

# The Audit Findings for Sandwell MBC(addendum)

**Year ended 31 March 2020**

December 2021



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## Your key Grant Thornton team members are:

### Mark Stocks

Key Audit Partner

E mark.c.stocks@uk.gt.com

### Zoe Thomas

Manager

E zoe.thomas@uk.gt.com

### Matthew Berrisford

Assistant Manager

E matthew.j.berrisford@uk.gt.com

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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.

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 have been discussed with management and the Audit and Risk Committee.

Name : Mark Stocks  
For Grant Thornton UK LLP  
Date :tbc

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# 1. Headlines

This table summarises the key findings and other matters arising from the statutory audit of Sandwell Metropolitan Borough Council ('the Council') and the preparation of the group and Council's financial statements for the year ended 31 March 2020 for those charged with governance.

## Financial Statements

Under International Standards of Audit (UK) (ISAs) and the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion:

- the group and Council's financial statements give a true and fair view of the financial position of the group and Council and the group and Council's income and expenditure for the year; and
- have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting and prepared in accordance with the Local Audit and Accountability Act 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 and is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

This report is an update to the Audit Findings Report presented in September 2021 to the Audit and Risk Assurance Committee. At that point we reported that we were anticipating issuing an unmodified opinion on the financial statements and an 'except for' value for money conclusion. This remains our intention.

This report summarises the matters and adjustments made to the accounts since the September Committee. The report does not repeat the matters raised in the September Report therefore this report should be regarded as a supplement to the Audit Findings Report (AFR).

Appendix A includes the adjusted misstatements since the September AFR and the cumulative unadjusted misstatements.

Appendix C contains the updated draft audit opinion.

Our audit has focused on the following which has resulted in some material adjustments to the accounts:

**Internal recharges:** adjustments have been made to the face of the Comprehensive Income and Expenditure Statement (CIES) to reflect a more accurate allocation of recharges over the directorates/ themes. The comparators for the 2018/19 accounts have also been restated. There has been material impact on the net expenditure at a service line level for two directorates, but no impact on the Costs of Services total line or on the Council's useable reserves.

**Grants:** there was an incorrect classification of grant income on the face of the CIES. Material adjustments has been made to the Costs of Services lines and the Taxation and Non-specific Services lines. Note 35 has also been adjusted for this and also for grants previously omitted from the disclosure. Again, the comparators have been restated. There is no overall impact on the Council's services or useable reserves.

**Note 37: Capital Expenditure and Capital Financing:** This is a disclosure note and has no impact on the primary statements. This note is cumulative in nature, and it was established that the opening balances had been incorrectly stated. In-year allocations were correctly stated. Again, the impact is highly material to the note, and comparators have been restated. There is no overall impact on the Council's services or useable reserves.

The following pages includes further details on these matters and the related adjustments.

Following the Audit and Risk Committee we will update our subsequent events assessment and review the updated letter of representation. There is no longer a requirement to submit the Whole of Government Accounts return in relation to 2019/20 financial year and therefore we will then be in a position to issue the opinion on the accounts and the closure certificate.

# 1. Headlines

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## Value for Money (VFM) arrangements

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Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report if, in our opinion, the Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources ('the value for money (VFM) conclusion').

There is no change in our value for money conclusion for 2019/20 following this additional work and a qualified 'except for' value for Money conclusion.

As referenced in the previous Audit Findings Report we note that a number of governance issues have come to our attention during 2021. We consider that there is insufficient evidence to confirm that these matters impacted 2019/20 and as such they will be dealt with as part of the 2020/21 audit.

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## Statutory duties

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The Local Audit and Accountability Act 2014 ('the Act') also requires us to:

- report to you if we have applied any of the additional powers and duties ascribed to us under the Act; and
- to certify the closure of the audit.

We have not exercised any of our additional statutory powers or duties in relation to the 2019/20 financial year but have done so as part of our 2020/21 audit and information is available on the council website.

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## Other matters

There has been no change to significant risks, or our findings in relation to key judgements or internal controls as set out in the September 2021 audit findings report except where referenced in this summary report. No further matters have come to our attention in relation to:

- fraud,
- related parties; and
- Laws and regulations

Management has not brought any new issues to our attention that would impact on our opinion on the accounts. We have reissued the letter of representation for further consideration by the Audit and Risk Committee due to the elapsed time and this is included on the committee agenda.

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## COVID 19/Going concern

We have revisited our going concern assessment and management has extended the cashflow forecast to January 2023 to support management's assessment. Reference to 'macroeconomic uncertainties' has now been removed from the draft opinion as previously shared, as it is our view that the uncertainties referred to (COVID -19 and Brexit) are no longer as important for our audits as they once were.

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## Acknowledgements

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

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# 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 and in our previous Audit findings report. We considered the gross expenditure (materiality benchmark) in the revised statements and concluded that previously reported materiality remained appropriate.

	Group Amount (£)	Council Amount (£)	Qualitative factors considered
Materiality for the financial statements	12.m	12m	Materiality has been based on 1.4% of the Authority and Group's gross expenditure based on the prior year financial statements. We have reconsidered based on the draft and updated 2019/20 financial statements and concluded materiality determined at planning remains appropriate
Performance materiality	8.4m	8.4m	Our performance materiality has been set at 70% of our overall materiality.
Trivial matters	0.6m	0.6m	This is set at 5% of financial statements materiality and reflects a level below which stakeholders are unlikely to be concerned by uncertainties]
Materiality for senior officer remuneration	0.1m	0.1m	The senior officer remuneration disclosure in the statement of accounts has been identified as an area requiring lower materiality due to its sensitive nature



# 2. Financial Statements

This section provides commentary on the matters identified subsequent to the September Audit and Risk Assurance Committee

Issue	Commentary	Auditor view
<p><b>Internal recharges:</b> these had been incorrectly stated on the face of the CIES. This was regarded by management as an error in the interpretation of the Code and the 2019/20 and 2018/19 comparators have been restated. This impacts on the face of the CIES but also a number of other statements have been restated as a consequence.</p>	<p>Our internal consistency checks of the accounts identified that the Housing Revenue Account, did not reconcile to the CIES as we expected. On investigation management established that within the CIES management had incorrectly coded overhead expenditure between individual departments. Whilst this had no impact on the Net Costs of Services, it did result in individual service lines being significantly misstated. As this impacted on material information within a primary statement it was necessary to adjust but also to restate the prior year on a comparable basis.</p> <p>Management determined that this was a material error in the prior year and thus the criteria in IAS8 had been met for a prior period adjustment. The table within note 7 sets out the adjustments between the draft and final statements for the prior year.</p>	<p>Due to the material nature of the adjustments and because it had been due to an error we agreed that its was appropriate to treat as a prior period adjustment.</p> <p>It is important that the directorate lines within the CIES accurately reflect the costs of these services and that these are determined on the same basis between years to provide comparability. This is a judgmental area and it is for management to have a clear policy on the treatment of costs including direct and indirect overheads. We understand that management is planning to undertake a review of how all overheads are accounted for within its management accounts during 2022/23.</p>
<p><b>Capital Financing Requirement (CFR):</b> the Council had made an historic error in the calculation of the CFR as reflected in note 37 Capital Expenditure and capital financing.</p>	<p>The CFR is a measure of the capital expenditure incurred historically by the authority that has yet to be financed; it is a measure of the authority's underlying need to borrow. The methodology for calculation of the CFR is set out within the Code. The CFR is adjusted annually for new capital investment, offset by in year financing, including the Minimum Revenue Provision (MRP) and is a rolling balance year on year. Management had correctly calculated the in-year adjustments, however it was established that the opening balance was not correctly stated. In particular, the CFR excluded both PFI related debt and debt relating to the predecessor body, the West Midlands Authority. This error appears to have occurred a number of years ago.</p> <p>The CFR was recalculated using the CIPFA Code as reference and this resulted in a £54.9m adjustment to the CFR (opening and closing balances) for 2018/19 and 2019/20. Again this was regarded as a prior period error in accordance with IAS 8.</p> <p>There was no material impact on primary statements. The process did identify an error in the calculation of the internal debt between the HRA and the council but management has chosen that this will be adjusted for in subsequent years and is referenced in the unadjusted misstatements appendix. There is no significant understatement of the Minimum Revenue Provision.</p>	<p>It was established that management had 'rolled forward' the working paper to support the calculation of the CFR and 'corporate memory' had been lost in relation to the basis of the calculation. It was agreed with management that the opening CFR would be recalculated from first principles and this resulted in a material adjustment as described.</p> <p>Management had a good understanding of what should be included within in year movements and we found these to be reasonably stated.</p> <p>The MRP and CFR are interrelated. The MRP is the amount set aside from revenue resources to fund capital and is a statutory charge that impacts on the general fund. We noted that the calculation of the MRP is also on the basis of a 'rolled forward' working paper with historic references on assumptions built in. Our review of the significant elements of the MRP calculation determined that these were appropriate and we also benchmarked the resulting MRP as a percentage of the CFR against our expectations of what is reasonable and relative to other similar councils. This provided us with further assurance that the MRP was not materially misstated. Management should undertake further review of the MRP working papers to ensure that management are comfortable with all entries.</p>

# 2. Financial Statements

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## Issue

**Grants:** there was a misallocation of grants on the face of the CIES between costs of services (mainly resource line) and the taxation and non specific grant income lines. Also Note 35 provides an analysis of all grants received. This provides the detail to support the disclosure in the CIES. Material adjustments were made to both the CIES and Note 35

## Commentary

The Council had incorrectly accounted for a number of grants that had been accounted for within the Costs of Services within the CIES. These grants were not specific to services and therefore should have been included in the non-ringfenced grants within the Taxation and Non specific grant income lines. This impacted on the net costs of services line in the CIES but not on the deficit on provision of services line or on the Council's useable reserves. A similar error had been made in the previous year and was material. Management concluded that in line with IAS 8 prior period adjustment was appropriate and this is reflected as restated balances in the CIES for 2018/19 and referenced within note 7.

## Auditor view

Correct allocation of grants between lines on the CIES and between years (some grants are treated as received in advance) is even more important in 2020/21 due to the scale of grants received in particular those that are COVID related. It is important that management undertake a detailed review of these areas of the accounts before audit so that management is satisfied that the accounting is correct.

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## 2. Financial Statements - other responsibilities under the Code

Issue	Commentary
Other information	<p>We are required to give an opinion on whether the other information published together with the audited financial statements (including the Annual Governance Statement, and Narrative Report), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.</p> <p>No inconsistencies have been identified/Inconsistencies have been identified but have been adequately rectified by management. We plan to issue an unmodified opinion in this respect – refer to appendix C</p>
Matters on which we report by exception	<p>We are required to report on a number of matters by exception in a number of areas:</p> <ul style="list-style-type: none"><li>• if the Annual Governance Statement does not comply with disclosure requirements set out in CIPFA/SOLACE guidance or is misleading or inconsistent with the information of which we are aware from our audit,</li><li>• if we have applied any of our statutory powers or duties in relation to the 2019/20 financial year</li></ul> <p>We have recently reported on a number of governance matters and issued statutory recommendations but have done so as part of our 2020/21 audit and information is available on the council website.</p>





## 2. Financial Statements - other responsibilities under the Code

Issue	Commentary
<b>Specified procedures for Whole of Government Accounts</b>	<p>We are required to carry out specified procedures (on behalf of the NAO) on the Whole of Government Accounts (WGA) consolidation pack under WGA group audit instructions.</p> <p>Due to the delay in the conclusion of the audit the final date for submission of the audited return has now passed.</p>
Certification of the closure of the audit	We intend to certify the closure of the 2020/21 audit of Sandwell Metropolitan Borough Council in the audit report, as detailed in Appendix C.

# 3. Independence and ethics

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Financial Reporting Council's Ethical Standard and confirm that we, as a firm, and each covered person, are independent and are able to express an objective opinion on the financial statements

We confirm that we have implemented policies and procedures to meet the requirements of the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.

We have referenced a breach of ethical standards in the Audit Plan issued to the Audit and Governance Committee in the June.

Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in May 2020 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

Details of fees charged are detailed in Appendix B.

# 3. Independence and ethics

## Audit and Non-audit services

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

	Fees £	Threats identified	Safeguards
<b>Audit related</b>			
Certification of Teachers Pension Return	6,000	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £6,000 in comparison to the total fee for the audit of £253,000 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.
		Self review (because GT provides audit services)	To mitigate against the self review threat, the timing of certification work is done after the audit has completed, materiality of the amounts involved to our opinion and unlikelihood of material errors arising and the Council has informed management who will decide whether to amend returns for our findings and agree the accuracy of our reports on grants.
Certification of Housing Benefit Claim	28,000	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 £28,000 in comparison to the total fee for the audit of £253,000 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.
		Self review (because GT provides audit services)	To mitigate against the self review threat, the timing of certification work is done after the audit has completed, materiality of the amounts involved to our opinion and unlikelihood of material errors arising and the Council has informed management who will decide whether to amend returns for our findings and agree the accuracy of our reports on grants.
CFO Insights Subscription	12,500	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £12,500 in comparison to the total fee for the audit of £253,000 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level. These fees have not been reflected in the accounts because of the timing of CFO Insights  The CFO insights service provides the Council with access to various data sources, which they decide how to use and make their own decisions about the delivery of services, therefore we do not believe there is an impact on the value for money conclusion.

# Appendices

# A. Audit Adjustments

We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management.

## Impact of adjusted misstatements

All adjusted misstatements are set out in detail below along with the impact on the key statements and the reported net expenditure for the year ending 31 March 2019.

Detail	Comprehensive Income and Expenditure Statement 2018/19 £'000	Statement of Financial Position 2018/19 £' 000	Impact on total net expenditure 2018/19 £'000
Grants: allocated to the correct lines within the CIES	Increase costs of services line £17m	N/a.	n/a
	Increase taxation and specific grant income £17m		
Treatment of internal recharges: Adjust the lines within the Costs of services:		0	0
	adult social care services (7,565)		
	Schools 9,881		
	Children's services (1,114)		
	public health 5,372		
	Resources (10,136)		
	corporate management 6		
	housing and communities (6,767)		
	regeneration and growth (3,553)		
	housing revenue account 13,878		
<b>Overall impact</b>	<b>£0</b>	<b>£0</b>	<b>£0</b>

# A. Audit Adjustments

We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management.

## Impact of adjusted misstatements

All adjusted misstatements are set out in detail below along with the impact on the key statements and the reported net expenditure for the year ending 31 March 2020.

Detail	Comprehensive Income and Expenditure Statement 2019/20 £'000	Statement of Financial Position 2019/20 £' 000	Impact on total net expenditure 2019/20 £'000
Grants: allocated to the correct lines within the CIES. (equivalent adjustments have been made to both the single entity and group accounts)	decrease costs of services line £31,096  Increase taxation and specific grant income £31,096	N/a.	n/a
Treatment of internal recharges: Adjustment to the lines within the Costs of services	Adult social care services (6,965) Schools 9,155 children services (1,675) public health 5,012 Resources (8,502) corporate management 6 housing and communities (7,098) regeneration and growth (4,356) housing revenue account 14,422	n/a	n/a
Overall impact	£0	£0	£0

# A. Audit Adjustments

We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management.

## Misclassification and disclosure changes

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

Disclosure changes	Auditor recommendations	Adjusted?
Note 35 Grant Income: related to the adjustments above, management had not correctly classified grant income within this note and it was incomplete.	Adjust note 35 to correctly reflect grants received and include explanation of the prior period adjustment within note 7.	✓
Note 37 Capital expenditure and Financing: The CFR was incorrectly stated	The opening and closing Capital financing requirement was incorrectly understated by £54.9m. Note 37 should be restated and referenced in the note 7 Prior Period Adjustments.	✓
Note 26: Expenditure and Funding Analysis and supporting notes	This should be adjusted to reflect the adjustments in the CIES	✓
Note 28: Expenditure and Income analysed by nature	Fees charges and other income, Government grants and contributions are adjusted to reflect the grants adjustments described above	

# A. Audit Adjustments

## Impact of unadjusted misstatements

The table below provides details of adjustments identified during the 2019/20 audit which have not been made within the final set of financial statements and were reported in the September Audit Findings Report. The Audit and Governance Committee is required to approve management's proposed treatment of all items recorded within the tables below: and on the next page

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000	Reason for not adjusting
Debtors: the council has not included debtor arrears in relation to ongoing benefits	5,700	5,700	(5,700)	This is a historic error identified in 2019/20. Against these arrears the council will need to set an impairment of receivables. The position is further complicated by assessing the impact of the related housing subsidy. Management would prefer to undertake further work on this before making an adjustment. This is the max unrecognised income and it is likely that the Council would raise an impairment against some or all of it.
PFI: we have compared the PFI financial models updated with the GT models, to provide us with assurance over the accuracy and there are differences between the two models as follows: <b>Riverside:</b> the model has been updated since the last GT model has been run.		SMBC liabilities > 1 year £19,080k GT PFI > 1 year £23,262k Increase in liabilities £4.2m	0	SMBC is content that the current PFI model is up to date and accurate.
<b>Rowley PFI model:</b> the model has been updated since the last GT model has been run		SMBC liabilities > 1 year £36,891k GT PFI > 1 years £39,815k Increase in liabilities £2.9m	0	SMBC is content that the current PFI model is up to date and accurate.
<b>Portway PFI model.</b> There is a difference between the SMBC model and the ledger because the ledger has not been updated.		SMBC liabilities per model > 1 year £7,080k SMBC liabilities per ledger/ accounts £8,367k Reduction in liabilities (£1.3m)	0	The model is to be updated with the support of Mazars in 2020/21. management are content the ledger reflect the accurate position
<b>Overall Impact</b>	<b>£5.7m</b>	<b>£0.1m</b>	<b>£5.7m</b>	



# A. Audit Adjustments

## Impact of unadjusted misstatements December 2021 update

The table below provides details of adjustments identified during the 2019/20 audit which have not been made within the final set of financial statements and have been identified subsequent to the September Audit Findings Report.

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000	Reason for not adjusting
The detailed work to correct the Capital financing requirement (CFR) (note 37) identified some further errors: Kickstart loans incorrectly accounted for	Cr income 1,011,171 Cr deferred creditors 278,250	DR capital adjustment account (unusable reserves) 1,289,421	1,289,421	Not material
Due to the amended CFR there is a knock on impact in relation to internal borrowing costs between the GF and HRA of approx. £672k	Adjustment between the Resource line on cost of services, no impact on net cost of services	No impact (MIRS will show an adjustment between HRA and GF useable reserves £672k)	n/a	Not material
<b>Overall Impact</b>	<b>£6.7m</b>	<b>£0.1m</b>	<b>£6.7m</b>	

# B. Fees

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

	<b>Proposed fee £</b>
<b>Audit fees</b>	
Council Audit	153,136
Fee variation agreed February 2020	32,350
Additional uplift	57,814
<b>Subtotal (as per next page)</b>	<b>243,300</b>
Further overrun	10,000
<b>Subtotal</b>	<b>253,300</b>
*Audit of subsidiary SL&P fee as per SL&P AFR issued May 2021	25,000
*Audit of subsidiary Sandwell Children's Trust	27,250
<b>Total audit fees (excluding VAT)</b>	<b>£305,550</b>
<b>Non-audit fees for other services</b>	
Audit Related Services:	
• Housing Benefit Subsidy claim	28,000
• Teachers pension return	6,000
• Housing capital receipts**	tbc
Non- Audit Related Services	
Agreed upon procedures Sandwell Children's Trust (annual certification of the expenditure in respect of the Trust's Improvement Grant for DfE)*	5,000
CFO highlights	12,500

\* this is work for the subsidiary companies and does not form part of the Council audit fee but is referenced here for completeness

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

# Fees

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

<b>Audit fees</b>	<b>Fee per plan £</b>	<b>Proposed fee £</b>
Council Audit	153,136	153,136
Increased challenge and depth of work	5,000	5,000
Materiality reduction from 1.8% to 1.4%	4,000	4,000
PPE	4,350	18,350
Pensions	3,500	3,500
PFI	3,000	3,000
SL&P accounting	1,500	1,500
Group accounts	3,500	3,500
PPE Valuation – cost of auditor’s expert	5,000	5,000
Provisions		10,000
Cash		5,000
Creditors		2,500
IT audit		2,500
COVID 19 / Remote working		23,014
Gerald Eve expert advice re leisure centres, schools and the Public		3,300
Correction of internal recharges and prior period adjustment		4,000
Correction of grants charge		2,000
Amendment to Capital Financing Requirement and confirmation of MRP		4,000
<b>Total audit fees (excluding VAT)</b>	<b>£185,486</b>	<b>253,300</b>

# C. Draft Audit opinion

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

## Independent auditor's report to the members of Sandwell Metropolitan Borough Council

### Report on the Audit of the Financial Statements

#### Opinion

We have audited the financial statements of Sandwell Metropolitan Borough Council (the 'Authority') and its subsidiary (the 'group') for the year ended 31 March 2020 which comprise the, Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement, the Movement in Reserves Statement, the Housing Revenue Account Income and Expenditure Statement, the Movement on the Housing Revenue Account Balance Statement, the Collection Fund Statement, the Group Comprehensive, Income and Expenditure Statement, the Group Balance Sheet and the Group Cash Flow Statement, the Group Movement in Reserves Statement and notes to the financial statements, including a summary of significant accounting policies.

The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2019/20.

In our opinion, the financial statements:

- give a true and fair view of the financial position of the group and of the Authority as at 31 March 2020 and of the group's expenditure and income and the Authority's expenditure and income for the year then ended;
- have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2019/20; and
- have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

#### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the 'Auditor's responsibilities for the audit of the financial statements' section of our report. We are independent of the group and the Authority in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Section 151 Officer's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Section 151 Officer has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the group's or the Authority's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

In our evaluation of the Section 151 Officer's conclusions, and in accordance with the expectation set out within the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2019/20 that the Authority's financial statements shall be prepared on a going concern basis, we considered the risks associated with the group's and Authority's operating activities, including effects arising from macro-economic uncertainties such as Covid-19 and Brexit. We analysed how those risks might affect the group's and Authority's financial resources or ability to continue operations over the period of at least twelve months from the date when the financial statements are authorised for issue. In accordance with the above, we have nothing to report in these respects.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the Authority or group will continue in operation.

# Audit opinion

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

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

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

### **Other information**

The Section 151 Officer is responsible for the other information. The other information comprises the information included in the Statement of Accounts other than the Authority and group financial statements and, our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge of the group and Authority obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

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

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

We have nothing to report in this regard.

## **Opinion on other matter required by the Code of Audit Practice**

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

## **Matters on which we are required to report by exception**

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

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

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

# Audit opinion

## **Responsibilities of the Authority, the Section 151 Officer and Those Charged with Governance for the financial statements**

As explained more fully in the Statement of Responsibilities set out on page 32 the Authority is required to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the Section 151 Officer. The Section 151 Officer is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2019/20, for being satisfied that they give a true and fair view, and for such internal control as the Section 151 Officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Section 151 Officer is responsible for assessing the group's and the Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless there is an intention by government that the services provided by the Authority will no longer be provided.

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

## **Auditor's responsibilities for the audit of the financial statements**

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

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

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

### **Qualified Conclusion**

On the basis of our work, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in November 2017, except for the effects of the matter described in the basis for qualified conclusion section of our report, we are satisfied that, in all significant respects, Sandwell Metropolitan Borough Council put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2020.

### **Basis for qualified conclusion**

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

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

# Audit opinion

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

Having considered the findings and conclusions of Ofsted's inspections and monitoring visits, together with the results of our audit work, we have concluded that there are weaknesses in the Authority's arrangements for delivering services for children in need of help and protection, children looked after and care leavers.

These matters are evidence of weaknesses in proper arrangements for understanding and using appropriate and reliable financial and performance information to support informed decision making and performance management.

## Responsibilities of the Authority

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

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

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

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in April 2020, as to whether in all significant respects the Authority had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

The Comptroller and Auditor General determined this criterion as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2020.

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

## Report on other legal and regulatory requirements - Certificate

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

## Use of our report

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

[Signature]

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

Birmingham

[Date]



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