Sandwell Metropolitan Borough Council audit plan

Year ending 31 March 2022

Sandwell Metropolitan Borough Council

Draft for discussion

Contents

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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.

Key matters

Factors

2021/22 accounts

Preparation of the accounts and the audit has been substantially delayed from the statutory deadline of 30 June 2022. We expected a draft of the financial statements in October 2023, but a draft set of accounts was provided on 11 December 2023.

We agreed with officers that the 2021/22 accounts final audit would start week commencing 1st November 2023 and the audit was resourced accordingly. From that date the audit team have been working on elements of the accounts such as PFI and pensions and on draft notes such as senior officer remuneration, in advance of the receipt of the accounts. Clearly with the absence of a set of accounts and very limited working papers it has not been possible to significantly progress the audit. It is also inefficient and is likely to increase the work and cost of the work undertaken.

Backstop

Delays have been seen across the sector with just 1 % of English council accounts for 2022/23 being published by the deadline. It is expected that the Minister will announce measures to address this backlog, although the position on this has yet to be formally communicated. The expectation is that an opinion will need to be issued on all years, up to and including the 2022/23 accounts, by the end of September 2024 (the backstop). If an audit is incomplete, then some form of qualification or disclaimer will be issued so that all audit years can be closed.

Officers have made clear that the draft 2022/23 accounts will not be available until well into the new calendar year 2024. Depending on the time it takes to complete the 2021/22 audit it may not be possible to complete the 2022/23 audit before the backstop date.

Council Governance

On 22nd March 2022, Secretary of State for the Department for Levelling Up, Communities and Housing, Rt Hon Michael Gove MP, appointed two commissioners for Sandwell Council. These appointments followed the publication of the Governance review by Grant Thornton on 3 December 2021. Commissioners remain in place as at November 2023. We continue to liaise with both commissioners and management as part of our ongoing communication with the Council.

Council developments

The Council continues to operate in an uncertain and challenging environment due to changes to Government funding. In the period of accounts (2021/22) there was also a global COVIID 19 pandemic. In common with other councils, the pandemic provided a number of operational and financial challenges to the council, although the impact was not as great as in the previous financial year. Reduced income in areas such as car parking and residential education centres remained affected together with a backlog of work that ceased during times when restrictions were in place. COVID emergency funding and Contain Outbreak Management funding were brought forward into 2021/22 and this was used to offset these costs. Overall, an underspend of £4.788m was reported to Cabinet for the 2021/22 financial year.

Commonwealth games

During the summer of 2022, Birmingham hosted the Commonwealth Games. Sandwell hosted the aquatics events in the new Aquatics Centre, which was successfully completed in advance of the games in April 2022. We anticipate that the 2021/22 accounts will reflect much of the development costs of the centre.

Our response

- As a firm, we are absolutely committed to audit quality and financial reporting in the local government sector. Our proposed work and fee, as set further in our Audit Plan, has been agreed with the Director of Finance.
- Although the opinion audit has been delayed, the work on value for money for 2021/22 is complete and an annual auditor's report has been issued to the council for that year.
- We also carried out a follow-up to our governance report in December 2022.
- We have identified an increased incentive and opportunity for organisations in the public sector to manipulate their financial statements due to increasing financial pressures. We have identified a significant risk of management override of control – refer to page 9.
- The Council's valuers each reported a material uncertainty in 2020/21. For the general fund, this was due to the uncertainty in the sector due to the Covid 19 pandemic and for the HRA, there was uncertainty in relation to the valuation of flats, due to the implications of the Grenfell disaster. We are not expecting valuation uncertainty in 21/22 for Covid 19 based on our experience of other council 2021/22 audits.
- Nevertheless, we will once again recognise a significant risk in regard to the valuation of properties due to the extent of estimate and – refer to page 9.

Key matters (continued)

Factors

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Changes in IT system

No new financial systems that are relevant to the accounts were implemented during 2021/22. The Council intends to 'go live' with the new financial ledger system in April 2024. This has been a much delayed project and is referenced in our 2021 governance report. The 'old' ledger will need to remain open to enable completion and audit of accounts for the 2023/24 financial year.

Senior management

There has been some turnover in senior management at the Council. The 2021/22 accounts will be certified by the current interim Director of Finance, who was not in post during the 2021/22 financial year.

Introduction and headlines

Purpose

This document provides an overview of the planned scope and timing of the statutory audit of Sandwell Metropolitan Borough Council ('the Council') for those charged with governance.

Respective responsibilities

The National Audit Office ('the NAO') has issued a document entitled Code of Audit Practice ('the Code'). This summarises where the responsibilities of auditors begin and end and what is expected from the audited body. Our respective responsibilities are also set out in the agreed *engagement letter/in the Terms of Appointment and Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA), the body responsible for appointing us as auditor of Sandwell Metropolitan Borough Council.* We draw your attention to both of these documents.

Scope of our audit

The scope of our audit is set in accordance with the Code and International Standards on Auditing (ISAs) (UK). We are responsible for forming and expressing an opinion on the Council [and group]'s financial statements that have been prepared by management with the oversight of those charged with governance the Audit committee; and we consider whether there are sufficient arrangements in place at the Council and group for securing economy, efficiency and effectiveness in your use of resources. Value for money relates to ensuring that resources are used efficiently to maximise the outcomes that can be achieved.

The audit of the financial statements does not relieve management or the Audit Committee of your responsibilities. It is the responsibility of the Council to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Council is fulfilling these responsibilities.

Our audit approach is based on a thorough understanding of the Council's business and is risk based.

Group Audit

The Council is required to prepare group financial statements that consolidate the financial information of Sandwell Children's Trust. A resolution to wind up Sandwell land and Property Ltd was made in March 2022. and the interest in the assets transferred assets to the council at the year end. We will expect to see this transfer explained within the financial statements.

Significant risks

Those risks requiring special audit consideration and procedures to address the likelihood of a material financial statement error have been identified as:

- Management override of controls
- Property, Plant and Equipment (PPE): Valuation of land, buildings and investment properties (Rolling revaluation)
- Valuation of Pension Fund net liability

We will communicate significant findings on these areas as well as any other significant matters arising from the audit to you in our Audit Findings (ISA 260) Report.

Materiality

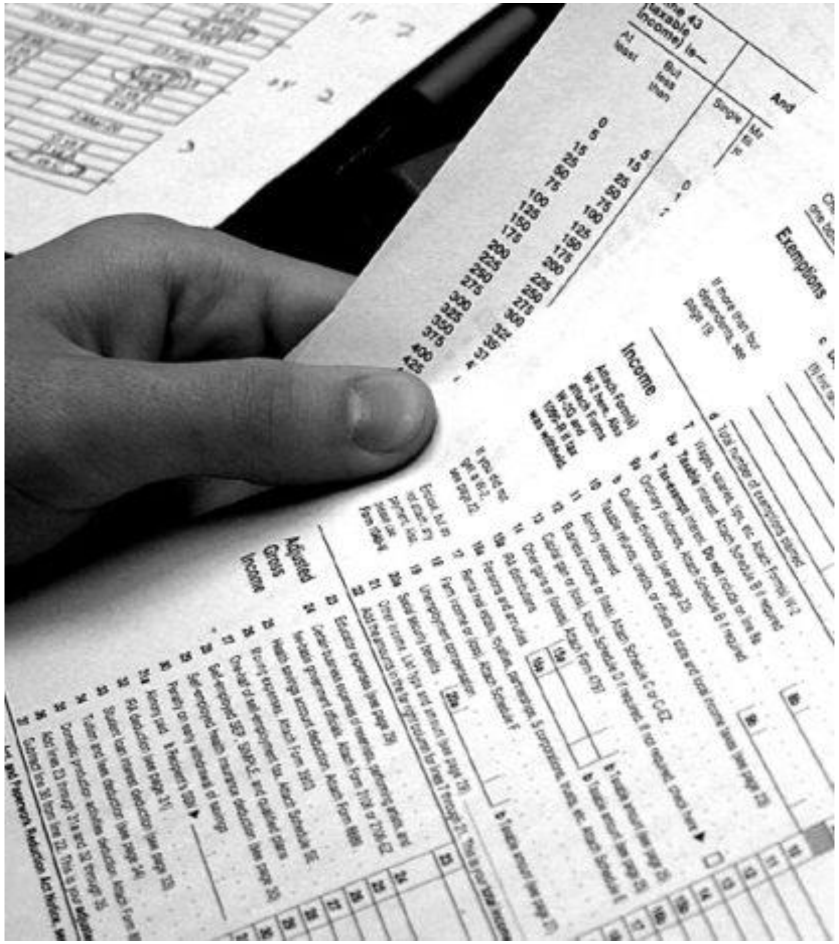
We have determined planning materiality to be £13.1m (PY £13.3m) for the group and £13m (PY £12.7m) for the Council, which is based on 1.40% of your prior year gross expenditure for the 2020/2021 year draft statements. We are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. Clearly trivial has been set at £0.65m (PY £0.63m).

We have revisited this materiality following receipt of the 2021/22 accounts to £12.8m and 12.9m for the group

Value for Money arrangements

We issued an Interim Annual Auditor's Report (AAR) in March 2023. We identified significant weakness in arrangements for two of the three criteria, Governance and Improving economy efficiency and effectiveness. These were brought forward from the 2020/21 assessment, plus one additional weakness on the annual financial statements production, reflecting the delays and errors in the statements. The report did however recognise that significant improvement had been made as reflected in our Governance Review issued to Cabinet in December 2022.

Introduction and headlines cont.



Audit logistics

Our final accounts visit will take place from November 2023. Our key deliverables are this Audit Plan, our Audit Findings Report and Auditor's Annual Report.

Our fee for the audit will be £276,699 (PY: £395,000) for the Council, subject to the Council delivering a good set of financial statements and working papers and agreement by PSAA of the proposed fee variations. We note that we started our audit on 13 November 2023 but as at 30 November we have yet to receive completed financial statements.

We have complied with the Financial Reporting Council's Ethical Standard (revised 2019) 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.

Group audit scope and risk assessment

In accordance with ISA (UK) 600, as group auditor we are required to obtain sufficient appropriate audit evidence regarding the financial information of the components and the consolidation process to express an opinion on whether the group financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework.

Component	Individually Significant?	Level of response required under ISA (UK) 600	Risks identified	Planned audit approach
Sandwell Metropolitan Borough Council	Yes		• Management override of control • Property Plant and equipment (valuation) • Pension fund net liability (valuation)	Full scope audit performed by Grant Thornton UK LLP
Sandwell Children's Trust	No		• None	An unqualified opinion on the Trust's accounts was issued in December 2022. We will review the final reports and audit file and consider whether there were any matters arising that impact on the group position. We will undertake analytical procedures at the group level.
Sandwell Land and Property Ltd.	n/a		• PPE Valuation	This was liquidated in year and our understanding from the Council is that these accounts will not be consolidated into the group accounts this year.

Key changes within the group:

Sandwell Land and Property Ltd was liquidated within the financial year.

Audit scope

- Audit of the financial information of the component using component materiality
- Audit of one more classes of transactions, account balances or disclosures relating to significant risks of material misstatement of the group financial statements
- Review of component's financial information
- Specified audit procedures relating to risks of material misstatement of the group financial statements
- Analytical procedures at group level

Significant risks identified

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.

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
The revenue cycle includes fraudulent transactions (rebutted)	Council	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. Our governance report to the council has highlighted weakness that meant that we issued statutory recommendations, and the Council is currently in intervention. Some of the weakness included the lack of routine budgetary reporting. Whilst arrangements have been judged to be poor and increased risks of error in reporting, we did not identify a culture where fraud is acceptable or that there is an enhanced risk of fraudulent transactions in revenue. 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 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 specific work is planned as the presumed risk has been rebutted.
The expenditure cycle includes fraudulent transactions	Council	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 controls appear appropriate and prior year audits have not identified significant concerns with regard to the Council's control environment; and • there is limited motivation for fraudulent financial reporting as the council has reasonable level of reserves to manage its financial position. We therefore do not consider this to be a significant risk for the council's expenditure streams	We have rebutted the presumed risk of fraud in expenditure

Significant risks identified

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
Management over-ride of controls	Group and Council	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. Our audit work to date has identified a lack of authorisation procedures for journals and that unbalanced journals can be posted.	We will: • evaluate the design effectiveness of management controls over journals; • analyse the journals listing and determine the criteria for selecting high risk unusual journals; • test unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration; • gain an understanding of the accounting estimates and critical judgements applied made by management and consider their reasonableness with regard to corroborative evidence; and • evaluate the rationale for any changes in accounting policies, estimates or significant unusual transactions.
Valuation of Land and Buildings £2,145m and Investment property £77m	Council	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 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. Our audit report for 2020/21 identified numerous issues with regard to PPE including errors in the assumptions made with regard to valuation, impairment, obsolescence, and externals.	We will: • evaluate management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work; • evaluate the competence, capabilities and objectivity of the valuation expert; • write to the valuer to confirm the basis on which the valuation was carried out; • challenge 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; • test revaluations made during the year to see if they had been input correctly into the Council's asset register; and • evaluate the assumptions made by the valuer for those assets revalued at 31 March 2022. 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. In previous years there have been numerous matters associated with the documentation, valuation and accounting for non-current assets. The risk of a material misstatement remains high. Arrangements are considered to have further heightened risk due to turnover of key capital accountants in the year.

Significant risks identified (continued)

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
Valuation of the pension fund net liability	Group and Council	The Council's pension fund net liability, as reflected in its balance sheet as the net defined benefit liability, represents a significant estimate in the financial statements. The pension fund net liability is considered a significant estimate due to the size of the numbers involved £1,079m (2020/21) in the Council's balance sheet and the sensitivity of the estimate to changes in key assumptions. We therefore identified valuation of the Council's pension fund net liability as a significant risk, which was one of the most significant assessed risks of material misstatement.	We will: • update 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 evaluate the design of the associated controls; • evaluate the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work; • assess the competence, capabilities and objectivity of the actuary who carried out the Council's pension fund valuation; • assess the accuracy and completeness of the information provided by the Council to the actuary to estimate the liability; • test 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; • undertake 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 • obtain 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 West Midlands pension fund had a triennial valuation in 2022. Our expectation, based on discussion with officers, is that this constituted a post balance sheet event and the 31/3/22 year-end position will reflect the outcome from this triennial valuation, and the IAS19 report issued by the actuary for 31/3/22 will be updated accordingly.

Other risks identified

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
Accounting for the winding up and transfer of Sandwell Land and property Ltd. Valuation of Land on SL&P balance sheet is £26m	Council	A resolution to wind up Sandwell Land and Property Ltd was made in March 2022 with the beneficial interests in the land and buildings distributed to the Council on 31 March 2022. The legal interest transfers on 14 June 2022. The Council will need to set out the rationale and basis for the year end accounting of the assets and valuation.	We will: • Consider the accounting proposed by the council and the rationale behind the approach adopted • We will consider the basis of valuation of those asset in the balance sheet • We will consider the adequacy of the disclosures in relation to this matter within the accounts.
Risks brought forward		There are a number of areas where there were material adjustments to the accounts or where there were significant delays in resolving matters in 2020/21. we consider that these areas present risks for 2021/22.	
Pension prepayment (£30.5m)	Council	An upfront payment of £30.5m was made in May 2020, covering the period 2020/21 to 2022/23. This was incorrectly accounted for requiring a material adjustment to the accounts.	We will review the accounting approach adopted in 2021/22
Grants income; recognition and presentation	Council	There were several issues associated with grants accounting, including where it was recognised on the CIES, assessment of whether arrangements were on an agency or principal basis and accounting for grants received in advance. Significant adjustments were made to the accounts. (prior year: £2.2m capital grants, RIA & £18.9m LRSG (increased surplus) .5m Covid grant incorrectly classified) £15.9 Covid (classification no impact CIES)	We will review the accounting approach adopted in 2021/22. We will consider management rationale for the accounting of grants, including those excluded from the accounts on an agency basis.
Cash: bank reconciliation	Council	For the past two years material errors have been found in the bank reconciliation. Management has arrangements in place to review bank reconciliation but this process is not identifying errors. Incorrect tratement of agency grants in 2020/21 resulted in a £32m reduction in overdraft and corresponding increase in creditors. There was also a £2.9m error in accounting for a year end Bacs payment.	We will review the bank reconciliation and test the reconciling items. We have assessed cash as having a higher risk.

Other risks identified

Risks brought forward		There are a number of areas where there were material adjustments to the accounts or where there were significant delays in resolving matters in 2020/21. we consider that these areas present risks for 2021/22.	**Key aspects of our proposed response to the risk**
PFI schemes	Council	Each audit year there has been issues in relation to the accounting for the councils PFI and service concession contracts. We have flagged in prior years that the council does not have sufficient in-house 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. Prior year £2.2m error on Portway scheme)	We will seek the support of our in-house PFI team to review the PFI models. We will review these models against the council's accounts and test the unitary charges to underlying information.
Debtors: impairment and business rates appeals provisions	Council	Impairment of debtors: the Council makes an assessment of the collectability of its arrears 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. In 2021 we considered there to be the following errors in impairments: • Sundry debtors £2m • HB ongoing claimants £5m • Housing rents £4.6m	The accounts will reflect impairment of: ▪ Sundry debtors ▪ Housing benefit ▪ Housing rents ▪ Collection fund arrears These are significant estimates and we will consider the basis of these and the reliability of the information on which these estimates are made.
Creditors (accruals)	Council	We identified weakness in management approach to expenditure accruals. This included management accruing to budget and making estimates when actual information was available. Errors in 2021 included £2.9m accruals misstatement IT invoice misstated £1.1m	Accruals are a significant accounting estimate and our testing approach will reflect our assessed heightened risk around accruals. We will gain an understanding of the council's year end procedures and undertake extended testing on year-end accruals.
Cash Flow statement	Council/ group	There were balancing items within the cashflow statement – management should not routinely include balancing items within the accounts. Management should ensure that the cashflow working papers include the most up to date model that supports the accounts presented. (amount was not material but would not expect any error)	The extent of work is dependent on the completeness of the statement and model.

Other risks identified

Risks brought forward		There are a number of areas where there were material adjustments to the accounts or where there were significant delays in resolving matters in 2020/21. we consider that these areas present risks for 2021/22.	**Key aspects of our proposed response to the risk**
Group accounts/ arrangements	Group/ council	• There are several risks associated with the councils accounting for group relationships: • Management has not prepared a comprehensive assessment of all its relationships and whether there is a group arrangement and what the impact is in accounting terms • For a number of the companies related to the Council, where staff have in the past TUPEd, the council holds a pension guarantee. We found that the assessment of the guarantee was not complete in 2020/21. • The consolidation of the Children's Trust into the group accounts had not properly removed intercompany income and expenditure in 2020/21 In 2021 we identified a consolidation error of £3m.	We will request that management undertakes analysis of the judgments made around its various group relationships and we will test accordingly
Infrastructure assets	Council	In 2021/22 we disagreed with the methodology applied by management in the determination of depreciation in relation to historic infrastructure assets. A £2m error was reported in the AFR. We acknowledge that this was the first year and there was late guidance around this.	We would expect management to have resolved the documentation and accounting issues associated with the accounting for infrastructure assets and there to be clear working papers that include any judgements made by management.

Accounting estimates and related disclosures

The Financial Reporting Council issued an updated ISA (UK) 540 (revised): *Auditing Accounting Estimates and Related Disclosures which* includes significant enhancements in respect of the audit risk assessment process for accounting estimates We identified a number of matters in relation to the Councils valuation of land, buildings and investment property and made recommendations in our 2020/21 audit in relation to the Council's estimation process for valuation.

Introduction

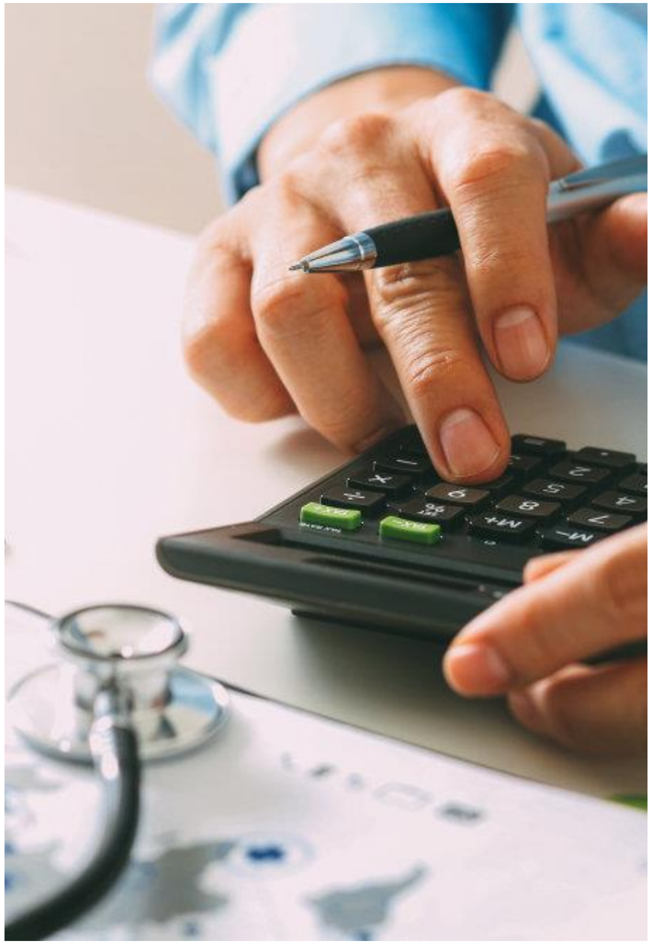
Under ISA (UK) 540 (Revised December 2018) auditors are required to understand and assess an entity's internal controls over accounting estimates, including:

- The nature and extent of oversight and governance over management's financial reporting process relevant to accounting estimates;
- How management identifies the need for and applies specialised skills or knowledge related to accounting estimates;
- How the entity's risk management process identifies and addresses risks relating to accounting estimates;
- The entity's information system as it relates to accounting estimates;
- The entity's control activities in relation to accounting estimates; and
- How management reviews the outcomes of previous accounting estimates.

As part of this process auditors also need to obtain an understanding of the role of those charged with governance, which is particularly important where the estimates have high estimation uncertainty, or require significant judgement.

Specifically do Audit Committee members:

- Understand the characteristics of the methods and models used to make the accounting estimates and the risks related to them;
- Oversee management's process for making accounting estimates, including the use of models, and the monitoring activities undertaken by management; and
- Evaluate how management made the accounting estimates?



Accounting estimates and related disclosures

Additional information that will be required

To ensure our compliance with this revised auditing standard, we will be requesting further information from management and those charged with governance during our audit for the year ended 31 March 2022.

Based on our knowledge of the Council we have identified the following material accounting estimates for which this is likely to apply:

- Valuations of land and buildings, council dwellings and investment properties
- Depreciation
- Year end provisions and accruals, specifically for demand led services such as Adult's and Children's services
- Credit loss and impairment allowances
- Valuation of defined benefit net pension fund liabilities

The Council's Information systems

In respect of the Council's information systems we are required to consider how management identifies the methods, assumptions and source data used for each material accounting estimate and the need for any changes to these. This includes how management selects, or designs, the methods, assumptions and data to be used and applies the methods used in the valuations.

When the models used include increased complexity or subjectivity, as is the case for many valuation models, auditors need to understand and assess the controls in place over the models and the data included therein. Where adequate controls are not in place, we may need to report this as a significant control deficiency, and this could affect the amount of detailed substantive testing required during the audit.

If management has changed the method for making an accounting estimate we will need to fully understand management's rationale for this change. Any unexpected changes are likely to raise the audit risk profile of this accounting estimate and may result in the need for additional audit procedures.

We are aware that the Council uses management experts in deriving some of its more complex estimates, e.g. asset valuations and pensions liabilities. However, it is important to note that the use of management experts does not diminish the responsibilities of management and those charged with governance to ensure that:

- All accounting estimates and related disclosures included in the financial statements have been prepared in accordance with the requirements of the financial reporting framework, and are materially accurate;
- There are adequate controls in place at the Council (and where applicable its service provider or management expert) over the models, assumptions and source data used in the preparation of accounting estimates.

Estimation uncertainty

Under ISA (UK) 540 we are required to consider the following:

- How management understands the degree of estimation uncertainty related to each accounting estimate; and
- How management address this estimation uncertainty when selecting their point estimate.

For example, how management identified and considered alternative, methods, assumptions or source data that would be equally valid under the financial reporting framework, and why these alternatives were rejected in favour of the point estimate used.

The revised standard includes increased emphasis on the importance of the financial statement disclosures. Under ISA (UK) 540 (Revised December 2018), auditors are required to assess whether both the accounting estimates themselves and the related disclosures are reasonable.

Where there is a material uncertainty, that is where there is a significant risk of a material change to the estimated carrying value of an asset or liability within the next year, there needs to be additional disclosures. Note that not all material estimates will have a material uncertainty and it is also possible that an estimate that is not material could have a risk of material uncertainty.

Where there is material estimation uncertainty, we would expect the financial statement disclosures to detail:

- **What the assumptions and uncertainties are;**
- **How sensitive the assets and liabilities are to those assumptions, and why;**
- **The expected resolution of the uncertainty and the range of reasonably possible outcomes for the next financial year; and**
- **An explanation of any changes made to past assumptions if the uncertainly is unresolved.**

Planning enquiries

As part of our planning risk assessment procedures, we have made enquiries of management and the questions and management responses were shared with Audit committee in March 2021.

Further information

Further details on the requirements of ISA (UK) 540 (Revised December 2018) can be found in the auditing standard on the Financial Reporting Council's website:

https://www.frc.org.uk/getattachment/0fa69c03-49ec-49ae-a8c9-cc7a2b65382a/ISA-(UK)-540_Revised-December-2018_final.pdf

Other matters

Other work

In addition to our responsibilities under the Code of Practice, we have a number of other audit responsibilities, as follows:

- We read your Narrative Report and Annual Governance Statement to check that they are consistent with the financial statements on which we give an opinion and our knowledge of the Council.
- We carry out work to satisfy ourselves that disclosures made in your Annual Governance Statement are in line with requirements set by CIPFA.
- We carry out work on your consolidation schedules for the Whole of Government Accounts process in accordance with NAO group audit instructions.
- We consider our other duties under legislation and the Code, as and when required, including:
  - giving electors the opportunity to raise questions about your 2021/22 financial statements, consider and decide upon any objections received in relation to the 2021/22 financial statements;
  - issuing a report in the public interest or written recommendations to the Council under section 24 of the Local Audit and Accountability Act 2014 (the Act).
  - application to the court for a declaration that an item of account is contrary to law under section 28 or a judicial review under section 31 of the Act
  - issuing an advisory notice under section 29 of the Act
- We certify completion of our audit.

Other material balances and transactions

Under International Standards on Auditing, "irrespective of the assessed risks of material misstatement, the auditor shall design and perform substantive procedures for each material class of transactions, account balance and disclosure". All other material balances and transaction streams will therefore be audited. However, the procedures will not be as extensive as the procedures adopted for the risks identified in this report.

Materiality

The concept of materiality

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. Misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Materiality for planning purposes

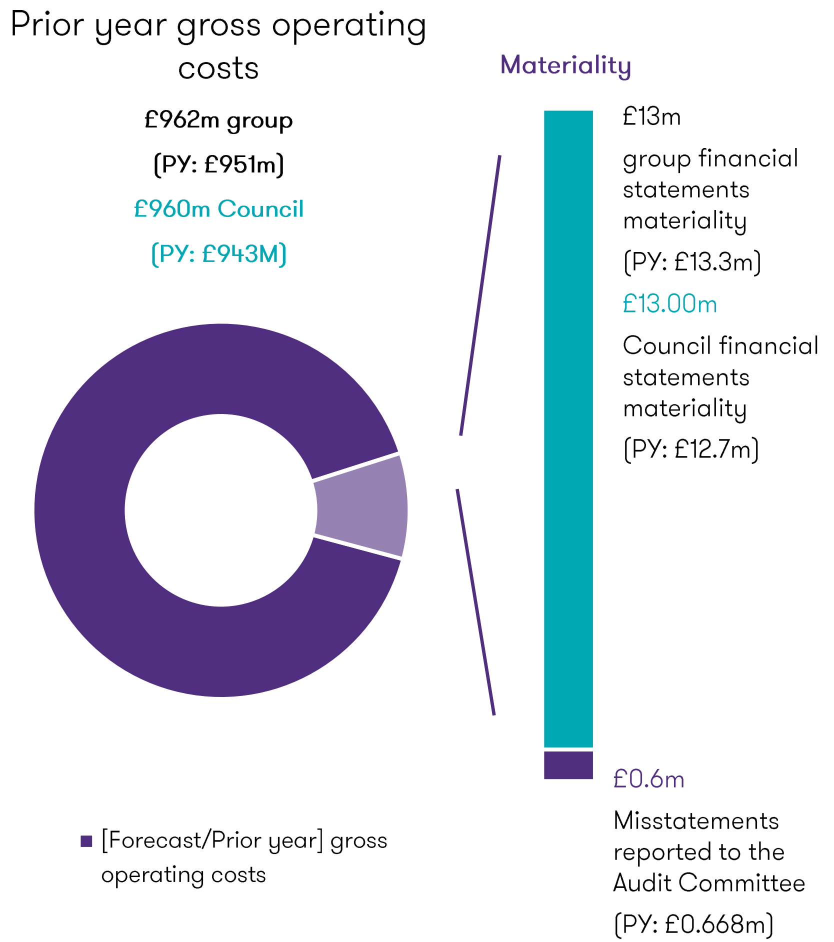
We have determined financial statement materiality based on a proportion of the gross expenditure of the group and Council for the financial year. In the prior year we used the same benchmark. Materiality at the planning stage of our audit is £13m (PY £13.3m) for the group and £13.0m (PY £12.75m) for the Council, which equates to 1.3% of your forecast gross expenditure for the year. We design our procedures to detect errors in specific accounts at a lower level of precision which we have determined to be £100k for Senior officer remuneration.

We reconsider planning materiality if, during the course of our audit engagement, we become aware of facts and circumstances that would have caused us to make a different determination of planning materiality.

Matters we will report to the Audit Committee

Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Audit Committee any unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work. Under ISA 260 (UK) 'Communication with those charged with governance', we are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. ISA 260 (UK) defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria. In the context of the group and Council, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £0.6m (PY £0.668m).

If management have corrected material misstatements identified during the course of the audit, we will consider whether those corrections should be communicated to the Audit Committee to assist it in fulfilling its governance responsibilities.



IT audit strategy

In accordance with ISA (UK) 315, we are required to obtain an understanding of the information systems relevant to financial reporting to identify and assess the risks of material misstatement. As part of this we obtain an understanding of the controls operating over relevant Information Technology (IT) systems i.e., IT general controls (ITGCs). Our audit will include completing an assessment of the design of ITGCs related to security management; technology acquisition, development and maintenance; and technology infrastructure. Based on the level of assurance required for each IT system the assessment may focus on evaluating key risk areas ('streamlined assessment') or be more in depth ('detailed assessment').

The following IT systems have been judged to be in scope for our audit and based on the planned financial statement audit approach we will perform the indicated level of assessment:

IT system	Audit area	Planned level IT audit assessment
Oracle SBS	**Financial reporting**	• Streamlined ITGC design assessment • Application controls assessment (Revenue, Procurement/expenditure, Payroll)

Our ITGC work has identified issues in relation to 5 individuals who have admin user rights and operational financial management responsibilities. We consider that this is a controls weakness and have stated this in our report on IT controls to management. Management has explained that changes cannot be made until the new Oracle Fusion is implements and thus we have sought clarification from management on the compensating controls in order to inform our audit approach to address the heightened risk.

Management response is:

- Other than loading journals the staff identified do not perform and other functional tasks on the system
- Management regularly check the self-allocating responsibility

We will ensure that our journals risk assessment takes into account the heightened risks around these individuals. We will also consider the evidence to support management responses.

Audit logistics and team

Audit committee September 2023 — Interim Annual Auditors Report

Audit committee January 2024 — Audit Plan

Planning and risk assessment

Year end audit November **2023-March 2024

Audit committee March 2024 — Audit Findings Report / Final Auditor's Annual Report

March 2024 — Audit opinion

Mark Stocks, Key Audit Partner

Mark's role will be to lead our relationship with you. He will take overall responsibility for the delivery of a high quality audit, meeting the highest professional standards and adding value to the Council.

Zoe Thomas, Audit Manager

Zoe plans, manages and leads the delivery of the audit, is your key point of contact for your finance team and is your first point of contact for discussing any issues arising

Matthew J Berrisford, Assistant Manager

Matthew's role is to assist in planning, managing and delivering the audit fieldwork, ensuring the audit is delivered effectively and efficiently, and is also involved in supervising and co-ordinating the audit team.

****A draft set of accounts was to be provided on 20 November 2023 and an audit team was made available accordingly.** The most recent commitment is for the accounts to be provided on 11 December.

Audited body responsibilities

Where audited bodies do not deliver to the timetable agreed, we need to ensure that this does not impact on audit quality or absorb a disproportionate amount of time, thereby disadvantaging other audits. Where the elapsed time to complete an audit exceeds that agreed due to a client not meeting its obligations we will not be able to maintain a team on site. Similarly, where additional resources are needed to complete the audit due to a client not meeting their obligations we are not able to guarantee the delivery of the audit to the agreed timescales. In addition, delayed audits will incur additional audit fees.

Our requirements

you need to ensure that you:

- produce draft financial statements of good quality by the agreed timetable you have agreed with us, including all notes, the Narrative Report and the Annual Governance Statement
- ensure that good quality working papers are available at the start of the audit, in accordance with the working paper requirements schedule that we have shared with you
- ensure that the agreed data reports are available to us at the start of the audit and are reconciled to the values in the accounts, in order to facilitate our selection of items for testing
- ensure that all appropriate staff are available on site throughout (or as otherwise agreed) the planned period of the audit
- respond promptly and adequately to audit queries.

Audit fees

PSAA awarded a contract of audit for Sandwell MBC to begin with effect from 2018/19. The fee agreed in the contract was £153,136. Since that time, there have been a number of developments, particularly in relation to the revised Code and ISA's which are relevant for the 2021/22 audit.

Across all sectors and firms, the FRC has set out its expectation of improved financial reporting from organisations and the need for auditors to demonstrate increased scepticism and challenge and to undertake additional and more robust testing, as detailed on page 15 in relation to the updated ISA (UK) 540 (revised): Auditing Accounting Estimates and Related Disclosures.

As a firm, we are absolutely committed to meeting the expectations of the FRC with regard to audit quality and public sector financial reporting. We have engaged an audit expert to improve the level of assurance we require for property valuations estimates}, which has been included in our proposed audit fee. Our proposed work and fee for 2021/22, as set out below, is detailed overleaf and will be agreed with the Director of Finance.

	Actual Fee 2019/20	Actual Fee 2020/21	Proposed fee 2021/22
Sandwell MBC Council Audit	£285,649	£395,000	£276.899*
Audit of subsidiary company Sandwell Land and Property Limited	£25,000	£25,000	£0
Audit of subsidiary Sandwell Children's Trust	£27,500	£30,250	£30,250**
Total audit fees (excluding VAT)	£292,250	£450,250	£307,149

- 2020/21 fees to be confirmed with PSAA
- **tbc

Assumptions

In setting the above fees, we have assumed that the Council will:

- prepare a good quality set of financial statements , supported by comprehensive and well presented working papers which are ready at the start of the audit
- provide appropriate analysis, support and evidence to support all critical judgements and significant judgements made during the course of preparing the financial statements
- provide early notice of proposed complex or unusual transactions which could have a material impact on the financial statements.

Relevant professional standards

In preparing our fee estimate, we have had regard to all relevant professional standards, including paragraphs 4.1 and 4.2 of the FRC's Ethical Standard (revised 2019) which stipulate that the Engagement Lead (Key Audit Partner) must set a fee sufficient to enable the resourcing of the audit with partners and staff with appropriate time and skill to deliver an audit to the required professional and Ethical standards.

D. Fee – fee analysis

Audit fees	Estimated fee
Scale fee	164,136
Reduced materiality/Increased FRC challenge	6,250
Use of expert (external valuer)	7,013
Revised ISA's (540)	3,200
Additional journals testing	4,000
Infrastructure asset audit	5,000
SL&P disaggregation	3,000
Pension valuation	3,500
Audit of PPE (See page 9, response to issues identified in the prior year)	4,800
Serco	2,000
Sandwell Childrens trust – file reviews and consolidation	2,000
Sandwell local accounts challenges ('other risks' page 11-13)	25,000
Value for Money audit (already delivered)	20,000
Governance Report follow up (December 2022)	27,000
Estimated fee	**276,899**

Independence and non-audit services

Auditor independence

Ethical Standards and ISA (UK) 260 require us to give you timely disclosure of all significant facts and matters that may bear upon the integrity, objectivity and independence of the firm or covered persons. relating to our independence. We encourage you to contact us to discuss these or any other independence issues with us. We will also discuss with you if we make additional significant judgements surrounding independence matters.

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 (Revised 2019) 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.

We confirm that we have implemented policies and procedures to meet the requirements of the Ethical Standard. For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council.

Other services

No other services provided by Grant Thornton were identified

The amounts detailed are fees agreed to-date for audit related and non-audit services to be undertaken by Grant Thornton UK LLP in the current financial year. These services are consistent with the Council's policy on the allotment of non-audit work to your auditors. Any changes and full details of all fees charged for audit related and non-audit related services by Grant Thornton UK LLP and by Grant Thornton International Limited network member Firms will be included in our Audit Findings report at the conclusion of the audit.

None of the services provided are subject to contingent fees.

Service	Fees £	Threats	Safeguards
Audit related			
Certification of Housing Benefits	40,000	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 £40,000 in comparison to the total fee for the audit of £256,699 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.
Teachers pension	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 £256,699 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.

Grant Thornton

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