

The Audit Findings for Sandwell Council (addendum)

Year ended 31 March 2021

August 2023



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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 Chair of the Audit Committee.

**Name : Mark C Stocks
For Grant Thornton UK LLP
Date : August 2023**

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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.

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1. Headlines

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

Previous reporting

In March 2023 the Audit and Risk Assurance Committee considered our Audit Findings Report (AFR) for 2020/21. This report is an addendum to that document and provides an update on further amendments made to the accounts since that meeting.

Audit opinion, completion and overall adjustments

We are currently working through a further revised draft of the accounts (version 13) and are expecting a final (version 15) on which we expect to issue an unqualified opinion in late August.

The accounts for 2020/21 now reflect a £50m increase in the total comprehensive income and expenditure (from the initial set of accounts received) [see page 20 to 23 for details]. The majority of the changes relate to pensions, grant and capital accounting and therefore do not impact on the Council's useable reserves. However, we note that the General Fund working balance has reduced by £2.2m to £57,231k (between the original accounts presented for audit and the August 2023 revised draft). We do not expect this to change further.

Audit findings since our March report

In our March report we indicated that there would be further adjustments to the accounts due to errors in the accounting for Property Plant and Equipment. These matters have now been resolved as follows:

- **Error in relation to the valuation of Externals:** The valuer had made a change in assumptions during 2020/21 for the valuation of assets valued on a depreciated replacement cost basis. The changed assumptions related to the value of externals and obsolescence. We judged that these changed assumptions applied equally to prior years and consequently indicated an error in the valuation in the prior years' accounts. The accounts now include a prior period adjustment reflecting new valuations prepared by Wilks Head and Eve. The impact is set out in note 7 to the accounts but overall, the balance sheet impact is £30.772m in 2018/19 and £24.99m in 2019/20.
- **Error in the accounting for upward valuations:** as reported in our previous audit findings reports, the council uses a series of excel spreadsheets as its fixed asset register. For a council the size of Sandwell this is not suitable and raises considerable risk of error. When reviewing the adjustments in relation to the externals error referenced above, a formula error was identified in the fixed asset register. On further examination by management, it was determined that the impact of this was material. The 2020/21 and the prior year accounts have now been adjusted for a cumulative error of £74m, with £56m relating to prior years.

The adjustment of these errors does not impact on the Council's useable reserves.

There have also been a considerable number of disclosure matters identified by audit and we have also seen version control problems in the updates to the accounts. This has further extended the time taken to conclude our work. This has been disappointing and frustrating for both parties.

Appendix A to this report reflect the adjustments made subsequent to the March AFR. It includes three tables:

- Disclosure omissions and errors - Appendix A
- Unadjusted errors – which reflect errors identified in 2020/21 in relation to that financial year and the two prior years. – Appendix B
- Adjusted errors - these are reflected in the restated accounts – Appendix C.

1. Headlines (continued)

Financial Statements

Other information

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.

Due to the delay in finalisation of our work, we no longer need to undertake procedures to provide assurance to the National Audit Office around the whole of government accounts. In addition, we have issued our Annual Auditors Report for 2020/21 and hence we will be able to issue the closure certificate, along with the opinion on the accounts.

Work to complete

Our work is substantially complete subject to the following outstanding matters;

- Review and completion of audit procedures around the subsequent events disclosures
- Receipt of management representation letter; and
- Review of the final set of financial statements.

Confirmations

The Audit and Risk Committee provided delegated authority to the Audit Committee Chair in March 2023 to agree subsequent changes to the financial statements for 2020/21. We understand that the Audit Chair intends to exercise this delegated authority. Prior to issuing our audit opinion, we require confirmation from the Audit Chair of the receipt of this report and agreement to the

- changes to the financial statements
 - letter of representation.
-

1. Headlines (continued)

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.

We have now issued a Governance report and the AAR in relation to 2020/21.

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

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.

As set out in the March Audit Findings Report, we have issued three statutory recommendations within our Governance Report.

Significant Matters

As referenced in the Audit Findings Report, the Audit was protracted, and it is disappointing that there remain several unadjusted errors in the accounts.

To respond to the risks surrounding the fixed asset register, the Council are currently implementing a new fixed asset register system from 2024, which should reduce the risks of similar errors occurring in the future.

In addition to this it is imperative that the Council addresses the gaps in staffing within the finance team and substantially improves the quality control arrangements around accounts production. Given the recently announced deadlines for finalisation of the 2021/22 and 2022/23 accounts set by the Government this will be critical to us being able to issue an unqualified opinion.

We have agreed with management that we will commence the 2021/22 audit in the autumn, giving management sufficient time to undertake a thorough quality review of the accounts. This is imperative if the Council wants the audit to be completed in a timely manner with minimal adjustments to the accounts.

Independence

There are no new independence matters that have arisen since the issue of the March Audit Findings Report.

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.

We have reconsidered materiality in view of the unadjusted misstatements and consider that it remains appropriate.

	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, there has been turnover 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.



3. Independence

Matter	Conclusion
Relationships with Grant Thornton	We are not aware of any relationships between Grant Thornton and the Council that may reasonably be thought to bear on our integrity, independence and objectivity
Relationships and investments held by individuals	We have not identified any potential issues in respect of personal relationships with the Group or investments in the Group held by individuals
Employment of Grant Thornton staff	We are not aware of Grant Thornton partners or staff being employed or holding discussions in respect of employment by the Group as a director or senior management role covering financial, accounting or control related areas
Business relationships	We have not identified any business relationships between Grant Thornton and the Group
Contingent fee in relation to non- audit services	No contingent fee arrangements are in place for non-audit services provided
Gifts and hospitality	We have not identified any gifts or hospitality provided to, or received from, a member of the council, senior management or staff (that would exceed the threshold set in the ethical standard)

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 and consider that an objective and reasonable informed third party would take the same view. The firm and each covered person have compiled Financial Reporting Council's Ethical Standard and confirm that we are independent and are able to express an objective opinion on the financial statements

A. Disclosure omissions and errors

Misclassification and disclosure matters The table below provides details of misclassification and disclosure matters identified since the March Audit Committee version of the Audit Findings Report

Disclosure omissions	Adjusted?
CIES: The CIES includes a line entry within Taxation and Non Specific Grant Income for 'Collection Fund (Surplus)/Deficit - £38,630k (19/20 £5,375k). This relates to the Council's share of the Collection Fund deficit for 20/21. The line description is confusing to the reader of the accounts as the line description suggests that this is a balance and not a revenue transaction. The Council should consider removing this line, and incorporating into the Council Tax income, and Retained Business Rates income lines instead within the Taxation and Non Specific Grant Income section of the CIES.	No
Cash flow statement: revised cashflow statement received	Yes
Proceeds from ST investments was originally £0 and should be £2.633m	Yes
Investing activities (purchase of PPE and intangible assets) was misstated, revised figure £109,345k	Yes
Omitted disclosure – cash flow statement – operating activities	Yes
Note 25 – adjustment for non- cash movements – amount of £811k overstated has been amended to zero	Yes
Now an imbalance of £76k compared to the £810k reported in the March AFR	
MIRS: The revaluation reserve PPA has been incorrectly reflected on the 'balance as at 31 March 2020 line in the MIRS, instead of the PPA line. The amount reported on the 'Balance as at 31 March 2020' line should be the amount as reported in the audited 2019/20 SoA which for the revaluation reserve was £288,015k, and for the CAA £1,099,393k	Yes
Note 4: Assumptions made about the Future and Other Major Sources of Estimation Uncertainty:	Yes
The increase in the net pension liability is now disclosed as £593.875m which is in fact the increase in gross liabilities, and not the net pension liability which has increased by £319.755m.	Yes
In the related sensitivity analysis , the long -term salary increase have been amended from £5,697k and (£5,650k) to £31,086k and £42,433k. These amendments were not expected and are not consistent with the Councils supporting work paper and the Actuary report.	Yes
HRA has been given on the basis of material estimation uncertainty. The extra narrative on this has been added to the introductory paragraph at Note 4, and does not sit within the specific asset valuations section of the disclosure.	No
The note is supposed to set out management's assessment of uncertainty – which is informed by the management expert – the external valuer. The note includes direct extracts from the valuer report without any management evaluation or context.	No
Amounts for 2020/21 are now consistent between Notes 4 and 17 and the ST debtors recognised on the balance sheet. We note however that the 2019/20 comparatives have now been amended from £51,711k to £60,610k and therefore no longer agree back to the ST debtors figure reported on the balance sheet.	Yes
Note 6: events after the reporting period: the accounts contain no reference to any events after the reporting period. It is unlikely that there are none of these events to consider that the council has properly consider the disclosures that should be made here. Examples could include reference to the economic conditions, decision on the leisure trust and disposal of any significant assets and the wind up of SL&P.	yes

A. Disclosure omissions and errors

Disclosure omission	Adjusted?
Note 7: PPA: The narrative requires updating as this refers to a decrease of £8.509m for Schools, but the table below reports £9.259m.	No
The first two sentences at the top of the tables is a duplication of narrative at the start of Note 7 and needs to be deleted.	No
The final sentence states that the change is limited to just unusable reserves, however the usable reserves table contradicts this.	No
The 'Surplus or deficit on the provision' of services line needs deleting from the Unusable reserves table, and changing to 'total comprehensive income and expenditure' in the usable reserves table.	Yes
Signage needs reviewing as amounts do not cast down and across correctly	
Amounts reported on the 'Total comprehensive income and expenditure' and 'Adjustments between accounting and funding basis' lines are not consistent with those seen in the original and restated MIRS	In progress
Inconsistency between the CIES and note 7 because Other Comprehensive Income and Expenditure shown as (£10,778k) in PPA note, and £5,448k in CIES. Difference is £16,226k. (Note 7 PPA table on page 68 of v11)	Yes
Note 10 PPE:	No
The OLB disposal figure has been amended from £7,525k in the audited 19-20 SoA, to £8,762k in the 19-20 comparatives in the 20-21 accounts, unexplained movement of £1.2m in the prior year comparators (also applies to group PPE note 5)	
Within the 2020/21 movements table there is an entry of £24,999k on the prior year adjustments line, however the reported revised balance £629,563k is actually the previously reported balance in the audited 2019/20 accounts, and not the restated balance	Yes
There is a classification error in note 10 between 'other movements' line and assets reclassified to/ from held for sale (bottom line unaffected) These differences equally apply to the group accounts (note 4/ note 5)	No
The amounts included within the new table at the foot of Note 10 (page 77) for opening net book value are incorrect as these amounts are the opening cost. Similarly amounts reported for Depreciation are incorrect as these include the b/f accumulated depreciation.	Yes
Note 10 PPE & Note 24 capital adjustment account inconsistency:	No
We have undertaken our own reconciliation comparing the revaluation movements analysed within PPE Note 10 versus the movements recognised within both the Revaluation reserve and CAA as per Note 24. This indicates that the classification of revaluation movements at Note 10 between the revaluation reserve and CAA is incorrect. We don't think that there is an actual error in the revaluation reserve or the CAA it is the classification of entries.	
A new 'Donations' line has been inserted into the table with no entries which has now been deleted however there are new lines added with no entries that should be deleted..	Yes
A new table has appeared within v11 at the top of page 76 for Infrastructure Assets. This seems to have been included in this place in error as the Infrastructure information is included on page 77.	Yes
Accounting Policy xvii page 46	No
Gross losses charged to the revaluation reserve at Note 10 PPE are just £10,118k (£1,359k + £8,317k) which is significantly lower than the £35,424k disclosed in this policy	Yes

A. Disclosure omissions and errors

Disclosure omission	Adjusted?
<ul style="list-style-type: none"> Note 15: Amounts reported for Surplus assets now amended in v11, however all amounts in the table have changed from v10 and are now reported as £ and not £'000 (although headed £000) 	Yes
<p>Note 16: All references and amounts relating to the SLaP Investment have now been removed with the exception of the following:</p> <ul style="list-style-type: none"> The table at the top of page 94 includes Investments analysed as N/a of £47,146k and £43,748k in 19/20 and 20/21 respectively. The SLAP element should be removed from these figures. The Section on price risk at the top of page 79 still makes reference to SLaP Equity Shares. Current year figure for ST debtors moved from £31,859k to £32,086k. Increase of £227k. An adjustment was made to correct this in an earlier version of the accounts, but was removed again in the most recent version. Within the Financial Assets table (page 85) there is a Non-Financial Assets and non-financial liabilities line with a total, but is not analysed within the note by financial instrument type. This line should be deleted. Table page 92 soft loans and bank overdraft (level 2 column)- values have been transposed and are therefore incorrect. 	No
<p>Note 24:</p> <p>Pensions reserve: this is incorrectly stated. The note currently shows a closing balance of £1,103,736k which is not consistent with the closing balance on the pension reserve as per the Mirs £1,124,030k.</p> <p>Additional narrative disclosure has now been added to the foot of the pension reserve table on page 106. This includes a reference to the accounting treatment being agreed with the external auditors which should be removed</p>	Yes Yes
<p>Note 28: inconsistency between the note and the amounts disclosed on the face of the CIES – Net interest CIES £47,001, per note 28 £48,615, difference £1,614k</p>	No
<p>Note 29: Grant income:</p> <p>In the table the grant received for ASC Infection fund (Tranch 1 & 2) is shown as £4,436k, (same as the expenditure) but the narrative disclosure below the note states that the grant received was £5,580k</p> <ul style="list-style-type: none"> In the table the grant received for ASC Rapid Testing Fund is shown as £545k, but the narrative disclosure below the note states that the grant received was £681k Within the table the Growing Places grant shows expenditure, but no grant income and a negative balance held of £730k which is clearly incorrect. 	Yes yes
<p>Note 33: audit fees: the note has been updated to ensure the fees associated with the audit are reflected in the correct years and to agree with the AFR</p>	
<p>Note 40: the analysis of Portway is incorrect.</p> <p>The balances at 31 March 20 should be those as reported in the 19/20 audited accounts i.e. £374k current, £6,706k LT and £7,080k Total., giving a revised movement in year of (£1,841k).</p> <p>The movement should be analysed as (£2,215k) correction of prior year write-down of liability (£2,215k), and £374k on the write down of liability line.</p> <p>The capital additions in year line within the table should be deleted as there are no entries for 20/21.</p>	No

A. Disclosure omissions and errors

Disclosure omission	Adjusted?
<p>Note 43:</p> <ul style="list-style-type: none"> - Employer pension contributions are disclosed as £67.003m but this should be amended to £65.664m (upfront payment £30,563k + Normal ER contributions £35.101m). The unfunded element £1,339k is already disclosed in the second para at the foot of page 136. - The asterisk and additional table that have been inserted should be deleted as the amounts reported are not related to unfunded contributions - An additional sentence should be added to explain that for 20/21 the employer pension costs include an upfront element of £30,563k, along with some additional narrative to explain to the reader the nature of the payment and why it has been made. - Changes in assumptions on conversion to academy – this has been added at audit request as the assumption has a significant effect on the valuation. However, the new narrative does not actually explain what the change in assumption is and the impact on the values 	No
HRA Note 2 - New lines have been inserted in v10 for 'Prior year adjustments' and 'Revised balance as at 1/04/09'. These lines are not required and should be deleted.	Yes
Prior year adjustment line has appeared with no entries, other new lines appeared with no entries and Investment properties now show a balance for depreciation which is incorrect.	Yes
Entries in the Council Dwellings Column are inconsistent with those seen at Note 10 PPE. Narrative at foot of note also makes reference to £17.885m which does not reflect updated entries.	partially
In v10 additional narrative has been added at the foot of HRA Notes 2 & 5. This reads 'In 20/21 the HRA funded Capex relating to the GF not included in HRA additions amounting to £842k (see Note 5). The disclosure doesn't appear to make sense. This is an erroneous reference	
HRA Note 10: There is an inconsistency of £656k between HRA Note 10, and the HRA impairment allowance declared at Note 4.	No
Group Note 6:	
The agreed adjustment made to the single entity comparative amounts now flowed through to the Group disclosure note 7 ST Creditors.	Yes
Group note 7 short term creditors classification change: Within the single entity accounts, management has changed the classification split in the creditors note and we are content with this. A change has also been made to the group creditors however management has not provided any evidence to confirm that the adjustment in the group accounts is correct (although we are content that the total creditors is correct).	Yes

B. Unadjusted errors 2020/21

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. We have colour coded the appendix, items identified subsequent to the March Committee are highlighted in teal



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		(406)		not considered material
understatement of expenditure: 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		(2,052)		Disagree with Audit assessment
sundry debtors overstated				
Income overstated	2,052			
Surplus overstated			2,052	

B. Unadjusted errors 2020/21

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				
Debtors overstated £5200 arrears, provision of £520k; court costs £534k - provision £53k		(4,680)		Disagree with audit assessment
reduce income	4,680	(481)		
	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)				
Dr PPE		1,729		Estimated (extrapolated) amount
CR revaluation reserve		(1,729)		

B. Unadjusted errors 2020/21

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)			1,414	
Dr PPE			(1,414)	
Cr revaluation reserve				
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				
Surplus overstated			(3,612)	3,612
Serco contract prepayment (if not adjusted in prior years cumulative error)				
Dr prepayments			5,131	
Cr CIES expenditure	(5,131)			(5,131)
Surplus understated				
Infrastructure assets depreciation understated				
CR PPE			(2,435)	
Dr CIES	2,435			
Surplus overstated				2,435
Overall impact	£9,352		(£9,352)	£9,352

B. Unadjusted errors 2020/21

Impact of unadjusted misstatements

The table below provides details of adjustments identified during the 2020/21 audit subsequent to the March Committee.

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000	Reason for not adjusting
externals - additional DRC assets not valued by WHE as part of PPA- estimated by GT				
Dr PPE		600		
Cr revaluation reserve		-600		
Overall impact	£9,352	(£9,352)	£9,352	

B. Unadjusted errors 2020/21 prior year comparatives - Errors as at 1 April 2019

Note: there is no CIES in the accounts for 2018/19 only a balance sheet – as required for a PPA. The table below therefore only sets out the impact on the balance sheet as this is the only element in relation to 2018/19 covered by our opinion on the 2020/21 accounts

Detail	Statement of Financial Position £' 000
Error on depreciation (overstatement), PPE understated Dr PPE	1,100
Difference between balance sheet and valuer report Investment properties overstated Cr investment properties	(604)
Perryfield school – extension not in valuation Dr PPE Cr revaluation reserve	2,100 (2,100)
TOTAL ERROR B/F property related	
Investment properties	-604
CAA	604
PPE	3,200
Revaluation reserve + CAA	(3,200)
Continued next page	

B. Unadjusted errors 2020/21 prior year comparatives - Errors as at 1 April 2019

Note: there is no CIES in the accounts for 2018/19 only a balance sheet – as required for a PPA. The table below therefore only sets out the impact on the balance sheet as this is the only element in relation to 2018/19 covered by our opinion on the 2020/21 accounts

Detail	Statement of Financial Position £' 000
New errors identified 2020/21 (property related)	
Schools adjustment incorrectly accounted for (credit £56k should be £9.9m)	
Cr CIES	7,155
Dr revaluation reserve	
Increase surplus (we have yet to finalise our review this adjustment)	
Sixth form college error on valuations	
Cr PPE	(5,254)
Dr Revaluation reserve	5,254
Debtors – aged debt – judged provision for impairment should be made	
Cr short terms debtors	(1,341)
Dr CIES	
Reduce surplus	
Council tax – receipt in advance (unable to test due to absence of audit trail) hence uncertainty	
Dr creditors	3,800
Cr CIES	
Increase surplus	
Continued on next page	

B. Unadjusted errors 2020/21 prior year comparatives - Errors as at 1 April 2019 (cont)

Detail

Statement of Financial Position £' 000

Creditors errors (overstated)	
Dr creditors	1,300
New error identified 2020/21	
Serco prepayment	
Dr prepayments	1,711
Subtotal not PPE related	
Debtors	(1,341)
Prepayment	1,711
Creditors	5,100
Total 2018/19 related errors	-2054
Investment properties	-604
PPE	369
Debtors	5,100
Creditors	
Useable reserves	-5439
Unusable reserves	(2,658)
Further errors re 2018/19	
externals - additional DRC assets not valued by WHE as part of PPA- estimated by GT	
Dr PPE	1,400
Cr Revaluation reserve	(1,400)
Total errors as at 1 April 2019	
PPE	-604
Investment property	369
Debtors	5,100
Creditors	
Useable reserves	-5439
unusable reserves	(1,258)

B. Unadjusted errors 2020/21 prior year comparatives - Errors as at 31 March 2020

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		5700	
Dr debtors			
Portway PFI model	1,300		
Dr CIES		(1300)	
Cr LT liabilities			
Kickstart loans			
Cr CIES	(1,011)	(278)	
Cr deferred creditors		1,289	
Dr Capital adjustment account			
Total B/f	(5,411)	5,411	
New errors identified 2020/21			
SERCO prepayment		3,422	
Dr prepayments	(3,422)		
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)	
Total C/F	(4,924)		
Debtors		9,122	
Deferred creditors		(278)	
Long term liabilities			
General fund		(1,300)	
HRA		(3,237)	
Capital adjustment account		(672)	
		1,289	

B. Unadjusted errors 2020/21 prior year comparatives - Errors as at 31 March 2020

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000
Further errors re 2019/20 identified 2020/21			
externals - additional DRC assets not valued by WHE as part of PPA- estimated by GT			
Dr PPE		1,053	
Cr Revaluation reserve		(1053)	
revaluations (formula error identified client not adjusting - reversed 19 20)			
Dr CIES	7,155		
Cr revaluation reserve		(7,155)	
error - profile of revaluations - cant assess impact 19 20 (£74m adjusted error ppa)			
Dr CIES	3,626		(3,626)
Cr CAA			
Total unadjusted 2019/20	4,924		
		PPE 1,053	
		Debtors 9,122	
		Deferred creditors(278)	
		Long term Liabilities (1,300)	
		General Fund (3,237)	
		HRA reserves (672)	
		Capital adjustment account (2,903)	
		Revaluation reserve 3,139	

C. Audit Adjustments (adjusted errors)

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
	Result – draft financial statements	194,614		
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		18,539	
	Cr creditors		(6,460)	
	CR CIES (reserves)			
	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		30,563
	(transfer between pensions reserve and GF in MIRS is correspondingly misstated)			
4	PFI Portway Scheme: difference between accounts and model:			
	CR Other long term liabilities		(2,215).	
	Dr cost of services (regeneration and growth)			
	Reduce surplus	2,215		2,215
5	Impairment of asset under construction – aquatics centre			
	Cr PPE		(2,896)	
	Dr other expenditure (Housing communities)			
	Reduce surplus	2,896		2,896

C. Audit Adjustments (adjusted errors)

	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 Dr bank overdraft Cr creditors	n/a	2,943 (2,943)	n/a
7	Incorrect classification in CIES derecognition of academy schools Cr Other operating expenditure(Gains) / Losses on the disposal of non current assets Dr Income and expenditure in relation to investment properties No impact on surplus or deficit	(6,109) 6,109		
8	Additions incorrectly charged to revaluation reserve Dr HRA expenditure CIES (& HRA) Cr revaluation reserve (AA also impacted) Reduce surplus	(16,526)	16,526	16,526
9	Incorrect treatment of temporary morgue facility – income and expenditure to be excluded from the accounts Dr Other expenditure Cr other income	5,615 (5,615)		
10	Debtors - HRA Arrears Credit balances (prepayments) to be shown as creditors (not netted off debtors) Dr Debtors Cr Creditors		2,474 (2,474)	

Continued next page

C. Audit Adjustments (adjusted errors)

		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 Cr taxation and non specific grant income Increase surplus (Will be treated capital grant unapplied within reserves section of valance sheet)	(2,266)	2,266	(2,266)
12	Council houses valuation Quarter 4 refurbishment added to valuation – should have been impaired Cr council dwellings (within PPE) Dr revaluation reserve 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) 8,352	8,352
13	COVID grant item 66 Adjustments across lines on costs of services: net impact: Cr costs of services Dr non ringfenced grants No overall impact on CIES	(15,951) 15,951		
14	Sundry debtors – impairment allowance Cr debtors Dr expenditure (at service level) Reduce surplus	2,248	(2,248)	2,248
15	Creditors and prepayments overstatement (IT invoice re 21/22 – incorrect adjustment) Dr creditors Cr debtors (prepayments)		1,024 (1,024)	

Continued next page

C. Audit Adjustments (adjusted errors)

		Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000
Detail				
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)	
17	Impact of PPA (externals) OCI surplus on revaluation of non-current assets: this reflects the impact on 2020/21 of the new valuations for 2019/20 (PPA) so that DRC assets are valued on a consistent basis as in 2020/21 Opening Other Land and Buildings	(24,999)	24,999	
18	Q4 impairment adjustments (OCI deficit on revaluation of non-current assets) (trivial)	(35)		
CIES per revised accounts		244,723		

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)		395,000 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	30,500	35,000
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 30 to the accounts. The note reflects that fees in relation to prior years have been billed in 2020/21.

Note 30 highlights that the scale fee is £153k with a fee variation of £242k. The March AFR refers to a fee of £370,577. The additional fee reflects the work between March and to date. Fee variations are not confirmed until they are agreed with PSSA.

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

Sandwell children's Trust fee £30,250: this is a cost to the Children's Trust and is not included as a charge to the council however it is included here for transparency.

D. Fee – fee analysis

Audit fees	Estimated fee
Scale fee	153,136
Reduced materiality/Increased FRC challenge	6,250
Use of expert	10,341
Value for Money audit – new NAO requirements	26,000
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	29,155
Group accounts	7,000
Creditors – errors and extended sampling	9,000
Credit Loss Allowance – HRA and Housing Benefits	5,000
SERCO - PFI	5,000
Bank reconciliation	5,000
Grant Accounting/Receipts in Advance	5,000
Pension Prepayment	3,000
Pension valuation	4,375
Fee for work undertaken on amendments and finalisation of the audit, subsequent to the March AFR. Accounts version 5 to 15	18,513
Estimated fee	395,000

E. Audit opinion

Our anticipated audit report opinion will be unmodified



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