving the valuations and agreeing these to supporting records and assessing any judgements made. In simple terms the approach to valuation involves the valuer determining a number of beacon properties that are representative of the housing stock, making an assessment of the valuation of these individual properties using market data and then extrapolating this over the properties in relation to the number of properties held by the Council. To understand the valuation we test a sample of the beacon valuations and architypes to underlying assumptions and then follow through the calculations to see how this is reflected in the total valuation. Management and the valuer were initially unable to supply evidence to support the audit trail for the sample selected. We understand that the external valuer had to reperform their calculations to support the sample selected to provide us with the necessary evidence. This delayed the audit. Overall we are content with the approach adopted although some matters did arise from our work: • At the date of the audit, a final valuation report had not been provided to the Council, the version supplied to us was clearly marked as draft and we had to ask Savills directly for the final report. • No formal instructions were issued by the Council to the external valuer (a terms of engagement was signed) and communication was via an initial set up meeting to which minutes were provided. It is normal and expected practice for a terms of engagement and instructions to be issued by the Council to the valuer. • The finance team had not fully reconciled the asset register/ accounts to the valuer's report partly because the Council makes a number of adjustments between the report and the accounts. This was difficult to follow took some time to be properly explained. • The valuation report was misleading in that it stated that there had been a 20% sample subject to a more detailed inspection. This was incorrect because all beacons had been reviewed as part of a desk top exercise but there had been no site inspections. This was confirmed to us by the valuer as management was unclear what approach had been adopted. • Initial review of the movement in valuation indicated that variances year on year were large and were outside the range we benchmarked. Management was unable to provide an explanation for this. We would expect management to have understood the key drivers of the valuation movement as part of their quality control in producing the accounts.	The audit of the HRA valuations has been protracted due to the amount of challenge around agreeing to basic data and undertaking the testing. The key messages from our work are: A 31 March valuation should be implemented Management should improve the audit trail between the accounts, the fixed asset register and the valuation report Management should understand the valuation, including the reasons for year on year movement before applying to the fixed asset register	

2. Financial Statements – key judgements and estimates

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Valuation of the Council dwellings stock £1,155,185 p/y £1,132,486 (continued)	The valuer undertakes his valuation as at 31/12. Following audit request to management, the valuer provided an estimate of the indices in the final quarter to asses whether this resulted in a material difference in valuation at the year end. This assessment work had not been done by the Council in preparation for the audit. We understand that 2021/22 valuations will be 31/3/22 which will avoid this and potentially address the other matters raised below. The impact of applying indices in the last quarter we estimated was £4.5m using ONS data, using the indices suggested by WHE the movement was £1m which was not adjusted for but incorporated into the assets not revalued exercise and is reflected in Appendix C as an unadjusted error. The valuer used information on properties as at 1/4/20. The valuer does not consider the capital programme although management assures us that any capital expenditure that is exceptional is reported to the valuer to consider. Management make manual adjustments to the year- end valuation provided by Savills for in year additions and disposals, using the Beacon properties valuation as a proxy. In addition management had added £8m to the valuation, reflecting Quarter 4 spend on the capital programme. Following audit challenge management and the valuer agreed that this had not in fact added value and shouldn't have been included in the year end valuation and flowing consultation with the external valuer an adjustment is to be made to impair this expenditure (see adjusted errors Appendix C). The integrity of the year end valuation would be improved and the audit trail would be less complex if in future the valuer undertook a valuation at the year end, fully sighted on additions, disposals and capital expenditure in year so that there is not manual intervention in the valuation in the accounts and the external valuer would effectively have 'signed off' the year end valuation. This approach is adopted by other Councils and thus it is not unreasonable to expect the valuer to undertake a valuation as at 31 March and for officers to process the adjustments. Revaluation reserve All assets should have an associated revaluation reserve where there has been a previous upward valuation. The Council has one overarching revaluation reserve for the housing stock which isn't in accordance with the Code. We noted that the council recognized a number of new HRA properties this year where the amount recognized was less than the historic cost. Rather than this downward revaluation be recognized in the CIES, the council had recognised within the revaluation reserve. Management has agreed an adjustment to reflect the £17m on new build houses. (appendix C adjusted misstatements). **Accounting for right to buy (RTB) housing assets.** The accounts presented for audit show that there were £8m of surplus housing assets. RTB properties would never be regarded as surplus so the accounts are misstated. There is no overall impact on the bottom line of the note – the presentation reflects the practicalities around valuing the assets before they are disposed of rather than how the accounts should be presented. Management has agreed to adjust the note so that it reflects the transfer directly from Dwellings to Held For Sale.	Assets, including HRA should be valued at the year end Management should provide the auditor with evidence that the external valuer is fully sighted on key events such as disposals, additions and significant capital expenditure Management should ensure that the asset register (going forwards) matches individual assets to revaluation reserves so that changes in valuation are properly accounted for (through CIES or revaluation reserve) Note 10 should be restated to reflect the proper accounting on RTB assets	

2. Financial Statements - key judgements and estimates (continued)

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Net pension liability – £1,103m (draft accounts)	The Council's total net pension liability at 31 March 2021 per the draft accounts is £1,080m (PY £790m) comprising the Council's share of the West Midlands Local Government pension fund. The Council uses Barnett Waddingham to provide actuarial valuations of the Council's assets and liabilities derived from this 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 the intervening periods, which utilises key assumptions such as life expectancy, discount rates, salary growth and investment returns. • We have no concerns over the competence, capabilities and objectivity of the actuary used by the Council. • We have used the work of PWC, as auditors expert, to assess the actuary and assumptions made by the actuary. Se below for consideration of key assumptions in the Sandwell Council Pension Fund valuation:	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 methods since the previous year, other than the updating of the assumptions above. We have confirmed that the Council's share of the pension scheme assets is in line with expectations	We consider management's process is appropriate and key assumptions are neither optimistic or cautious

Assumption	Actuary Value	PwC range	Assessment
Discount rate	1.5%	1.95%-2.05%	
Pension increase rate	2.8%	2.80% - 2.85%	
Salary growth	3.8%	3.80%- 3.86%	
Life expectancy – Males currently aged 45 / 65	45:23.4 65:21.6	21.9 - 24.4 20.5 - 23.1	
Life expectancy – Females currently aged 45 / 65	45:25.8 65:23.9	24.8 -_26.4 23.3 – 25.0	

As set out earlier in his report, the auditor of the WMPF identified an understatement in the auditor of WMPF identified an understatement of the valuation of the Fund's assets in the course of their audit procedures. The Council's share of the error is approximately £7.883m, however this is not indicative of an issue in management's estimation process. An adjustment has been made for this issue in the Council's financial statements, as set out in appendix C (£6,657 adjusted, £1,226 unadjusted).

2. Financial Statements - key judgements and estimates 9continued)

Significant judgement or estimate	Summary of management's approach (continued)	Audit Comments	Assessment
Net pension liability – £1,103m (draft accounts)	**Discount rate:** The discount rate used by the actuary was 1.5%, whereas our expectation was that the rate should be 2.35%. The rate was also outside of the range of expectations indicated by PWC. We established that the actuary had reassessed the rates due to 'special events' which were the transfer of staff to four academies, and the prevailing discount rate on the date of the transfer (July 2020) was used by the actuary rather than at 31 March. The fall in the discount rate was due to a reduction in corporate bond yields during the year, as the discount rate is set with reference to high quality bond yields at each valuation date. We consulted with the Grant Thornton actuary to determine whether the approach adopted by the actuary was appropriate and it was agreed that the rate used by the actuary was within the acceptable tolerances and thus this enabled us to conclude that the net pension liabilities were fairly stated. **Note 43: Defined Benefit Scheme:** makes no mention of the transfer or that it is regarded by the actuary as a special event which impacts on the discount rate. This should be disclosed as it is a significant assumption. **Pension prepayment:** An upfront payment of £30.5m was made in May 2020 covering the 3 year period 2020/21 to 2022/23. The accounting treatment for this was incorrect. As a consequence, the pension liability is understated by £30,563k and cost of services (CIES) is correspondingly understated. The transfer between pensions reserve and general fund within the MIRS (Note 8) is also understated by £30,563k. Management has agreed to adjust for this and this is reflected in the adjusted misstatements (appendix C) There are associated governance matters with making such a prepayment; legislation requires that for a financial year beginning on or after 1st April 2004, a local authority shall charge to a revenue account an amount equal to the retirement benefits and contributions to pension funds which are payable for that financial and a prepayment means that more than 1 year is charged to the CIES. A report to the Emergency Committee on 6 May 2020, sought approval to pay the upfront amount of £30.563m stating that 'The Monitoring Officer has been consulted and has confirmed that this payment is in line with the Local Authorities (Capital Finance and Accounting) regulations 2003. We note however that there does not appear to have been any consideration in terms of the meaning of the word 'payable' and the justification for spreading the impact of this payment on the general fund over 3 years.	The pensions note should reference the transfer of academy staff, that it is regarded as a special event that has impacted on the discount rate used by the valuer	We consider management's process is appropriate and key assumptions are neither optimistic or cautious

2. Financial Statements - key judgements and estimates (continued)

Significant judgement or estimate	Summary of management's approach (continued)	Audit Comments	Assessment
Net pension liability – £1,103m (draft accounts)	The Council's total net pension liability at 31 March 2021 is £1,080m (PY £790m) comprising the West Midlands Local Government. The Council uses Barnett Waddingham to provide actuarial valuations of the Council's assets and liabilities derived from this 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 the intervening periods, which utilises key assumptions such as life expectancy, discount rates, salary growth and investment returns. Pension guarantees: Over the years many staff have tupe'd to other organizations, for example the Leisure Trust. The council considers that it retains a responsibility in relation to the pension of those staff and thus effectively holds a guarantee. Management has undertaken an assessment of where it considers it holds a guarantee and determined that these reflect an insurance contract within the scope of IFRS 4, as opposed to a derivative financial liability under IFRS 9. They have also assessed that the cumulative value of the guarantees is not material and thus the accounts are silent on this matter. As these transfers date back many years, the underlying documentation to support the existence of a guarantee is not strong. Whist we are content that this is not a material matter our review of the Council's assessment of pension guarantees has identified some weaknesses that should be addressed clarifying what exactly the Council are guaranteeing and what judgment management is making with reference to the standards. There is no 'one size fits all' solution and it all depends on the exact terms of the contractual arrangement and the risks involved. The Council should better demonstrate how their judgement links to the terms of balance of risk between financial and non-financial risk and this should be supported by sound reasoning.	For 21/22 the Council should improve the working papers to support the judgement covering pension guarantee risk and accounting.	We consider management's process is appropriate and key assumptions are neither optimistic or cautious

2. Financial Statements - key judgements and estimates

Issue	commentary	Audit view	assessment
Grants Income Recognition and Presentation- £665m	The Government has provided a range of new financial support packages to the Council and all local authorities throughout the COVID -19 pandemic, including funding to support the cost of services, and amounts to be paid out to support local businesses. The Council has considered the nature and terms of each of the various COVID -19 grants in order to determine the appropriate accounting treatment, including whether there was income or expenditure to be recognised in the CIES for the year. The main considerations for management were: • Where funding is to be transferred to third parties, whether the Council was acting as an agent or principal, and therefore whether income should be credited to the CIES or whether the associated cash should be recognised as a creditor or debtor on the Balance Sheet. • Whether there were any conditions outstanding at year- end, and therefore whether the grant should be recognised as income or a receipt in advance • Whether the grant was awarded to support expenditure on specific services or was in the form of ringfenced government grant – and therefore whether associated income should be credited to the net costs of services or taxation and non- specific grant income within the CIES. There were a number of issues in relation to the audit of grants. **Principal/agent accounting** We received an initial draft of the accounts for review. Within these we noted that management had incorrectly accounted for grants accounted for on an agency basis. *Where an authority is acting as an agent, transactions shall not be reflected in an authority's financial statements, with the exception in respect of cash collected or expenditure incurred by the agent on behalf of the principal, in which case there is a debtor or creditor position and the net cash position is included in financing activities in the Cash Flow Statement (Code 2.6.2.4).* The Council had not correctly accounted for these agency grants. As a consequence the bank overdraft was overstated and creditors understated by £32m. This was adjusted for in the published draft accounts and thus is not included in the adjusted errors in this report.	The restated accounts are fairly stated	

	Initial draft £000	Revised draft (October 2022) £000
Credited to taxation and Non specific Grant Income	35,162	140,639
Credited to Services	602,516	539,199
Total	637,778	679,838

2. Financial Statements - key judgements and estimates

Issue	Commentary (continued)	Audit view	assessment
Grants Income Recognition and Presentation- £665m	**Grants note 35** In the initial draft version of the accounts (received in August), this note was inadequate, partly because it was incomplete, but also because a number of the grants were reflected in the CIES against specific services (where the grant is ringfenced) or against taxation and NSGI or vice versa. As the adjustments and enhanced disclosures were agreed prior to the publication of the draft accounts – these are not reflected as adjustments within appendix C but the overall impact on the note is summarised below. The draft accounts (received October) reflect material balances on grants received in advance £20.3m (p/y £6.6m). As a consequence of audit challenge management has agreed that the majority of the grants received in advance did not have conditions that meant repayment could be required. As such the grants should be reflected in reserves. Adjustments have been agreed with management (appendix C adjusted) . **Capital grants received in advance** The Community Infrastructure Levy Grant £2.3m was incorrectly classified as a Capital Grant Received in Advance (within current liabilities) but should be treated as capital grants unapplied (within reserves). There is specific guidance on CIL which had not been adhered to. The impact is at both a balance sheet and CIES level and management has agreed to adjust for this.		

2. Financial Statements – new issues and risks

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 deficiencies identified during the year.

Issue	Commentary	Auditor view
Cashflow statement The cash flow statement contains a balancing entry	The cashflow statement includes an adjustment for £0.8m in order to make it balance. Adjustments to net surplus or deficit on the provision of services for non-cash movements is £51,785k which includes the balancing item. Further adjustments will be made to the CFS to reflect other adjustments to the accounts that have yet to be reviewed.	Management should investigate, resolve and adjust the balancing figure. Management should not routinely prepare accounts that contain balancing figures and we do not expect to see a balancing figure in the 21/22 accounts.
Housing revenue account Major Repairs Allowance: Charge for depreciation: Code reference: 4.1.3.6:	To ensure compliance with the Accounts and Audit Regulations and the Item 8 Credit and Item 8 Debit (General) Determination from 1 April 2017 requirements for the major repairs reserve, depreciation for HRA dwellings and other assets charged to the Housing Revenue Account is subject to statutory provisions designed to specify the impact on the HRA. *The major repairs reserve shall be credited, and Housing Revenue Account balances debited, with an amount equal to the depreciation charged to the HRA in accordance with this Code.*	There is a £1.039m difference between the depreciation charged against the council dwellings within PPE and the charge to the MRR. The impact is that the balance carried forward on the HRA is overstated by £1.039m. (appendix C unadjusted misstatements) This means that depreciation charged to the MRR does not meet the requirements of the Accounts and Audit Regulations 2015 (Regulation 7(5)(a))

2. Financial Statements – new issues and risks

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 deficiencies identified during the year.

Cash: Agency accounting: Management had incorrectly adjusted for the impact of grants treated on an agency basis within the pre-draft version of the accounts	Grants are treated on an agency basis where the Council has no control over the use of grants and is purely administrating these on behalf of the sponsoring department. Agency accounting means that the Council only accounts for its proportion of income and expenditure and year end liabilities / cash. Receipts and payments are reflected in the ledger during the year and are adjusted for in the financial statements. However, as well as correctly removing the income and expenditure in relation to agency grants, management also adjusted for year-end creditors and cash which is incorrect (Code para 2.6.2.4).	Corrections resulted in a £32m reduction in overdraft and corresponding increase in creditors and this is reflected in the draft financial statements. This is not included in the adjusted misstatements appendices because it was adjusted for in the draft published statements but is referenced here as adjustments were made as a consequence of the audit.
Bank Reconciliation: accounting for year end payments	Our testing of reconciling items identified BACS payments that were not initiated at the bank until post year end, and should not therefore have been included as reconciling items, because they related to the subsequent financial year. The first error related to a BACS payment processed by the Council from their main general payments account and totalled £2,943,482. We reviewed all remaining BACS payments that were included in the general payments reconciling items listing and identified no further errors of a similar nature. Management has adjusted for the error resulting in a reduction in bank overdraft and corresponding reduction in year-end creditors.	We reported a material error in the bank reconciliation in the 2019/20 audit and consequently made three recommendations that are repeated below as they have yet to be addressed: Management should look to simplify the bank reconciliation as currently it is extremely difficult to review by 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 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.

2. Financial Statements – new issues and risks

Issue	Commentary	Auditor view
Debtors Compared to 2019/20 there has been a 62% increase in arrears of £32m, net of bad debt impairment. Key reasons for the increase include; • £10m contract prepayment to Sandwell Children's Trust, • £5.9m HB debtors arrears related to debt being recovered from ongoing arrears from (that were omitted from the prior year accounts – see the 2019/20 Audit Findings Report), • £2.5m residential and Nursing Care paid in advance and; • £7m increase in NNDR arrears. The total impairment allowances in 2020/21 are £30.7m compared to £26.9m in the prior year mainly due to an increase in allowances for council tax and business rates. Housing benefits arrears: (£12.2m gross arrears (P/Y £6.9m), £5.9m impairment allowance (p/y 5.5m) **Rent arrears:** (£9.6m gross arrears (p/y 10.4m) impairment allowance (£5.3m (p/y £5.5m):	**Housing benefits arrears:** impairment allowance relative to the total arrears has reduced from 80% to 49%. This is because the arrears now includes, for the first time, arrears related to recovery from ongoing benefits of £5.9m against which there is a relatively small impairment allowance of £0.886m. This reflects management assertion that most of this type of arrears is recoverable. We have challenged management to demonstrate that this assertion is accurate. We have suggested that an aged debt analysis would support this, however management has been unable to provide this or demonstrate the validity of the assertion in any other way. Management has cited that any debt that ceases to be recoverable through ongoing benefit is transferred to sundry debtors. Management has been unable to demonstrate this or provide any data on conversion rates that could inform the provision. With the transfer of benefit to universal credit it is increasingly unlikely that the Council will be able to recover from ongoing benefits, thus also adding risk to the recoverability. We do not consider that management has sufficient information on which to base the provisions for bad debts – and thus are uncertain over this debt. Added to the unadjusted misstatements (Appendix C) **Rent arrears:** we have requested that management demonstrate that the impairment allowance is reasonable and we have requested an aged debt analysis as support, however management has been unable to provide us with this information. We therefore have been unable to gain assurance that net rent arrears of £6.3m are fairly stated. It is a matter of concern that management does not have better information on its rent arrears. Added to unadjusted misstatements. (Appendix C) **Gross rent arrears:** Credit balances on customer accounts for HRA related arrears are netted off the gross arrears position to reduce the balance of HRA debtors. Credit balances on customer accounts should properly be shown as creditors within the balance sheet, and not netted of the gross arrears position. Customer prepayment currently credited to debtors are £1.038m for Former tenants, and £1.435m for current tenants providing a total classification error £2.5m. Management has agreed to adjust (appendix C) **Sundry debts:** Following audit challenge, management has reviewed the impairment allowance for sundry debt. This has resulted in an increase of £2.2m (appendix c Adjusted errors). However we have estimated that the sundry debt does not fully reflect that £1.5m of debt is older than 2 years. We have seen that there is very little cash collected after 2 years and have analysed that there is £1.7m of debt that is older than 2 years for which no provision is made. We do not consider that this is reasonable and thus a provision of 80% against those is £1.4m, and we consider that is a reasonable reflection of the impairment allowance that should be made. We have included this in our unadjusted misstatements (Appendix c.)	Overstatement of arrears due to understatement of impairment allowance: **Housing benefits** debt overstated £6.3m **Rent net arrears** overstated £4.3m Due to the lack of information to support management assertion on recoverability of these items we are unable to conclude whether the impairment allowance is reasonable. **Sundry debt**: overstated £1.4m The Council should improve the underlying information to support management of HRA and Benefits arrears and determination of impairment allowances through improved aged debt analysis.

2. Financial Statements – new issues and risks

Issue	Commentary	Auditor view
Creditors £116m (P/Y £89m) main reason for movement is the accounting for creditors associated with agency accounting for which a £32m adjustment has been made pre draft accounts.	The audit of creditors was protracted for several reasons: • Complexity of audit Trail: The Council is large and complex, and creditors and accruals are raised by budget holders across the Council, which is as expected. There are numerous account codes and listings to support the year end balances which need to reconcile to the accounts and we use these to select samples for testing. • Evidence to support creditors samples are generally held by budget holders. The central finance team coordinate the listings, undertake reconciliations and are responsible for ensuring a clean audit trail which can be used to then select samples. They then coordinate obtaining the supporting evidence for samples and have a role to ensure this is good evidence – i.e. they act as quality control. • There were some significant delays in providing some information and some of the evidence was not sufficient resulting in further follow up queries, which were not responded to well in some cases. • We found several errors in our sampling, and this meant that we had to extend the samples in order to get sufficient assurance that creditors are not materially misstated. That additional work is currently ongoing. We had a number of fails and this meant we judged it necessary to undertaking further testing. This again resulted in an unacceptable level of fails so testing was extended further. We have extrapolated the total fails which total £6m. Management has adjusted for 2 of the fails – as below and that reduces the extrapolated error reflected in appendix C. **Property maintenance accrual** We selected an accrual for £2m which was for property maintenance works and was made up of many jobs and associated accruals. We selected 1 item within a subpopulation of £1.5m which failed as the work had not been undertaken at the year end. We tested more items within this subpopulation as we wanted to understand whether this was a one off or whether there were matters in relation to raising accruals in this area. These also failed. We therefore asked management to investigate further. They reviewed the whole subpopulation of 584 items and determined that the total accrual should be £394k, a misstatement of £1.2m. This appeared to relate to the Council accruing to budget rather than being satisfied that works were complete. Management are proposing to adjust for this. (Appendix C) **Contract for software April 21 to March 24** The Council had accrued for an invoice for £1.05m that related to services in the subsequent financial years. Management had already identified that this related to the next financial year and had put through a journal effectively setting up a prepayment. No payment was actually made in the financial year and this meant that both creditors and debtors were overstated. Management are proposing to adjust for this. (Appendix C) **Other matters: accruals** The Council properly prepares accruals, where goods or services have been received in year but the invoice has yet to be received by the year end. We would expect that as these amounts are often estimates then there is likely to be a small difference between the amount accrued and the actual invoice paid. In our sample we noted that accruals were made even though the invoices were received in April – the Council policy is that accruals are made very early in April. We also noted larger than expected differences between the actual invoice and the accrual. We have included these differences as unadjusted errors and extrapolated. (Appendix C).	To facilitate a smoother audit, management should improve the audit trail for creditors and undertake quality control of the evidence before it is supplied to audit. Appendix C includes adjusted and unadjusted misstatements based on the errors identified from our testing.

2. Financial Statements – new issues and risks

Issue	Commentary	Auditor view
Note 38: Capital commitments: Note extract: *The Council has to plan its capital spending in advance of work proceeding. As at 31 March 2021 the Council had allocated resources to a five year programme covering the period 2021/22 to 2025/26 that amount to £422.878m.*	The accounts disclose capital commitments totalling £188m at Note 38. This note is misstated. We selected 5 commitments for review with a combined value of £182m. We were able to confirm for 3 out of the 5 that a legal commitment existed at the year end, however for these the actual value of the capital commitment was unclear. The basis of the note appears to be taken from the Council's 5 year capital programme, which does not in itself constitute a capital commitment, and this did not appear to be understood by management. Management has indicated that they will update the note.	Recommendation: management should ensure that the capital commitments note should reflect genuine capital commitments at the year end and this is supported by evidence and an explanation of how the information has been derived.
Note 16: Long Term Investments £43,748k	**Birmingham Airport:** The Council's long-term investments include SL&P and Birmingham Airport. The valuations work is led by Solihull Council, supported by management expert BDO. We rely on the Solihull auditor (Grant Thornton) and the auditor expert to support our audit work on the valuation. There are no significant matters arising from our work on these areas. **SL&P:** We note that SL&P will be wound up as at 31/3/22 and consequently the investment will need to be derecognized in the 2021/22 accounts. Group accounts will no longer be required for SL&P (Sandwell Childrens Trust will continue to be included in the group accounts).	**SL&P:** management should ensure that the 2021/22 accounts appropriately disclose the position on SL&P.

2. Financial Statements – new issues and risks

Issue	Commentary	Auditor view
Other company relationships where no investment is recognised	**SIPS:** We are currently querying management approach to the treatment of the investment in SIPS. To us this appears to be an associate and should be accounted for on an equity basis because according to the SIPS accounts the Council has more than 20% Board membership and therefore can be regarded as having significant influence over the company. Management states that they have 19.99% board members, indicating that management does not have significant influence, and management has provided evidence to demonstrate that this is the case and that equity accounting for SIPs is not required. **Sandwell Leisure Trust**. Similarly management consider that they have no significant influence over Sandwell leisure Trust and there is no group relationship. We have reviewed this judgment and consider that it is appropriate. We note the following - The Council owns the buildings from which the Trust operates and the Trust pay the Trust a management fee. The Council is a guarantor for the pension fund and holds a contract with the Trust which drives the majority of its activity. The expectation is that the Council will not be renewing the contract 2023/24 and there will be a new operator for the leisure centres. - The expectation is that the staff will transfer either to the Council or to a new company should the contract with the leisure Trust end and therefore the guarantee to the pension fund should note materialize in 2022/23. Should the staff transfer to the Council then it is likely that there will be a significant increase in the pension liability. Management should consider the need to make any disclosures to the 2021/22 accounts in relation to the contract with SLT. These changes are still being agreed and do not impact the 2020/21 financial statements. However, disclosure of these changes will be needed in the 2020/21 as a post balance sheet event and 2021/22 financial statements.	**SIPS:** working papers for 2021/22 should include better assessment of group arrangements in order to better demonstrate control and judgements related to this, driving the accounting treatment. **Sandwell leisure Trust:** management should demonstrate judgement around the group relationship for 2021/22 in view of the position on the contract going forward and consider the need for additional disclosures reflecting the impact on the contract.

2. Financial Statements – new issues and risks

Issue	Commentary	Auditor view
Capital disclosures: note 37. CFR £735k – reduction in year £1.5m HRA statement: MRP £11.8m	**Minimum revenue provision £28,057:** **General fund:** In 2018/29 management changed the basis of calculation of MRP on borrowing for assets incurred before 2008. The approach adopted for these assets is an 'average asset life' method and the impact was that in 2018/19 the asset lives were rebased from 35 years to 50 years, resulting in a reduction in annual revenue charge to the CIES on these assets of around £2m p.a. from 2019/20. We challenged management on the basis of the MRP average life and, following consultation with the Council Treasury Management Advisors, management was able to satisfy us that the approach was reasonable. The approach adopted for MRP on general fund is in line with the accounting policy and treasury management policy. HRA: The Movement on HRA Balance for the year includes £11.8m which the Council describes as Minimum revenue provision. There is no requirement for the Council to set an MRP for the HRA, although regulations allow management to choose to repay debt. The Council is setting aside £10m p.a. plus a calculated £1.8m to reflect internal debt repayment. The treasury management strategy references that the Council has made £93.9m voluntary overpayment of HRA. We have requested that management revise the term 'MRP' in the accounts to 'debt repayment' as it is not a statutory payment.	Management should update the terminology in the HRA statements The Treasury management strategy approved annually, should provide clarity on the HRA debt repayment policy.

2. Financial Statements – new issues and risks

Issue	Commentary	Auditor view
Cost of services £201,232k (P/y £257,702)	Other expenditure/CIES **Temporary morgue facility Birmingham airport:** In response to the Covid19 pandemic Local Authorities within the West Midlands conurbation contributed to the use of a temporary facility for the instance of excess deaths within the area. It was agreed that Sandwell would pay for all costs associated to the facility and then would recharge other West Midlands councils based on the agreed % rate which was based on the population of each area. Within the draft accounts all transactions were accounted for on a gross basis, but however after auditor challenge the Council undertook a review of the accounting treatment and concluded that in the Temporary Morgue Service contract SMBC is the principal for its own share of the allocated space, and an agent to the counterparties for their share of the service. As a result both expenditure and income within the Resources directorate is overstated by £5,615k. Management has agreed to adjust for this. (appendix C). **Internal recharges:** We noted that the ledger includes £304m of internal recharges that are adjusted for when preparing the final statement of accounts. A significant proportion of this is schools related (mainly associated with DFG grants) and other grant reallocations across services. We estimate that there are C£65m of non grant related recharges. We have discussed with management that the amount of work and potential for error of making such large values of recharges. Management was already aware of this being an issue for the Council and are proposing that they will undertake a review of current arrangements within 2022-23 financial year. **Internal recharges covid grant:** Our initial preliminary analytical review of the accounts identified a large year on year variance for Resources expenditure in the CIES which was because a balance of c£17m that had not been cleared out of an internal recharge code. The recharge related to Covid Grant income, and numerous correcting entries are proposed (see adjusted misstatements) but the overall impact is Covid Fees and Charges grant income £3,859k will be recognised within the cost of services section of the CIES, and the Covid Emergency funding grant £20,599k will be split between cost of services £12,093k, and Taxation and non specific grant income £8,506k). (appendix C) It is our view that these grants are non-specific and should be credited to taxation and non-specific grant income, rather than service lines. However we accept that there are different judgements that could be reached in this regard, and therefore we have requested that the Council include a critical judgement in their accounts in this respect.	Management should review the approach to internal recharges and simplify the approach, in order to reduce time and the risk of error in accounting. We consider that emergency funding grant and covid fees and charges would be more appropriately allocated to taxation and non specific grant income rather than 'above the line' in costs of services. This is a matter for management judgement and as such the accounts should Include a critical judgement in relation to the Covid Fees and charges grant £3,859k and Covid Emergency funding £12,093k that they are charged to services rather than non-specific grant income. As part of the quality review of the draft financial statements management should undertake s detailed analytical review of the draft accounts so that unusual variances are considered by management to identify errors and to ensure that amounts reported at a services level are in line with expectations.

2. Financial Statements – new issues and risks

Issue	Commentary	Auditor view
PFI ST Liabilities £3.6m, LT liabilities £65m PFI Assets £125m	The Council has four PFI schemes and a service concession – Serco The entries in the accounts are informed by the Council's PFI accounting models. Our audit approach to PFI includes: • comparing the PFI models provided by the Council with the GT version of the models. We would expect there to be some variance between the Council models and the GT models because we ran the GT models in 2018/19. However if there are no significant differences then this approach provides us with some assurance that the PFI related entries and disclosures are not materially misstated. • The Council has reconsidered the accounting impact of the Portway scheme this year. and for that reason we asked out GT PFI team to support our review. • We have confirmed with the contract managers responsible for each scheme that there have been no significant changes to the contracts this year. • We requested that our PFI team to undertake a high level using our 'OAK' software to highlight any unexpected changes year on year for further audit enquiry. The outcome was that there were some differences between the liabilities in the accounts and those expected from our model as summarised below. We have not treated this as an unadjusted error because the GT models are not as up to dates as Sandwell's models, and we have checked the changes in the models and these have been confirmed as reasonable. As the differences are within acceptable tolerances, we have not rerun the GT models.	The differences between the model and GT expectations are within acceptable tolerances.

Scheme	Difference between GT and SMBC liability per model	Overall difference between GT and SMBC future unitary payments
Riverside	£3.954m larger	£5.358m larger
Total Schools	Trivial	£0.973m lower
BSF Rowley	£2.809m larger	trivial
Portway	Trivial	Trivial
total	£6.763 larger	£4.385m larger

2. Financial Statements – new issues and risks

Issue	Commentary	Auditor view
Portway lifestyle centre ST Liabilities £0.4m LT Liabilities £6.3m Unitary payment £1.3m	The Council has revised its accounting model this year, but had not updated the accounts accordingly. This has meant a difference in the closing liability of £2.215m understatement (ST liability overstated by £253k, and LT liability understated by £2,468k). Management has agreed to adjust for this difference (appendix C) This also impacts on the prior year however management has concluded that this is not sufficiently material to require restatement of the comparator but are proposing to adjust the 2020/21 accounts. In addition, the amounts disclosed within the future payments table split over the component parts are not consistent with the Council's revised accounting model. The revised model shows future Unitary payments of £28,548k split between Service £5,591k, Lifecycle £2,752k, Interest £11,284k and Liability repayments £8,921k, which again management are proposing to adjust. The SMBC remodelling has been done outside of the traditional PFI accounting model. We requested the support of the GT PFI team to support our review and they did not identify significant differences in total liability as calculated by SMBC management and GT. However we noted that the revised accounting model does not take into account indexation. While this does not affect the lease liability calculations as these calculations are done on a real basis, we would expect for the PFI note in the Statement of Accounts that the payments for future years would include updates for inflation, as without this payments due for services and the total UC are understated. In view of the size of the scheme it is unlikely that this will be a material matter however the model should be updated accordingly for 2021/22.	Accounts should be adjusted to reflect the revised modelling. 2021/22 model should be further updated to reflect indexation.
Group accounts	Our review of the group consolidation has identified that the Council has not correctly removed intercompany income and expenditure that is not in relation to the main contract other services. This impacts on gross expenditure and income in the accounts (both overstated). We have established that this is also incorrectly stated in the 2019/20 accounts but believe it was correctly adjusted in the 2018/19 accounts. This is set out as an unadjusted misstatement in Appendix C. We note that the Council is finalising its work in this area.	

2. Financial Statements – new issues and risks

Issue	Commentary	Auditor view
Serco Waste contract The Council made payments of £22.529m in 2020/21 to Serco Limited (£22.529m in 2019/20).	The Council entered into a 25 year contract with Serco Limited on 9 November 2010 to cover the delivery of waste and cleansing services across the borough. At the commencement of the contract Sandwell MBC transferred its fleet of waste disposal vehicles over to Serco at nil value. However, for the duration of the contract Serco will be solely responsible for the replacement of the vehicle fleet to ensure they are of a standard to provide the services required by the contract. All vehicles transferred by the Council and subsequently purchased by Serco will be solely used for the delivery of this contract for the assets' entire lives. Ownership of these assets will revert back to the Council at the end of the agreement. The vehicle fleet, Council-owned depot and waste disposal site are all held on the Councils balance sheet. We have been provided with a financial close model that indicates that the Council has a liability of £7.8m at 31/3/21, however the balance sheet reflects no liability. The model provided assumes an investment profile in the refuse fleet as part of the annual payments, however there has not been recent investment and the model had not been updated. Management has confirmed that the annual payments to Serco do include an assumed level of investment in the fleet, although this is not clear from the contract. If the assumed level of investment has not occurred then it is reasonable to assume that the Council has made a prepayment. We are concerned that management was unclear about what Serco is committed to in terms of investment in the fleet and the lack of recent investment may have impacted on service delivery if the fleet is not being kept up to date. We are also concerned that management is not clear in detail what an annual payment of C£22.5m is for. We have requested that management updates the PFI model to reflect the current position and investment in the fleet. The Council has engaged Mazars LLP to support this work and a revised model was provided on the 13 February and this is now being considered by our PFI team. The revised model has identified a prepayment in the last three years, with a cumulative value of £5.1m in 2020/21. We have included this in the unadjusted misstatements. Mazars have factored in the fleet additions to date and in 2021/22. Beyond 2021/22 the model assumes that the investment is as per the original fleet because there is no clarity around the SERCO investment programme. These assumptions are yet to be confirmed by Mazars. Management has yet to update the standard disclosures in the accounts in relation to the ongoing liability from the scheme. Whilst the Council has the support of Mazars to update the model, it will need to be maintained going forwards. The Council should develop the inhouse knowledge around the PFI model so it can be maintained, and an understanding of the contractual commitments and the annual payments made to SERCO.	We have requested that management clarify the position with Serco in relation to investment in the fleet. Should the contract be renegotiated then management should reflect this in the PFI model and the other accounts accordingly. This work is currently ongoing.

2. Financial Statements - new risks

Risks identified	Commentary
Valuations of Infrastructure Assets **The draft financial statements reflect £358m of infrastructure assets, having £133m of accumulated depreciation carrying value of £225m. The Council has had £11.6m of in year additions and has charged depreciation of £8.1m.** The CIPFA Code of Practice on Local Authority Accounting states that Infrastructure assets shall be measured at depreciated historical cost. Historical cost is deemed to be the carrying amount of an asset as at 1 April 2007 (i.e. brought forward from 31 March 2007) or at the date of acquisition, whichever date is the later, and adjusted for subsequent depreciation or impairment. There is a risk that the carrying value of infrastructure assets is not appropriate given the nature of how the assets are held on the balance sheet and monitored through the asset register. The largest element of the Council's infrastructure is highways which comprises footways, carriageways and bridges. £7.6m of in year depreciation was in relation to these assets. The Council applies a 40 year useful life to all new additions.	The inherent risks which we identified in relation to infrastructure assets were: • an elevated risk of the overstatement of Gross Book Value and accumulated depreciation figures, due to lack of derecognition of replaced components • a normal risk of understatement of accumulated depreciation and impairment as a result of failure to identify and account for impairment of infrastructure assets and an over or understatement of cumulative depreciation as a result of the use of inappropriate useful economic lives (UELs) in calculating depreciation charges. We have been working with CIPFA and the English Government to find both long-term and short-term solutions which recognise the information deficits and permit full compliance with the CIPFA Code. It has been recognised that longer-term solutions, by way of a Code update, will take several years to put into place and so short-term solutions are being put in place in the interim. These short-term solutions include the issue of a Statutory Instrument (SI) by government. The English SI was laid before Parliament on 30 November 2022 and came into force on 25 December 2022. CIPFA issued an update to the Code for infrastructure assets in November 2022 and has issued further guidance in January 2023 in relation to useful economic lives (UELs). The Council is has considered the impact of the recent CIPFA guidance and as a result consulted with the Council engineers and judged that the useful life of the highways assets should be reduced to 28 years from 40 years, and bridges separately componentised and increased to 80 years. The main impact of the change is on in year depreciation. The carrying value of highways assets is £215m and the depreciation (based on 40 years) is £7.6m. Management has assessed that the change in useful life would have an impact of £28k however we have assessed that this is understated and should be in the region of £2.4m and have included this as an unadjusted error of depreciation charged to the CIES. This will also impact on the carrying value of highways assets at 31/3/21. Management has said that there is insufficient information to estimate the depreciation accurately and has not attempted to provide an estimate instead. We are still awaiting the revised note 10 to the accounts reflecting the new disclosure requirements following the update to the code.

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2. Financial Statements - Internal Control

We identified two significant control deficiencies from our planning:

Assessment	Issue and risk	Recommendations
●	**Journals: we do not consider that the Council has good procedures in place around journals, in particular the authorisation of journals and we perceive that this creates an audit risk** The Council has a retrospective monthly process in place for the authorisation of journals by a second team member, and a monthly self-review for Journals posted in months 1-12. This is is not deemed sufficient for effectively preventing, detecting or correcting a material misstatement due to fraud or error. Self-review does not address the risks of management override of control. This reduces our assurance over the accuracy and completeness over journals posted in year. However, we deem the approval process for Period 13 to be sufficient and appropriate, where journals are approved by an assigned user for each inputter before they are able to be posted to the General Ledger. In order to address the perceived audit risk, we planned to perform more extensive work at year end to ensure that journals in Months 1-12 in 2020-21 have not been materially misstated, individually or in aggregate. No significant matters were identified from our journals testing at year end.	The Council should improve their Journals Authorisation process for Months 1-12 in line with the procedures for Period 13.
●	**PPE: we consider that there are several control deficiencies in relation to PPE. Due to the need to make material adjustments to the accounts in relation to PPE valuations, we consider that the weakness should be regraded as a significant control deficiency** • reliance on spreadsheets for asset register - increases risk of error, • unreliable property database meaning that judgments are made around the floor areas which are critical to the valuation of DRC properties (compensating control is that management undertake their own 'interpretation' of floor areas to compare with the external valuer's assessment • there was no engagement letter/ instruction between the Council and the valuer for 2020/21 (wilks head and eve) It is normal practice for there to be an engagement letter setting out the terms of the appointment. we understand that one has been prepared for 21/22 as the current contract has expired Audit response: Whilst there is a control deficiency in PPE- we have valuation of PPE as significant risk and have planned additional procedures at year end as a consequence	Management are implementing a new asset management system and it is hoped that the implementation of the system along with any associated data cleanse and validation exercise should he; to address the control deficiency

Assessment

● Significant deficiency – risk of significant misstatement

● Deficiency – risk of inconsequential misstatement

2. Financial Statements - Internal Control

We identified two significant control deficiencies from our detailed work:

Assessment	Issue and risk	Recommendations
●	**Impairment of arrears** The Council makes an assessment of the collectability of its arears and impairs these to reflect the likely amount that will be collected. This is a matter for management judgement using the best available information which may include historic collection rates and known economic factors that could impact on future collection. Management undertook an assessment of the collectability however were unable to support this with aged debt analysis for housing rents and housing benefits being collected from ongoing benefit. We consider that the absence of such information is a control weakness.	Management should take steps to resolve the identified control weaknesses
●	**Creditors (accruals)** Based on our sample testing, we have found that there are weakness in the process for accurately assessing accruals in some council departments. We consider that the cut off date is early meaning that the council is making estimates where more accurate information such as invoices received in April are not taken into account. We have also seen evidence of budget holders accruing to budget or not complying properly with their own processes in matching spend to activity. We consider that there are some control weaknesses in the council arrangements for accruing at the year end.	Management should take steps to resolve the identified control weaknesses
●	**Cash and Bank** Errors were again identified within the bank reconciliation. Management has arrangements in place to review bank reconciliations but this process is not identifying errors. We consider that this is a control weakness.	Management should take steps to resolve the identified control weaknesses
●	**PFI/ SERCO refuse contract** We have flagged in prior years that the council does not have sufficient inhouse expertise around its PFI schemes, both in terms of keeping these up to date or understanding the basis of the unitary charges in relation to the contracts, and subsequent contract variations. We consider that this is a control weakness.	Management should take steps to resolve the identified control weaknesses

Assessment

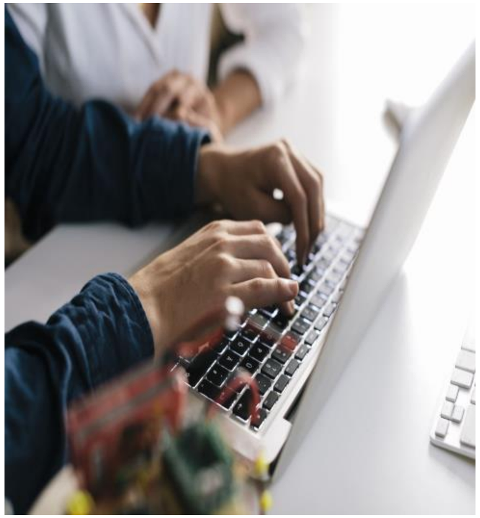
- ● Significant deficiency – risk of significant misstatement
- ● Deficiency – risk of inconsequential misstatement

2. Financial Statements - other communication requirements

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

Issue	Commentary
Matters in relation to fraud	We have previously discussed the risk of fraud with the Audit and Performance 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 Performance Committee papers.

2. Financial Statements - other communication requirements



Issue	Commentary
Confirmation requests from third parties	We requested from management permission to send confirmation requests to the Council's bank and holders of Council loans and investments. This permission was granted and the requests were sent. All of these requests were returned with positive confirmation.
Accounting practices	We have evaluated the appropriateness of the Council's accounting policies, accounting estimates and financial statement disclosures. We have highlighted significant deficiencies in these areas. These are detailed elsewhere in our report.
Audit evidence and explanations/ significant difficulties	All information and explanations requested from management was provided. Management did seek additional external support to resolve technical matters. As referenced in the Headlines section of the report, the audit was protracted, additional work was undertaken by the audit team and audit advisors. As a consequence we are anticipating that we will be raising an additional fee and this is referenced in Appendix D.

2. Financial Statements - other communication requirements

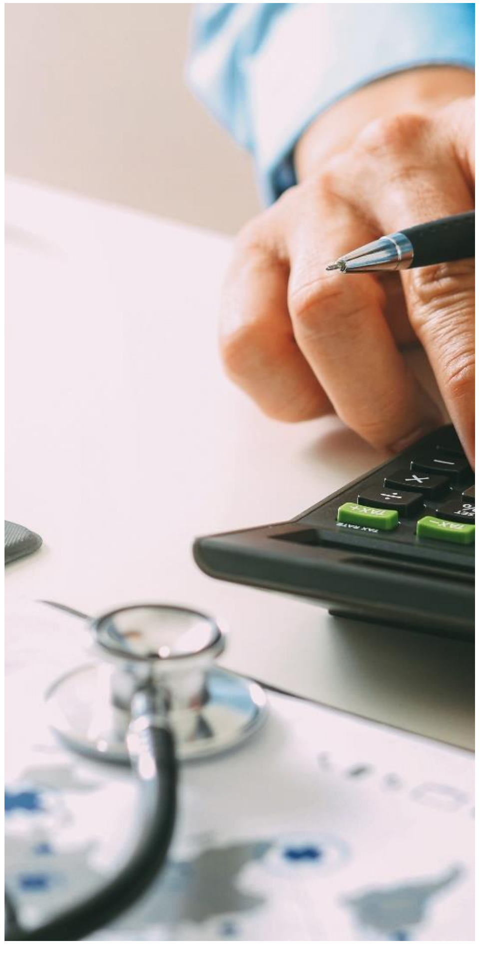
Our responsibility

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).

Issue	Commentary
Going concern	In performing our work on going concern, we have had reference to Statement of Recommended Practice – Practice Note 10: Audit of financial statements of public sector bodies in the United Kingdom (Revised 2020). The Financial Reporting Council recognises that for particular sectors, it may be necessary to clarify how auditing standards are applied to an entity in a manner that is relevant and provides useful information to the users of financial statements in that sector. Practice Note 10 provides that clarification for audits of public sector bodies. Practice Note 10 sets out the following key principles for the consideration of going concern for public sector entities: • the use of the going concern basis of accounting is not a matter of significant focus of the auditor's time and resources because the applicable financial reporting frameworks envisage that the going concern basis for accounting will apply where the entity's services will continue to be delivered by the public sector. In such cases, a material uncertainty related to going concern is unlikely to exist, and so a straightforward and standardised approach for the consideration of going concern will often be appropriate for public sector entities • for many public sector entities, the financial sustainability of the reporting entity and the services it provides is more likely to be of significant public interest than the application of the going concern basis of accounting. Our consideration of the Council's financial sustainability is addressed by our value for money work, which is covered elsewhere in this report. Practice Note 10 states that if the financial reporting framework provides for the adoption of the going concern basis of accounting on the basis of the anticipated continuation of the provision of a service in the future, the auditor applies the continued provision of service approach set out in Practice Note 10. The financial reporting framework adopted by the Council meets this criteria, and so we have applied the continued provision of service approach. In doing so, we have considered and evaluated: • the nature of the Council and the environment in which it operates • the Council's financial reporting framework • the Council's system of internal control for identifying events or conditions relevant to going concern • management's going concern assessment. On the basis of this work, we have obtained sufficient appropriate audit evidence to enable us to conclude that: • a material uncertainty related to going concern has not been identified • management's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

2. Financial Statements - 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 the Narrative Report), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. Some inconsistencies were identified but have been adjusted. 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 number of areas: • if the Annual Governance Statement does not comply with disclosure requirements set out in CIPFA/SOLACE guidance or is misleading or inconsistent with the information of which we are aware from our audit, • if we have applied any of our statutory powers or duties. • where we are not satisfied in respect of arrangements to secure value for money and have reported significant weaknesses. As referenced in this report, we have issued both statutory recommendations and concluded that the council has Significant weakness. These matters will be reflected in the opinion on the accounts – refer to appendix E



2. Financial Statements - other responsibilities under the Code

Issue	Commentary
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. No work is required because the Council has not exceeded the threshold. The thresholds are that any of total assets (excluding PPE), total liabilities (excluding pensions*), total income or total expenditure exceed £2bn.
Certification of the closure of the audit	We intend to certify the closure of the 2020/21 audit of **Sandwell Metropolitan Borough Council** in the audit report, as detailed in Appendix E. A final Annual Auditors Report will be issued alongside this Audit Findings Report.

3. Value for Money arrangements

Revised approach to Value for Money work for 2020/21

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

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

- A new set of key criteria, covering financial sustainability, governance and improvements in economy, efficiency and effectiveness
- More extensive reporting, with a requirement on the auditor to produce a commentary on arrangements across all of the key criteria.
- Auditors undertaking sufficient analysis on the Council's VFM arrangements to arrive at far more sophisticated judgements on performance, as well as key recommendations on any significant weaknesses in arrangements identified during the audit.

The Code require auditors to consider whether the body has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. When reporting on these arrangements, the Code requires auditors to structure their commentary on arrangements under the three specified reporting criteria.

Improving economy, efficiency and effectiveness

Arrangements for improving the way the body delivers its services. This includes arrangements for understanding costs and delivering efficiencies and improving outcomes for service users.

Financial Sustainability

Arrangements for ensuring the body can continue to deliver services. This includes planning resources to ensure adequate finances and maintain sustainable levels of spending over the medium term (3-5 years)

Governance

Arrangements for ensuring that the body makes appropriate decisions in the right way. This includes arrangements for budget setting and management, risk management, and ensuring the body makes decisions based on appropriate information

Potential types of recommendations

A range of different recommendations could be made following the completion of work on the body's arrangements to secure economy, efficiency and effectiveness in its use of resources, which are as follows:

Statutory recommendation

Written recommendations to the body under Section 24 (Schedule 7) of the Local Audit and Accountability Act 2014. A recommendation under schedule 7 requires the body to discuss and respond publicly to the report.

Key recommendation

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

Improvement recommendation

These recommendations, if implemented should improve the arrangements in place at the body, but are not made as a result of identifying significant weaknesses in the body's arrangements

3. VFM - our procedures and conclusions

We have completed our VFM work and our detailed commentary is set out in the separate Auditor's Annual Report.

As part of our work, we considered whether there were any risks of significant weakness in the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources. The risks we identified are detailed in the table below, along with the further procedures we performed and our conclusions. We identified a significant weakness in the Council's arrangements and so are not satisfied that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. Our auditor's report will make reference to this significant weakness in arrangements, as required by the Code, see appendix E.

In our audit plan we identified two significant weaknesses:

Governance:

How the Council ensures it has effective processes to support its statutory financial reporting requirements and ensures corrective action where needed

How the Council ensures that its governance ensures an effective focus on future plans and services and that member behaviour is appropriate.

Improving economy, efficiency and effectiveness:

We will consider how the council is ensuring that the Trust is making appropriate progress on its improvement plan

In August 2021 we judged that a detailed review was required on governance arrangements at the Council. A terms of reference was agreed with seventeen key lines of enquiry, and these included coverage of the matters raised above. Three statutory recommendations were made as a result of this work, four key recommendations and 37 improvement recommendations. The statutory recommendations are set out in section 4 and the key recommendations are set out below. All recommendations are in the governance report, published on the government website.

https://www.gov.uk/government/publications/sandwell-metropolitan-borough-council-value-for-money-governance-review

We reported our findings in December 2021 and undertook a follow up review in December 2022. We issued an interim Auditors Annual Report in July 2022. Our final report was issued in March 2023.

The following table sets out the key recommendations and includes an additional key recommendation with regard to the financial statements. Management and Members have responded positively to our recommendations and our December 2022 report shows a number of areas where positive action has been taken and improvements made by the Council.

3. VFM - our procedures and conclusions

Risk of significant weakness	Procedures undertaken	Conclusion	Outcome
Governance	KLOE B2: senior leadership: consider the background to senior leadership changes and the impact of interim officers in place.	The Council has been through a period of significant change to its leadership, both in terms of senior officers and senior members. The impact of this recent period of change has been instability and uncertainty for the organisation.	Key recommendation: The Council's leadership needs be relentless in its focus in delivering and embedding sustainable change, and use its past history as a reference point when focusing on improvement.
	KLOE B4: Officer and member relationships: to consider whether relationships between senior officers and senior members are appropriate in supporting good governance	A Corporate Plan (Vision 2030) has been in place but there has been a lack of clarity about how the Plan's ambitions, priorities and outcomes should be delivered. This has been recognised, and the Council has recently invested significant leadership time in a refresh of the Corporate Plan, including external consultation. More work needs to be done including the establishment of Directorate Plans and Service Plans which will set out how corporate priorities will be delivered, including KPIs. The Leader has recently restructured Cabinet portfolios to better reflect the updated Corporate Plan.	Key recommendation: The Council should ensure that a corporate performance framework is agreed so that the implementation of the Corporate Plan can be effectively monitored, and there is collective corporate responsibility rather than silo working.
	KLOE B4: Officer and member relationships: to consider whether relationships between senior officers and senior members are appropriate in supporting good governance	The Council is coming out of a period where there has been a breakdown in the trust, confidence and respect between senior officers and senior members, which has been characterised by: • a perceived blame culture contributing to the siloed approach to directorates, with senior • officers protecting their areas of responsibility and a lack of peer challenge within the • Leadership Team and a risk of not giving bad news to members. • a lack of collective responsibility and accountability in the absence of a corporate focus on key performance indicators and risks, weak corporate involvement in strategic financial planning, budget monitoring, and transparency. • a lack of clarity on roles and responsibilities between officers and members. • an inconsistent approach to the Council's scheme of delegation, including relatively low spending thresholds, and an overly bureaucratic approach to decision making, leading to unnecessary delays. The characteristics set out above are a significant risk to good governance.	Key recommendation: Members in key statutory roles, in particular in relation to Cabinet, scrutiny, standards and audit, need to be provided with effective induction and ongoing development, training and support. The member development programme should be reviewed to ensure corporate governance forms part of the training for members with governance roles. Key Recommendation: The Council should develop and agree an action plan in relation to the statutory, key and improvement recommendations included in this report, ensuring that they are specific, measurable, attainable, realistic and time-bound.

3. VFM - our procedures and conclusions

<table>
<tr><th>Risk of significant weakness</th><th>Procedures undertaken</th><th>Conclusion</th><th>Outcome</th></tr>
<tr><td rowspan="2">Governance</td><td rowspan="2">KLOE B7: Financial reporting: consider the Council’s response to recommendations raised in our 2019/20 audit findings report</td><td>The audit has been significantly delayed due to the quality of the financial statements and working papers presented for audit
Issues include:
• material errors in the valuation of property plant and equipment and pension fund
• material errors in cash balances and other areas of the financial statements
• uncertainty with regard to credit loss allowances, recognition of payables, and assets and liabilities relating to the SERCO waste contract.
We have not been able to draw a conclusion on a number of these areas and it is uncertain whether they will impact on the reserves available to the Council. It is possible that we will issue a modified opinion on the 2020/21 financial statements.

We have been unable to commence the audit of the 2021/22 financial statements due to the delays in the 2020/21 audit.</td><td>Key recommendation: The Council's procedures for the production of its financial statements require significant improvement. We note that there are a number of legacy issues from prior years that are undermining the quality of the financial statements. We consider that this needs to be an area of priority for the Council. Until these matters are resolved there will remain some uncertainty over the Council's financial position</td></tr>
<tr><td>Council is introducing a new corporate asset management system which is expected to improve fixed asset accounting and therefore mitigate issues relating to the closure of accounts. The new system is due to be in place by the time of the 2022/23 closure of accounts. Additional technical accountant resources have been brought in to support the accounts backlog.
The Finance Team has been restructured with the new structure going live in August 2022. This restructure has been undertaken to provide greater focus on finance business partnering by introducing more finance business partners so that each Director has their own business partner supported by an assistant business partner. Business partners should provide improved focus in supporting departmental and service change and transformation.
There have been some changes in personnel, in particular the financial reporting team and a new post has been created relating to fixed assets. Not all new posts have permanent appointments, for example the new head of technical finance is being filled via an interim, who started in September 2022.
Training for members of the Finance Team was undertaken in February and March 2022, prior to the restructure with a focus on accounts closedown. A skills gap analysis was being undertaken at the time of our review to identify the training needs of members of the restructured Finance Team.
The actions taken so far will take time to complete and successfully embed the necessary changes.</td><td>Improvement recommendation: The Council must successfully implement the new corporate asset management system to timescale, ensure all key finance roles have permanent appointments, and prioritise the training and development of the Finance Team so that the role and behaviour changes planned become embedded.</td></tr>
</table>

3. VFM - our procedures and conclusions

We have updated our report for our findings on the financial statements. Our commentary is detailed below.

Risk of significant weakness	Procedures undertaken	Conclusion	Outcome
Financial Statements	Audit of financial statements	The audit has been significantly delayed due to the quality of the financial statements and working papers presented for audit Issues include: • material errors in the valuation of property plant and equipment and pension fund • material errors in cash balances and other areas of the financial statements • uncertainty with regard to credit loss allowances, recognition of payables, and assets and liabilities relating to the SERCO waste contract. We have not been able to draw a conclusion on a number of these areas and it is uncertain whether they will impact on the reserves available to the Council. It is possible that we will issue a modified opinion on the 2020/21 financial statements. We have been unable to commence the audit of the 2021/22 financial statements due to the delays in the 2020/21 audit.	Key recommendation: The Council's procedures for the production of its financial statements require significant improvement. We note that there are a number of legacy issues from prior years that are undermining the quality of the financial statements. We consider that this needs to be an area of priority for the Council. Until these matters are resolved there will remain some uncertainty over the Council's financial position

4. Other statutory powers and duties

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

Issue	Commentary
Statutory Recommendations	Within our Governance Report dated December 2021 (and restated in our Interim Auditors Annual Report) published 12 July 2022 we issued three statutory recommendations. Our statutory recommendations are: It is imperative that senior members take effective corporate grip of long-standing service issues highlighted by the findings in this report (including SLCT, SCT the waste service the ERP system, and Lion Farm) and prioritise corporate effort in managing the issues identified, and embed the solutions into the Council. The Council must ensure that the learning in relation to commercial decisions, procurement and contract management highlighted in this report are understood through the organisation. Senior leadership, both officers and members, must demonstrate that they can continue to work together effectively, that they operate in line with the Council's values, codes, policies and procedures, and that there is zero tolerance to inappropriate behaviours. This includes changing the organisational culture in relation to complaints so that they restore balance and proportionality. Management and Members have responded positively to our recommendations and our December 2022 report shows a number of areas where positive action has been taken and improvements made by the Council.

5. 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

Transparency

Grant Thornton publishes an annual Transparency Report, which sets out details of the action we have taken over the past year to improve audit quality as well as the results of internal and external quality inspections. For more details see Transparency report 2020 (grantthornton.co.uk)

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 2023, as well as the threats to our independence and safeguards that have been applied to mitigate these threats.

Service	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 £153,136 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	35,000	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 £35,000 in comparison to the total fee for the audit of £153,136 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.

Appendices

A. Action plan – Audit of Financial Statements

We have identified recommendations for the Council as a result of issues identified during the course of our audit. We have agreed our recommendations with management and we will report on progress on these recommendations during the course of the 2021/22 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
Medium	**Creditors and accruals** Much of the information and judgements to support accruals is determined by budget holders and instructions are issued by the central finance team on closedown procedures and timetable. In the main we established that accruals were being raised appropriately although the accuracy of these were not good with a tendency to over accrue – including accruing to budget and making estimates when actual invoices were available in April..	Management should consider rolling out further training to budget holders, ensuring that the audit trail to support the selection of samples is better, checking larger balances before including in the financial statements for 2021/22 and putting a time target for departments to respond to audit queries] **Management response** Additional guidance has been provided to budget holders for the 2021/22 and 2022/23 year-end process. A training programme is being prepared for budget holders and other non-finance staff and. This includes training from LG futures for budget holders and also budget managers. This will be delivered together with the Finance Business Partners in March and April 2023.
High	**PFI** It is clear that there is not a good understanding within the council of PFI accounting. We also raised concerns in our governance report around the management of the SERCO contract.	The Council should invest in improving its understanding of PFI accounting and accountants designated to individual schemes should have a working understanding of the schemes, payments being made and the contract so that there is a better understanding of what is actually being included in the financial statements. **Management response** Training needs of the responsible colleagues are underway as a result of needs analysis. The SERCO model due to its complexity was built by Mazars. Training is underway on this with several colleagues during March 2023.

Controls

- High – Significant effect on financial statements
- Medium – Limited Effect on financial statements
- Low – Best practice

A. Action plan – Audit of Financial Statements (continued)

Assessment	Issue and risk	Recommendations
	Debtors: aged debt analysis The absence of reliable management information, in particular the age of debtors for rent arrears and benefits is a factor leading to uncertainty around the adequacy of impairment allowances. The absence of this information provides us with some concern around how debt is being managed as well as providing uncertainty on debtor balances within the financial statements.	**Recommendation:** Management should seek to obtain aged debt analysis and use it to support the assessment of impairment allowances. **Management response** Additional reports for Housing Benefits Overpayments have been obtained and further analysis is underway on Housing Rent debt ageing . Additional reports will be discussed with the audit team for the 21/22 and 22/23 accounting years.
	Journals approval We have raised this as a control deficiency as Journals should be approved before posting. We understand that approval of **all** journals is challenging to due to the large number of journals posted and we understand management are looking at ways in which the number of journals could be reduced.	Recommendation: Journals should be authorised before being posted As a minimum management should set financial parameters above which journals posted should be authorised **Management response** All journals are authorised but the majority are authorised retrospectively during the year. This does still allow for amendments/reversals to be processed if any issues are found as part of the authorisation process. As part of closedown training delivered in February 2023 colleagues were reminded of the necessity to review journals before approving and to ensure that evidence attached is of sufficient quality . Journals will be reviewed on a sample basis by the central finance team as part of working paper review and feedback provided as appropriate to colleagues. When Oracle Fusion is implemented this will be much easier to review as a part of the workflow approval process. It is currently difficult for all journals to be approved prior to processing due to the volume of these. An external review of internal recharges has been undertaken which will result in a significant reduction in these which should allow more time for prior approval of journals. Period 13 journals are all approved prior to processing.

A. Action plan – Audit of Financial Statements (continued)

Assessment	Issue and risk	Recommendations
	PPE:	Recommendations
	(1) The underlying property records to support the asset register were found not to be up to date or in a format that facilitated accurate floor area assessments.	1) Management should put together a plan for implementing the new IT property system and undertaking a survey of all property assets to validate the accuracy of current records. **Response:** There is an ongoing review and data cleanse of underlying records that are being migrated from the Atrium legacy system to Techforge. This exercise is expected to complete by the end of Q3 of 2023.
	(2) Management is unclear whether the changes in assumptions to DRC assets applied to assets other than schools and leisure centres.	2) Changes in valuation assumptions DRC properties: As part of the preparation of the 2021/22 accounts, management should be assured that the changes in assumptions for age and obsolescence and externals are applied to all applicable DRC properties so that the asset base is valued on a consistent basis. **Response:** The council has committed to bring all affected assets to a consistent valuation basis by the completion of the 2022/23 accounts. Additional work was undertaken in Dec 22/ Jan23 to demonstrate that as at the end of the financial year ended 31.03.21 that there was no material misstatement in the accounts in respect of assets that hadn't been revalued as at the end of 31.03.21.
	(3) We noted that the Council's impairment review had not taken into account significant capital schemes that were incomplete at the year end	3) In line with accounting policies, the Council should undertake an annual impairment review which should include assets under construction. **Response:** We will ensure that this is undertaken as a matter of course.
	(4) A number of adjustments and assumptions are made to both GF and HRA assets because valuations are not undertaken at the year end.	4) Management should value assets as at 31 March in order to improve the reliability and accuracy of the valuation of the Council property assets. **Response:** As with all local authorities the council is challenged to ensure the completion of the statement of accounts to the deadline of 31st May . As a result of the impact of COVID to all workings of local authorities the deadlines have been extended for FY 31.03.21 and also 31.03.22. The RICS red book allows for valuations dated 31st December to be acceptable for a period of 3 months after the 31st December to hold good. All local authorities receive from their valuer a "letter of comfort" stating the movement in the valuations from the 31st December to the 31st March (3 months later). In circumstances where this movement is material valuations are amended accordingly. The valuation date of 31st March under normal circumstances is not feasible for most local authorities to adhere to.
	(5) We noted that a highly material proportion of property assets were fully depreciated but remained in the asset register. Management has not undertaken an exercise to remove assets no longer in use.	5) Management should undertake a review of fully depreciated assets and update records accordingly. Response: This exercise has commenced and records will be amended accordingly.
	(6) The external auditors expert (GE) noted that it is unusual for assets to have consistent and relatively long asset lives (C40 years for schools)	6) As part of the process for improving the asset register and property records, management ensure that there is clear evidence to support the assumptions made by the Council valuer on the relatively long useful lives of assets. **Response:** There is an asset valuation steering group that has been set up to improve communication between estates and finance colleagues
	(7) Our expectation is that all assets valued at fair value should be revalued annually.	7) Management should comply with the code in its valuation of Investment properties (our expectation is that all PPE valued at fair value there would be an annual valuation. Response: This is being discussed with the revised Estates team as part of the Council's commitment to improve.

A. Action plan – Audit of Financial Statements (continued)

Assessment	Issue and risk	Recommendations
	PPE (HRA valuations) The external valuer undertook a desk top exercise and is therefore reliant on the Council for much of the information used in the valuation. Valuations are undertaken in December and the Council adjusts the valuation for additions and disposals in the last quarter of the year. These were added to the year end valuation, but on further discussion with the client it was concluded that these did not add value to the assets and were impaired. We also noted that there had been a change in valuation above that expected through the application of indices. Management had not gained an understanding of the reason for this. The accounting for additions has not historically complied with the code as assets are not maintained at an individual asset level. This resulted in incorrect accounting for additions (through the revaluation reserve rather than the CIES)	1) A 31 march valuation should be implemented 2) The valuer should be fully sighted on additions, disposals and capital expenditure to inform his valuation and incorporate in the valuation report – rather than extensive assumptions including valuation judgements being made by the finance team. 3) Management should provide the auditor with evidence that the external valuer is fully sighted on key events such as disposals, additions and significant capital expenditure 4) Management should improve the audit trail between the accounts, the fixed asset register and the valuation report 5) Management should understand the valuation, including the reasons for year on year movement before applying to the fixed asset register 6) Management should ensure that the asset register for HRA (going forwards) matches individual assets to revaluation reserves so that changes in valuation are properly accounted for (through CIES or revaluation reserve) **Management response** Please see response in previous section re 31.03 valuations. In respect of the remaining recommendations 2.-5. we agree that further audit trail will be provided to show the appropriate evidence (e.g. emails and check and challenge exercise) as well as asset steering meetings and actions are carried out to provide assurance in respect of these tasks. On Point 6 HRA housing stock is captured at a total level in the current FAR with detailed backup available from HRA spreadsheet records. When the Techforge FAR is implemented all assets will be held on the TF FAR at a detailed level.
	Pensions The staff of four academy schools (non teaching) transferred from SMBC element of the pension fund. This was treated as a significant event by the actuary and meant that there was a change in the discount rate applied, which then impacted on the valuation. This should be highlighted within the accounts The Council provides a guarantee for many of the staff who have transferred rom the Council in previous years. There are accounting considerations based on management assessment of risk and these are not as clearly articulated by management as they could be	1. Pension fund: academy transfer: The pensions note should reference the transfer of academy staff, that it is regarded as a special event that has impacted on the discount rate used by the valuer 2. Pension guarantee: For 21/22 the Council should improve the working papers to support the judgement covering pension guarantee risk and accounting. **Management response** Working papers will take into account recommendation above.

B. Follow up of prior year recommendations

	Issue and risk previously communicated	Update on actions taken to address the issue	status
1	Asset registers: The Council asset register currently consists of 22 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.	The Council is investing in a new asset management system with the expectation that it will be live from the 2023/24 financial year.	In progress
2	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	See comments above.	In progress
3	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.	We have seen that management has undertaken ore extensive check and challenge than in previous years- however the commentary in the report demonstrates that further progress can be made	Further improvements are required
4	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.	Management has produced a note for audit purposes setting out the position on unregistered land. Management consider that the council records are more complete than the land registry records and does not consider that the cost of registering all unregistered land is cost effective	No further action planned
5	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.	Accounts reflect that there have not been any substantial assets sales in the year. Asset Management Strategy was approved by Cabinet in Sept 2022 and this was made clear in here.	Matter addressed
6	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 relation 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)	Accounts now reflect the HB arrears, however we disagree that this is accurate.	As part of the production of the 21./22 working papers we can evidence that the provision for bad debts was sufficient as accounted for in the 20/21 accounts. The central finance team will share workings to evidence this as part of the 21/22 statement of accounts.

B. Follow up of prior year recommendations

	Issue and risk previously communicated	Update on actions taken to address the issue	status
7	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 (2018/19 AFR matter)	A review of the Council's Debt Recovery procedures is underway (with external support) with the aim of implementing a Corporate Debt Policy and corporate procedures	In progress
8	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.	Further issues have been identified in relation to the accuracy of the bank reconciliation as part of the 2020/21 accounts. We have not seen any evidence of a review of the bank reconciliation with the aim to simplify to facilitate more effective review by management and reduce the risk of error. Management consider that the volume of journals is the issue and this will be addressed as part of the ledger upgrade. We are not aware of any review of payment protocols Bank Recs have been reviewed by management and external consultants. Journal process has also been reviewed with any P13 journals needing management approval. This will also be picked up as part of the Fusion project. (RP)	In progress
9	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 review staff access in particular.	Whilst the Council has not yet implemented the financial ledger for 2020/21, our follow up work in 2020/21 did not identify weakness that had a significant impact on our audit approach.	In progress
10	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	Our detailed report highlights that some management information on arrears, in particular the age profile, which we have requested to support some of the provision for impairment is not available. Further recommendations have been made on this in 2020/21. Receivables and BDP's have been reviewed with services and by management using relevant data and assumptions while also taking into account the current economic environment and any other factors which may need to be considered (RP).	addressed
11	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 challenge process however this should not prevent management from using available data to make reasonable estimates. Management should review the provision for appeals annually using the most up to date analyse local information and knowledge of the sector.	Our audit procedures did not identify any significant concerns with the business rates appeals provision.	

B. Follow up of prior year recommendations

	Issue and risk previously communicated	Update on actions taken to address the issue	status
11	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 (2018/19 AFR matter)	Officers will incorporate these matters in the next revision too the contract.	Not yet addressed
12	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. 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. (2018/19 AFR matter)	3 schemes only considered once again in 2020/21	Not yet addressed
13	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. (2018/19 AFR matter)	No change in management approach. We accept that the approach is unlikely to result in a material misstatement of investment properties, based on management analysis against indices	Not yet addressed

C. Audit Adjustments (adjusted)

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 2021.

	Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000
1	**Understatement of pension fund assets:**			
	Dr long term liabilities		6,657	
	Cr CIES: Net interest on the net defined benefit liability (asset) (increase surplus)	(6,657)		(6,657)
2	Incorrect treatment of LRSG Closed Addendum and Closed Business Lockdown Grant. Treated as receipt in advance – should be creditors	n/a		n/a
	Dr receipts in advance			
	Cr creditors		18,539	
	CR CIES (reserves)		(6,460)	
	Increase surplus	(12,079)		
3	Pension prepayment: the upfront payment of £30.5m was made in May 2020 and the accounting treatment is incorrect:			
	Cr pension liability		(30,563)	
	Dr Cost of services (at service level)			
	Reduce surplus	30,563		
	(transfer between pensions reserve and GF in MIRS is correspondingly misstated)			30,563
4	**PFI Portway Scheme: difference between accounts and model:**			
	CR Other long term liabilities		(2,215).	
	Dr cost of services (regeneration and growth)	2,215		
	Reduce surplus			2,215
5	Impairment of asset under construction – aquatics centre			
	Cr PPE		(2,896)	
	Dr other expenditure (Housing communities)	2,896		2,896
	Reduce surplus			
	Overall impact c/f	**£16,938**	**(£16,938)**	**£16,938**

C. Audit Adjustments (adjusted)

	Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000
6	Bank reconciliation: BACs payments incorrectly accounted for – should be creditors	n/a		n/a
	Dr bank overdraft		2,943	
	Cr creditors		(2,943)	
7	Incorrect classification in CIES derecognition of academy schools			
	Cr Other operating expenditure(Gains) / Losses on the disposal of non current assets	(6,109)		
	Dr Income and expenditure in relation to investment properties	6,109		
	No impact on surplus or deficit			
8	Additions incorrectly charged to revaluation reserve			
	Dr HRA expenditure CIES (& HRA)		16,526	
	Cr revaluation reserve (AA also impacted)	(16,526)		
	Reduce surplus			16,526
9	Incorrect treatment of temporary morgue facility – income and expenditure to be excluded from the accounts			
	Dr Other expenditure	5,615		
	Cr other income	(5,615)		
10	Debtors - HRA Arrears			
	Credit balances (prepayments) to be shown as creditors (not netted off debtors)			
	Dr Debtors		2,474	
	Cr Creditors		(2,474)	
	Overall impact c/f	**£412**	**(412)**	**£412**

C. Audit Adjustments (adjusted)

	Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000
11	Capital grants received in advance			
	(community Infrastructure levy)			
	Dr Grants received in advance		2,266	
	Cr taxation and non specific grant income	(2,266)		
	Increase surplus (Will be treated capital grant unapplied within reserves section of valance sheet)			(2,266)
12	Council houses valuation			
	Quarter 4 refurbishment added to valuation – should have been impaired			
	Cr council dwellings (within PPE)		(8,352)	
	Dr revaluation reserve		8,352	
	This reflects that the council does not follow expected accounting practice because 1) it does not hold revaluation reserves for individual assets 2) nor does it write out components out of the balance sheet when they are replaced (capital accounting guidance notes page 20)			8,352
13	COVID grant item 66			
	Adjustments across lines on costs of services: net impact:			
	Cr costs of services	(15,951)		
	Dr non ringfenced grants	15,951		
	No overall impact on CIES			
14	Sundry debtors – impairment allowance			
	Cr debtors		(2,248)	
	Dr expenditure (at service level)	2,248		
	Reduce surplus			2,248
15	Creditors and prepayments overstatement (IT invoice re 21/22 – incorrect adjustment)			
	Dr creditors		1,024	
	Cr debtors (prepayments)		(1,024)	
	Overall impact	£394	(£394)	£394

C. Audit Adjustments (adjusted)

	Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000
16	Adjustments for misstatements of floor areas including Phoenix collegiate £1,276k, Ingetre hall £1,847k, Portway lifestyle£1,602 offset by new errors identified by valuer. Dr other land and buildings (net) Cr revaluation reserve		127 (127)	
	Overall impact	£394	(£394)	£457

C. Audit Adjustments

Misclassification and disclosure changes

The table below provides details of misclassification and disclosure changes identified during the audit which have been made in the final set of financial statements.

Disclosure omission	Auditor recommendations	Adjusted?
Balance sheet: Net assets	Balance sheet simplified to include one line for property plant and equipment to make clear that net assets include PPE	✓
Note 40: profile of unitary payments	The profile of unitary payments should be adjusted in line with agreed changes to liability (as per adjusted misstatements)	✓
Note 43: Defined Benefit Pension Schemes and Note 4 Assumptions made about the Future and Other Major Sources of Estimation Uncertainty	Note on top of page 17 is confusing / misleading – suggest delete Reference in notes to COVID- 19 and material estimation uncertainty – have been rolled form=ward and are not relevant this year and should be deleted disclosure stating that the impact of the McCloud judgement was incorporated into the results during 2021, and allowed for as a past service cost- this again has been rolled forward from prior year and should be updated. Within the Teachers section on page 115, teachers pension costs as a % of pensionable pay are disclosed as 20.75% which does not agree to the supporting work paper that shows 23.68%. In addition estimated contributions and contribution rate for 21/22 need updating as currently they are reported as being exactly the same as for 2020/21 Note 4: pensions liabilities – inconsistencies with actuary report need to be updated.	
This note requires rewording as it is confusing to a reader of the accounts. Total GF balances are £195m, and the note is describing the working balance of £57m which then discloses that £50m is earmarked. Actual earmarked reserves per the MIRS are £137m.	This note requires rewording as it is confusing to a reader of the accounts. Total GF balances are £195m, and the note is describing the working balance of £57m which then discloses that £50m is earmarked. Actual earmarked reserves per the MIRS are £137m.	✓
Accounting policy Xii: Foreign Currency Translation	consideration should be given to removing this policy, on the basis that the Council has no material foreign currency transactions in either the prior or current year.	x
Collection fund:	The current year columns are headed 2019/20 in error.	x
Narrative report: discrepancies between the report and the accounts	.1. A variance of £38.63m identified between the balances stated within the narrative report (£61.176m) & (£99.806m) detailed within the CIES for business rates under net expenditure for 2020/21. 2. The long term liabilities value stated within the narrative report (assets and liabilities) of £1,149,587 is the balance for other long term liabilities and not the respected total for long term liabilities of £1,577,978. 3. The number of employees schools had terminated in 2020/21 detailed under termination benefits of the narrative report was 60, whereas per the outturn report to cabinet dated: 07/07/2021 it was detailed that 66 employee contracts were ended during 2020/21 within schools.	✓

C. Audit Adjustments

Misclassification and disclosure changes

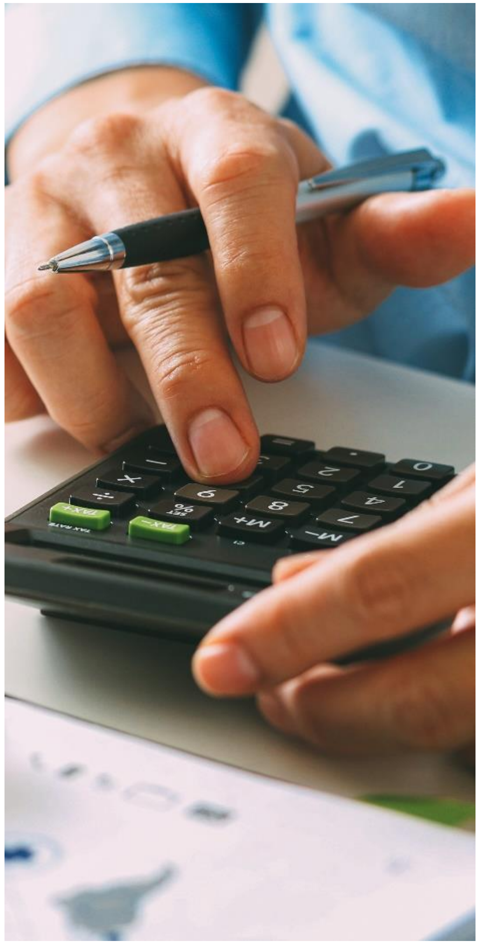
The table below provides details of misclassification and disclosure changes identified during the audit which have been made in the final set of financial statements.

Disclosure omission	Auditor recommendations	Adjusted?
MIRS: disclosure matters	The 'Actuarial (gains)/losses on pension assets' line on the face of the CIES should be amended to 'Remeasurements of the net defined benefit liability/(asset)' to reflect updated terminology; The 'Revaluation and impairment losses on property, plant and equipment' line within the CAA on page 89, should be amended to 'Revaluation and impairment losses/(gains) on property, plant and equipment'; Consideration should be given to deleting the 'Available for Sale Reserve' column in the MIRS, as the balance is £nil, and no transactions have taken place in either the current or prior year; Note 8 includes HRA MRP of £14,172k. The line description however is 'Statutory provision' which is incorrect as this is voluntary. The HRA MRP therefore should be shown separately with an appropriate line description.	✓
Note 38: capital commitments	Note 38 disclosed Capital Commitments of £188m. We reviewed 5 schemes with a value £182,075k but were only able to confirm for 3 that a legal commitment existed at the year end. The disclosure has now been amended to remove the HRA commitments and reduced to £58.1m. However of the revised amount, we are able to confirm that for £44.5m of the schemes, commitments are in place, however the council is unable to provide evidence to support the value disclosed.	✓
Note 3: Critical Judgements in Applying Accounting Policies	The note should only include items that are material to the accounts – and some of the narrative related to matters that were not material and reference to agency should be more concise.	x
Note 5: Material Items of Income and Expense	Reference included under the incorrect note (should be note 4)	x
Note 9 Transfers to/from Earmarked Reserves	'Movements on the 'Emergency Fund Covid 19' earmarked reserve in 2020/21 have been disclosed net in error. Transfers in should be £24,458k instead of £7,877k, and transfers out should be £16,581k instead of £nil. The 'Revenue Grants' earmarked reserve should properly be named 'Adult Social Care'	✓
Note 24. Unusable Reserves	To aid the reader of the accounts the Collection Fund Adjustment Account disclosure (page 90) should be enhanced to set out the reasons for the deficit and how it will be funded.	✓
Note 10: property plant and equipment	The note is to be adjusted to reflect the revised code reporting requirements in relation to infrastructure assets	x

C. Audit Adjustments

Disclosure omission	Auditor recommendations	Adjusted?
Annual governance statement	The Statement requires updating to reflect the outcome of the GT Governance review and the Government's intervention	✓
Note 18 Debtors for Local Taxation	Amounts reported in this note incorrectly include preceptors share of arrears. The note should be amended to disclose the Council's share of arrears only.	✓
Note 4: impairment allowances – inclusion of VAT in trade receivables balance	The Impairment Allowances table at the foot of Note 4 discloses Trade receivables arrears as £32,605k. The balance however includes VAT receivables totalling £7.43m that are not trade receivables and therefore distorts the Impairment allowance % shown in the final column. The VAT receivable balance should properly be disclosed on a separate line to aid the readers understanding.	x
Note 43: defined benefits scheme	The disclosure note does not make any reference to the fact that the assets and liabilities of 4 schools were transferred out of the scheme during 2020-21, and that in line with IAS 19, remeasurement of the profit and loss items from the date of any special event for the remainder of the accounting period is necessary, which requires the remeasure of both the assets and liabilities using assumptions set at this date. Additional narrative should be added and the assumptions table at the foot of the note amended to reflect the different assumptions applied from 1.7.2020.	x
Note 10: Council dwelling Right to buy transactions	Council Dwelling RTB disposals totalling £8,590k are in the first instance transferred from Council Dwellings to Surplus assets, and then subsequently transferred from surplus assets to Assets held for sale. The Council have advised that a transfer to surplus assets in the first instance is undertaken to help the Council manage the process whilst valuations are received. This is acceptable as an internal process, however we do not believe that this should be replicated in the financial statements and the correct treatment is to disclose a transfer straight to assets held for sale, and excluded transfers in/out of surplus assets.	x
HRA Note 10	The narrative disclosure at Note 10 refers to the fact that the provision disclosed in the subsequent table is against outstanding rent arrears. However the impairment allowance actually relates to other elements of HRA debt and not just the rent arrears i.e. Leaseholder debt and Court fees amounting to £1,252k. The disclosure note should be amended to make this clearer to the reader of the accounts.	✓
Financial instruments Note 16	Disclosures should include Bank overdraft – this should be separately identified not netted off Premature redemption rates – carrying value incorrectly stated	✓
Note 30: pooled budget disclosure	The Pooled Budgets disclosure at Note 30 does not reflect the Council's final agreed values, and supporting work paper. The Current disclosure reflects a surplus of £1,742k, but should properly disclose a deficit of £1,758k	✓
Infrastructure asset (note 10)	Following guidance issued by CIPFA the Council should remove the gross book value and accumulated depreciation from its disclosures (note 10) adding a new disclosure setting out opening net book value and any in-year movements	x
Post balance sheet events	This note should include reference to: Economic conditions Reference to the decision on Sandwell leisure Trust reference to winding up of SL&P	x

C. Audit Adjustments (unadjusted)



Impact of unadjusted misstatements

The table below provides details of adjustments identified during the 2020/21 audit which have not been made within the final set of financial statements. The Audit and Assurance Committee is required to approve management's proposed treatment of all items recorded within the table below.

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on comprehensive income and expenditure £'000	Reason for not adjusting
WMPF - Fund understatement on Level 3 assets		1,226		The error is projected
WM pension fund liability: reduce liability	(1,226)			
Return on assets (OCI) adjustment (below the line)				
Depreciation on non council dwellings understatement				not considered material
understatement of expenditure:		(406)		
HRA reserves	406			
Surplus overstated			406	)
understatement of MRR difference between depreciation on HRA and charge to MRR)				
MRA		1,039		not considered material
useable HRA reserves		(1,039)		
sundry debtors - provision for bad debts understated				
sundry debtors overstated		(2,052)		Disagree with Audit assessment
Income overstated	2,052			
Surplus overstated			2,052	

C. Audit Adjustments (unadjusted)

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000	Reason for not adjusting
Impairment of debtors: HB ongoing claimants £5.9m - provision 15%- insufficient information to conclude				Disagree with audit assessment
HB debtors overstated		(5,023)		
reduce income	5,023			
Surplus overstated			5,023	
impairment of debtors understated - housing rents				Disagree with audit assessment
Debtors overstated £5200 arrears, provision of £520k; court costs £534k - provision £53k		(4,680)		
		(481)		
reduce income	4,680			
	481		4,680	
Surplus overstated			481	
accounting for loans - Dudley canal trust				
Debtors understated	-	647	-	Not material
loans understated		(647)		
PPE : DRC assets not valued with new assumptions on externals				
PPE		680		
Revaluation		(680)		
Estimated misstatement due to inaccuracy of floor areas plan (valuation understated)				Estimated (extrapolated) amount
Dr PPE		1,729		
CR revaluation reserve		(1,729)		

C. Audit Adjustments (unadjusted)

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000	Reason for not adjusting
Assets not revalued in year due to rolling programme (valuation understatement)				Estimated – when done on an asset by asset basis there may be CIES implications basis
Dr PPE		3,126		
Cr revaluation reserve		(3,126)		
DRC assets not revalued with new assumptions on externals and obsolescence				Estimated – when done on an asset by asset basis there may be CIES implications basis
cumulative impact (assuming not adjusted in prior years)				
Dr PPE		1,414		
Cr revaluation reserve		(1,414)		
Creditors – misstatements of accruals (see also linked adjusted misstatement 15)				
Dr creditors overstated actual		1,851		Immaterial
Dr creditors overstated estimated		1,129		Estimated
Cr CIES	(2,980)			
Surplus understated			(2,980)	
Group accounts				
Cr Expenditure over stated	(5,631)			
Dr Income overstated	9,243			
General fund		(3,612)		
Surplus overstated			3,612	
Serco contract prepayment (if not adjusted in prior years cumulative error)				
Dr prepayments		5,131		
Cr CIES expenditure	(5,131)			
Surplus understated			(5,131)	
Infrastructure assets depreciation understated				
CR PPE		(2,435)		
Dr CIES	2,435			
Surplus overstated			2,435	
Overall impact	£9,352	(£9,352)	£9,352	

C. Audit Adjustments (unadjusted)

Errors brought forward 2018/19

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000
Error on depreciation (overstatement), PPE understated			
Dr PPE		1,100	
CR CIES			
Increase surplus	(1,100)		(1,100)
Asset not valued (understated)		5,100	
Dr PPE		(5,100)	
Cr revaluation reserve			
Investment property (understatement compared to GE indices)			
Dr Investment properties		6,800	
Cr CIES			
Increase surplus	(6,800)		(6.800)
Difference between balance sheet and valuer report			
Investment properties overstated		(604)	
Cr investment properties			
Dr CIES	604		
Reduce surplus			604
Perryfield school – extension not in valuation		2,100	
Dr PPE		(2,100)	
Cr revaluation reserve			
TOTAL ERROR B/F property related			r
Investment properties		6,196	
CIES	(7,296)		
PPE		8,300	
Revaluation reserve		(7,200)	
Continued next page			68

C. Audit Adjustments (unadjusted)

errors re 2018/19

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000
New errors identified 2020/21 (property related)			
Schools adjustment incorrectly accounted for (credit £56k should be £9.9m)			
Cr CIES	(7,155)	7,155	
Dr revaluation reserve			
Increase surplus			9,901
(we have yet to finalise our review this adjustment)			
Sixth form college error on valuations			
Cr PPE		(5,254)	
Dr Revaluation reserve		5,254	
Accumulated error for 2018/19 property related			
Cr CIES	(14,451)		
Dr investment		6,196	
Dr PPE		3046	
Dr revaluation reserve		5,209	
2018/19 Other non property related errors b/f			
Debtors – aged debt – judged provision for impairment should be made			
Cr short terms debtors	1,341	(1,341)	
Dr CIES			
Reduce surplus			(1,341)
Council tax – receipt in advance (unable to test due to absence of audit trail) hence uncertainty			
Dr creditors		3,800	
Cr CIES	(3,800)		3,800
Increase surplus			

Continued on next page

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C. Audit Adjustments (unadjusted)

errors brought forward 2018/19

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000
Creditors errors (overstated)			
Dr creditors		1,300	
Cr CIES			
Increase surplus	(1,300)		1,300
New error identified 2020/21			
Serco prepayment			
Dr prepayments		1,711	
CR CIES	(1,711)		
Subtotal			
CIES	(5,470)		
Debtors		(1,341)	
prepayment		1,711	
Creditors		5,100	
Total 2018/19 related errors			
CIES	(19,921)		
PPE		6,196	
Investment properties		3,046	
Debtors		(1,341)	
Prepayments (dr)		1,711	
Creditors		5,100	
Revaluation reserve		5,209	

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C. Audit Adjustments (unadjusted)

Errors brought forward 2019/20

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000
unadjusted errors b/f 2019/20			
Debtors unidentified previously	(5,700)		
Cr CIES			
Dr debtors		5700	
Portway PFI model	1300		
Dr CIES			
Cr LT liabilities		(1300)	
Kickstart loans			
Cr CIES	(1,011)	(278)	
Cr deferred creditors			
Dr Capital adjustment account		1,289	
Total B/f	(5,411)	5,411	
New errors identified 2020/21			
SERCO prepayment		3,422	
Dr prepayments	(3422)		
Cr CIES			
Sixth form centre			
We do not consider that the impact is likely to be material as we believe the valuer did this valuation on the correct basis in 2019/20 and therefore the error is isolated to 2018/29 and does not roll forward. We are awaiting confirmation that this is the case			
Group accounts			
Cr Expenditure over stated	(3,723)		
Dr Income overstated	7,632		
General fund			
Surplus overstated		(3,909)	3,612
Total C/F	(12,742)		
Debtors		9,122	
Deferred creditors		(278)	
Long term liabilities		(1,300)	
General fund		(672)	
HRA		672	
Capital adjustment account		1,289	

D. Fees

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

Audit fees	Proposed fee	Final fee
Fee per audit plan	228,986	-
Total audit fees (excluding VAT)		370,577 TBC

Audit fees	Proposed fee	Final fee
Audit of subsidiary (Sandwell Children's Trust)	29,000	30,250
Audit of subsidiary (Sandwell Land and Property Ltd)		nil

Non-audit fees for other services	Proposed fee	Final fee
Audit Related Services Grant claims:		
Housing subsidy audit (includes 19/20 additional work requested by DWP)	30,000	37,500
Teachers pension	6,000	6,000
Total non-audit fees (excluding VAT)	**£36,000**	**£43,500**

Details of variations in final fees from the proposed fee per the audit plan

The fees are reflected in note 8 to the accounts. The note reflects that fees in relation to prior years have been billed in 2020/21.

Note 8 includes a fee of £25k for the 2020/21 SL&P audit – this was the 2019/20 fee.

Note 8 also includes the proposed fee, not the final fee for 2019/20.

D. Fee – fee analysis

Audit fees	Estimated fee
Scale fee	153,156
Reduced materiality	5,000
Enhanced PPE	4,350
Use of expert	12,271
Value for Money audit – new NAO requirements	20,000
Value for Money – Governance Review – December 2021	74,000
Value for Money – Governance Review – December 2022	17,000
ISA 540	6,300
Additional journals testing	4,000
Infrastructure asset audit	7,000
PPE – PPA, HRA, OLB, HRA Additions, Morgue, AUC errors	25,500
Group accounts	7,000
Creditors – errors and extended sampling	9,000
Credit Loss Allowance – HRA and Housing Benefits	5,000
SERCO	8,000
Bank reconciliation	5,000
Grant Accounting/Receipts in Advance	5,000
Pension Prepayment	3,000
Estimated fee	**370,577**

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