

Meeting of the Audit and Standards Committee

**Monday, 17th July, 2023 at 6.00pm
in Committee Room 3
at the Council House, Priory Road, Dudley**

Agenda - Public Session (Meeting open to the public and press)

1. Apologies for absence.
2. To report the appointment of any substitute members serving for this meeting of the Committee.
3. To receive any declarations of interest under the Members' Code of Conduct.
4. To confirm and sign the minutes of the meeting held on 20th April, 2023 as a correct record (Pages 4 - 13)
5. [External Audit Grant Thornton Annual Audit Plan 2022-23 and Annual Risk Assessment 2022-23 \(Pages 14 – 68\)](#)
6. [Re-appointment of the Standards Sub-Committee \(Pages 69 – 71\)](#)
7. [Committee Work Plan 2023-24 \(Pages 72 – 76\)](#)
8. [Audit and Risk Management Services Annual Performance Report 2022-23 \(Pages 77 – 98\)](#)
9. To consider any questions from Members to the Chair where two clear days notice has been given to the Monitoring Officer (Council Procedure Rule 11.8).



Chief Executive

Dated: 7th July, 2023

Distribution:

Members of the Audit and Standards Committee:

Councillor A Lees (Chair)

Councillor D Borley (Vice-Chair)

Councillors S Ali, T Creed, J Cowell, M Evans, J Foster, S Keasey and W Little

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**Minutes of the Audit and Standards Committee
Thursday 20th April, 2023 at 6.00pm
at Saltwells Education and Development Centre,
Bowling Green Road, Netherton**

Present:

Councillor A Lees (Chair)

Councillor D Borley (Vice-Chair)

Councillors P Atkins, J Cowell, M Evans, E Lawrence, J Martin and A Taylor.

Officers:

I Newman (Director of Finance and Legal), G Harrison (Head of Audit and Risk Management), and K Taylor (Senior Democratic Services Officer).

Officers in Attendance via Microsoft Teams:

A Taylor (Senior Principal Auditor), M Landy (Principal Auditor) and E Newman (Principal Auditor).

Also in Attendance:

T Robbins (Head of Procurement) – for Agenda Item No. 5 – Risk Management Report.

M Granger (Corporate Fraud Manager) – for Agenda Item No. 9 – Annual Fraud Report.

59 Apology for Absence

An apology for absence from the meeting was submitted on behalf of Councillor S Ali.

60 Appointment of Substitute Member

There were no substitute Members appointed for this meeting of the Committee.

61 **Declarations of Interest**

No Member made a declaration of interest in accordance with the Member's Code of Conduct.

62 **Comments of the Chair**

The Chair shared an update received from the Deputy Chief Executive following consideration of the findings of an internal audit report in November, 2022, in particular that a further update report together with proposed Action Plan to address the issues identified was due to be brought to this meeting, but as the report of the External Monitoring Officer was only considered by the Appointments Committee on 5th April, 2023 this had caused a delay and the Action Plan would now be brought to the July meeting. The Deputy Chief Executive apologised for the delay.

63 **Internal Audit Plan 2023/24**

The Committee considered a report of the Director of Finance and Legal of the proposed Internal Audit Plan for 2023/24, which was attached as Appendix A to the report submitted.

In presenting the report, the Head of Audit and Risk Management advised that the Plan was produced to enable him to deliver an internal audit opinion on the overall adequacy and effectiveness of the Council's framework of governance, risk management and internal control.

The detailed process to produce the Audit Plan was then presented, as set out in paragraph 7 of the report. It was noted that Audit Services ensured that the list of auditable areas was complete and scored based on perceived risk, and then adjusted for any assurance received.

Members were advised that Heads of Service had received a questionnaire requesting them to identify any changes to their service area, projects that they were involved with, any emerging risks, any assurance received and suggestions for inclusion in the 2023-24 audit plan.

The Risk Management Framework required Risk Owners to identify any assurance received on the management of their risks, however due to the length of time taken by directorates to identify their risks and understand the new risk processes, the recording of assurance received had been delayed. Risk Owners would be requested to identify sources of assurance against their risks from quarter 1 of the new financial year.

It was noted that meetings had been held with the Chief Executive, Deputy Chief Executive, Directors, and a number of Heads of Service to discuss their risks and any emerging risks and proposals for inclusion in the audit plan. The proposed Audit Plan for 2023/24, which had been approved by the Strategic Executive Board (SEB) was attached as Appendix A to the report, and included a brief description of each audit.

Reference was made to Appendix B to the report submitted which detailed the audit plan reserve list and it was noted that the list would be utilised if an audit that was currently in the plan had to be cancelled, or additional resources allocated to Audit Services. It was noted that Directorates had been informed of the list.

In conclusion, the Head of Audit and Risk Management presented a breakdown of the Audit Plan by Directorates, Schools, and other work.

Arising from the presentation of the report, Members asked questions, made comments and responses were provided where necessary as follows:-

- a) In responding to a question raised by Councillor J Cowell, the Head of Audit and Risk Management confirmed that any planned audits for 2023/24 that were postponed would be included in the reserve list for the next municipal year.
- b) Members raised concerns in relation to the number of ICT audits that had received Minimal assurance ratings, where improvement was dependent on the software provider addressing some serious security deficiencies identified within their software.

In responding, the Head of Audit and Risk Management referred to the challenges in influencing suppliers to address issues identified within their software, but assured Members that the Council would ensure the improvements were made.

- c) In responding to a question raised by the Chair in relation to remunerating the shortfall within the Audit Services income target of £69,000 for 2023/24, should the position of the Principal Auditor be filled, the Head of Audit and Risk Management advised that a review could be undertaken by an external consultant with a view to identifying payment or VAT errors.

Resolved

That the proposed Internal Audit Plan for 2023/2024, attached as Appendix A to the report, be approved.

64 Risk Management Report

A report of the Director of Finance and Legal was submitted on the risks reported to Strategic Executive Board (SEB) and the status allocated by the Risk Owner and to provide an update on the embedding of the Risk Management Framework.

In presenting the report, the Head of Audit and Risk Management referred to the proposed changes to the risk thresholds contained within the Risk Management Framework as outlined in paragraph 6 of the report submitted. It was also proposed that the 'red' description be amended from Extreme to Very High and for the Council's risk appetite to be increased from 16 to 20.

Members were advised that the Risk Assurance Protocol (RAP) would be circulated in April, 2023 for the 2022-23 financial year, and would form a key part of the Council's assurance framework and would be referenced within the Annual Governance Statement.

Reference was made to the current risks which were listed in the table in paragraph 11 of the report and amended to include the proposed amendments referred to in paragraph 6. Appendix A provided further details on the risks included on the SEB risk report that were rated Very High.

The Head of Audit and Risk Management stated that there were sixteen risks rated very high at the gross level and six rated very high at net level which related to recruitment and retention of staff, contract management, budget, statutory building safety and compliance responsibilities, regeneration benefits and programme management. These risk scores were considered generally unacceptable and needed to be addressed.

At this juncture, the Head of Procurement gave a detailed presentation on Risk R.404 in relation to the failure to demonstrate compliance with Contract Standing Orders/Procurement legislation, and in doing so acknowledged the need for a fully resourced Procurement Team, guidance, and training. It was noted that the consequences of the risk affected the ability to ensure value for money and contracts not awarded. Reference was made to the measures implemented to date including the support provided by an experienced Head of Procurement, the development of a Procurement Action Plan, which was managed by the Procurement Management Group, together with the appointment of qualified and experienced procurement staff.

It was recognised that a change in culture, the understanding of procurement compliancy and the centralisation of procurement was needed in order to progress further. Members were advised that training had been delivered to 152 Council officers over the last year with contract management training due to be delivered in the next 12 months which would reiterate key points. New below threshold tender documents and terms and conditions were also being produced to support the self-service and compliance of below threshold tenders, and further consideration would be given to the centralisation of Housing procurement by the end of Quarter 1.

The Head of Procurement referred to the measures required in ensuring the correct governance structures were in place including a review of the Procurement Code in 2022 and the Exemption to the Rules and Waiver processes having been refined in line with the Contract Standing Orders (CSO). It was noted that the Procurement Management Group Terms of Reference would be revised together with the CSO, which would be submitted to the Audit and Standards Committee in September, 2023 for approval. The two documents were being revised to ensure all procurement above the Goods and Services threshold were dealt with by the Procurement team.

Reference was made to the internal audit report that had been key in developing the Procurement Action Plan, together with a Peer Review undertaken with the Cabinet Office with a re-review expected in 2024. The Peer Review produced a benchmark for the team to work towards and help support the Procurement Action going forward.

It was reported that category strategies would be developed by the Procurement team to support service areas and outline analysis of external spend, and that the Procurement Management team would embed new ways of working to assist with procurement support to Council Service areas leading to improvements in compliance, savings, efficiencies and commercialisation. The need to link contract values to Purchase Orders to help create an audit trail was also mentioned.

Arising from the presentation, Members asked questions, made comments and responses were provided where necessary as follows:-

- a) In responding to a question raised by Councillor M Evans, the Head of Procurement suggested that the proposed measures to be implemented had not been affected or delayed by employees working remotely, and that it was evident that the new working styles had provided an opportunity for staff to build relationships and engage more with stakeholders which allowed projects to progress more efficiently.

Reference was made in relation to the internal procurement training session delivered during 2022, and the Head of Procurement confirmed that the training had been delivered to provide an understanding of the principles underpinning the procurement process, the tender process for contracts with thresholds and recognising fraud. It was confirmed that regular brief sessions would be provided ensure training was accurate and current.

- b) It was reported that not all expenditure related to contracts was recorded through Agresso, however the process involved in awarding contracts via a Purchase Order was referred to.
- c) Councillor J Cowell queried whether systems and process were sufficiently robust to prevent officers selecting providers with a personal or financial interest.

The Head of Procurement referred to the ongoing work in linking purchase orders to contract values on existing systems, and stated that further consideration could be given to future controls however it was anticipated that this would be expensive to implement. It was suggested that such orders could be submitted to the Procurement Team for assessment however the complexity associated with this was highlighted.

- d) In responding to a question raised by the Chair in relation to the centralisation and modernising of the supplier database, the Head of Procurement confirmed that there was a centralised database with service areas responsible for recording information. Members were assured that the database provided details of each contract and supplier awarded. It was noted that low level contracts were inputted manually.
- e) The Chair sought assurance as to how successful the ambitious plan would be to align and what was expected to be achieved and the measures needed to ensure that compliance was being adhered to by officers. He also referred to the disparities within functions and directorates and anticipated that funding was needed in order to address the proposals mentioned, in which he fully supported and welcomed.

In responding, the Head of Procurement reiterated the emphasis in the need for a culture change and the extensive time and challenges faced in achieving this. He referred Members to the significant amount of work undertaken and the positive changes already made, and advised that he considered Dudley to be under performing in comparison with neighbouring authorities in Procurement, however, he was confident that this would improve with adequate time and investment.

- f) Councillor D Borley suggested whether the Local Authority would consider introducing cost savings initiatives and reward schemes for officers identifying savings.

In responding, the Head of Procurement welcomed the suggestion and acknowledged that further work was needed to encourage Council employees to consider areas commercially and challenge existing contracts to ensure best value for money.

- g) In responding to a question raised by Councillor J Cowell in relation to sole suppliers, the Head of Procurement confirmed that consideration would be required by the Director as to whether the contract would be exempt from the need for a competitive procurement process. Any exemptions to contract standing orders were reported to the Audit and Standards Committee annually.
- h) The Director of Finance and Legal referred to the discussions held at the Strategic Executive Board in relation to the proposed changes to the Risk Management Framework and confirmed that these would be implemented subject to approval by the Audit and Standards Committee.

- i) It was confirmed that the proposed risk threshold had been assessed against the risks set out in the Risk Management Framework, and that the matrix outlined within the Framework was approved by Audit and Standards Committee in 2022.
- j) Reference was made to the Peer Review undertaken with the Cabinet Office, and it was noted that Dudley had scored 2% below good, however the Head of Procurement was confident that this would significantly improve following the re-review in 2024.
- k) In responding to a question raised by the Chair in relation to Directorates management of spend throughout the year, the Director of Finance and Legal assured Members that clear controls were in place and referred to the annual reporting schedule to Cabinet and regular discussions held with Directorates in near to real time.

Resolved

- (1) That the information contained in the report and Appendix A to the report submitted detailing the SEB risks, be noted.
- (2) That the proposed changes to the Risk Management Framework, as set out in the report, be approved.
- (3) That the information contained in the presentation on risk R.404 relating to failure to demonstrate compliance with Contract Standing Orders/Procurement legislation and comments made by Members as outlined above, be noted.
- (4) That risk R.408 relating to failure to seize the opportunities and exploit the benefits that are envisaged from the huge regeneration programme investment that impacts on the council's vision for 2030 be identified as the specific risk for in-depth scrutiny the next time a risk report was referred to the Committee for consideration.

65 Audit and Standards Committee Annual Report 2022/23

A report of the Director of Finance and Legal was submitted on the Annual Report for Audit and Standards Committee 2022-2023, attached as Appendix A to the report. The report would be submitted to Full Council in July, 2023 for approval.

Resolved

That the Annual Report for Audit and Standards Committee 2022/2023, be approved and referred to full Council at its meeting in July 2023.

66 **Questions Under Council Procedure Rule 11.8**

There were no questions to the Chair pursuant to Council Procedure Rule 11.8.

67 **Exclusion of the Public and Press**

Resolved

That the public and press be excluded from the meeting for the following item of business, on the grounds that it involves the likely disclosure of exempt information relating to any individual(s) and to the financial or business affairs of any particular person (including the authority holding that information) as defined under Part I of Schedule 12A to the Local Government Act 1972, as amended.

68 **Annual Fraud Report**

A report of the Director of Finance and Legal was submitted, on the work that Audit Services, and other Council teams, had undertaken and was planning to undertake to manage the risk of fraud and corruption across the Council. Appended to the report submitted was the Fraud Action Plan and further details of Fraud Investigations undertaken during 2022.

Arising from the presentation, Members made comments and raised questions with regard to action taken in relation to Blue Badge misuse, recovery of financial gains from sub-letting Council properties, further engagement and advertising of the Fraud Hotline and the number of fraud investigations that had been ongoing for a long period, which were responded to at the meeting.

Further to comments made, Members raised concern of the information reported on the one prosecution case in particular that after a brief investigation, the Police concluded that there was insufficient evidence to give a reasonable prospect of securing a successful prosecution, despite the evidence that was available at that time. The Committee commended the work undertaken by the Local Authority in instigating its own criminal investigation which resulted in a custodial sentence and the recovery of any criminal gains using powers provided by the Proceeds of Crime Act legislation that was being pursued. The Chair undertook to write to the West Midlands Police and Crime Commissioner in relation to the comments made.

Resolved

- (1) That the information contained in the report, be noted.
- (2) That the Fraud Action Plan for 2023, attached as Appendix A to the report, be approved.
- (3) That the Chair, on behalf of the Audit and Standards Committee, write a letter to the West Midlands Police and Crime Commissioner outlining Members comments in relation to the prosecution case discussed during the meeting.

69 **Chairman's Remarks**

As this was the last meeting of the municipal year, the Chair thanked Members for their attendance and contribution at the meetings and expressed thanks to officers for their assistance and valuable work contribution during the year.

The meeting ended at 7.40pm

CHAIR

Audit and Standards Committee – 17th July 2023

Report of the Director of Finance and Legal Services

External Audit Grant Thornton Annual Audit Plan 2022-2023 and Annual Risk Assessment 2022-2023

Purpose

1. To consider the External Auditor's Annual Audit Plan 2022-2023 and Annual Risk Assessment 2022-2023

Recommendations

2. It is recommended that Committee Members note the views of the Auditor and comment as appropriate on:
 - Grant Thornton's Annual Audit Plan 2021/22 (attached as appendix 1)
 - Annual Risk Assessment 2022/23 (attached as appendix 2)

Background

3. The External Auditor Grant Thornton produces an annual Audit Plan and Risk Assessment on an annual basis for Dudley Metropolitan Borough Council and those charged with governance. The plan outlines the work they will carry out in discharging their responsibilities in order to form and express opinion on the Council's financial statements.
4. Grant Thornton's Risk Assessment (appendix 1) identifies 3 significant risks that require special audit considerations and a further audit on those findings along with any other significant matters arising from the

audit will be included in their Annual Audit Report. The three significant risks are:

- Valuation of Property and Plant
- Valuation of the net pension liability
- Management override of controls

5. The key considerations set out within this report are:

- Grant Thorntons responsibilities under the Code of Audit Practice

Finance

6. The report deals with a number of financial affairs of the Council. No additional resources are required as a direct consequence. Representatives from Grant Thornton will be available at the meeting to answer any questions or queries that arise from this plan and risk assessment.

Law

7. Legislation appertaining to Local Authority Audit and Accounts is contained in the Local Government Act 1972, part 2 of the Audit Commission Act, 1998, and regulations made there under. The Local Audit and Accountability Act 2014 requires external auditors to report to those charged with governance on the results of their work.

Risk Management

8. The Corporate Risk Register recognises the risk that the Council may be unable to set and/or manage its budget so as to meet its statutory obligations within the resources available. At the last review point, this risk was allocated the rating of 20 (Very High)

Equality Impact

9. The proposals take into account the Council's Policy on Equality and Diversity. No consultations with Children and young people were undertaken or required in the preparation of this report.

Human Resources/Organisational Development

10. The proposals in this report do not have any direct human resource/organisational development implications.

Commercial/Procurement

11. There are no commercial opportunities associated with this report.

Environment/Climate Change

12. There are no environmental/climate change issues associated with this report.

Council Priorities and Projects

13. An effective framework of governance, risk management and internal control will assist the Council in achieving its priorities.



Iain Newman
Director of Finance and Legal Services

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List of Background Documents

Grant Thornton's Audit Plan (Appendix 1)
Risk Assessment 2022/23 (Appendix 2)

External Audit Plan 2022-23

Dudley Metropolitan Borough
Council

July 2023



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

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Key matters



National context

For the general population, rising inflation rates, in particular for critical commodities such as energy, food and fuel, is pushing many households into poverty and financial hardship, including those in employment. At a national government level, recent political changes have seen an emphasis on controls on spending, which in turn is placing pressure on public services to manage within limited budgets.

Local Government funding continues to be stretched with increasing cost pressures due to the cost of living crisis, including higher energy costs, increasing pay demands, higher agency costs and increases in supplies and services. Local authority front-line services play a vital role in protecting residents from rising costs; preventing the most vulnerable from falling into destitution and helping to build households long-term financial resilience. At a local level, councils are also essential in driving strong and inclusive local economies, through their economic development functions and measures like increasing the supply of affordable housing, integrating skills and employment provision, and prioritising vulnerable households to benefit from energy saving initiatives. Access to these services remains a key priority across the country, but there are also pressures on the quality of services. These could include further unplanned reductions to services and the cancellation or delays to major construction projects such as new roads, amenities and infrastructure upgrades to schools, as well as pothole filling.

Our recent value for money work has highlighted a number of governance and financial stability issues at a national level, which is a further indication of the mounting pressure on audited bodies to keep delivering services, whilst also managing transformation and making savings at the same time.

In planning our audit, we will take account of this context in designing a local audit programme which is tailored to your risks and circumstances.

Audit Reporting Delays

In a report published in January 2023, the NAO have highlighted that since 2017-18 there has been a significant decline in the number of local government body accounts including an audit opinion published by the deadlines set by government. The NAO outline a number of reasons for this and proposed actions. In our view, it is critical to early sign off that draft local authority accounts are prepared to a high standard and supported by strong working papers.

Key matters



Dudley MBC

In our 2020/21 Annual Auditor's Report to Cabinet on 27 June 2022 we highlighted that urgent action was needed to reduce the Council's significant reliance on use of reserves. We recommended that the Council should approve further savings schemes and introduce tight scrutiny of additional spending proposals. We reported that the Council had been reliant on reserves in 2021/22 to balance its budget (£9m) but that the Council had been able to deliver an outturn significantly better than budget and reduced the drawdown on reserves to £1.8m.

We have continued to monitor the Council's financial position and have set out our concerns below.

The Council set a net revenue budget of £284.8m for 2022/23. The budget allowed for £2.2m to be paid into reserves increasing balances carried forward to £28.5m. The Council's provisional outturn performance is significantly worse than budget. The Council has spent £292.7m and will need to draw down £5.4m of reserves. It's forecast general fund reserve as at 31 March 2023 has reduced from £28.5m to £21.8m. We consider that this is low in comparison to other similar authorities.

The Council set a net revenue budget of £311.5m for 2023/24. Again the budget relies on the use of reserves (£4.2m). This will reduce the general fund reserve to c£17m. We note that the Council does have access to other earmarked reserves but these are relatively limited at £27.3m and all have a clear purpose, for example, for insurance cover.

We note that there are other risks to the Council's financial sustainability. In the budget setting report to the 6 March 2023 meeting of the Council the Joint Report of the Chief Executive and Director of Finance and Legal highlight a number of risks to the 2022/23 budget (see Appendix J, Risk Assessment). For example:

- A pay award of 1% above the 4% provided for would add costs of £1.3m
- A shortfall in business rates of 1% would reduce income by £1m
- No provision has been made for general price increase in the 2023/23 budget. A 1% increase would add costs of £2.1m per annum
- A change in borrowing rates on renewal of 1% would add £4.1m to revenue costs
- An increase of 1% in care charges would add £0.8m to revenue costs.

Given the cost of living increases we are seeing nationally, these issues present a clear risk to the Council's financial position. We also note that the budget includes the delivery of £7.8m of savings plans and that the Council has not delivered its savings programme in either 2021/22 or 2022/23. Given the continued reduction in reserves, the Council therefore has only limited financial resilience against continued overspends or other financial changes.

It is c3months since the 2023/24 budget was set. Despite the budget being set so recently we note that a finance report is going to Cabinet on 6 July. This considers proposals to reverse savings decisions on libraries and other services and to increase Environment Directorate expenditure. The report of the Chief Executive and Director of Finance and Legal recommends that Cabinet consider these proposals in the light of the Council's financial position. We consider this Council's response to this key request to be critical to the Council's financial sustainability.

Key matters



Dudley MBC

We are concerned about the impact of these proposals on the Council's financial stability. As highlighted above, the Council has a relatively low level of reserves. The proposals will reduce the level of reserves further and reduce the Council's ability to manage financial issues that arise or the risks outlined above. We note that due to the matters above that the Council's forecast general fund balances will be £14m 2023/24, £10m 2024/25, and £12.8m 2025/26.

We note that reserves would fall below these forecast levels if the Council faces further financial pressures or approves additional spending in other areas or does not deliver its savings programme. We are considering the implication of the issues for our Auditors' Annual Report 2021/22 and 2022/23. At present we are minded to consider that this represents a significant weakness in the Council's:

- financial sustainability, as reserves will have reduced to an unsustainable level
- governance, as the Council has been unable to remain within its budget less than 3 months after the budget was agreed, and these issues have been reported to members by officers but does not appear to have elicited an appropriate response. We are also concerned re Press statements have been released in advance of formal decisions.

All of the above matters have been reported to members by officers.

Our Responses

- As a firm, we are absolutely committed to audit quality and financial reporting in the local government sector. Our proposed work and fee, is set out later in this audit plan.
- We will consider your arrangements for managing and reporting your financial resources as part of our audit in completing our Value for Money work.
- Our value for money work will also consider your arrangements relating to governance and improving economy, efficiency and effectiveness.
- We will continue to provide you and your Audit Committee with sector updates providing our insight on issues from a range of sources and other sector commentators via our Audit Committee updates.
- We hold annual financial reporting workshops for our audited bodies to access the latest technical guidance and interpretation, discuss issues with our experts and create networking links with other audited bodies to support consistent and accurate financial reporting across the sector.

Introduction and headlines

Purpose

This document provides an overview of the planned scope and timing of the statutory audit of Dudley 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 Terms of Appointment and Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA), the body responsible for appointing us as auditor of Dudley 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's financial statements that have been prepared by management with the oversight of those charged with governance (the Audit and Standards Committee); and we consider whether there are sufficient arrangements in place at the Council for securing economy, efficiency and effectiveness in your use of resources. Value for money relates to ensuring that resources are used efficiently in order to maximise the outcomes that can be achieved.

The audit of the financial statements does not relieve management or the Audit and Standards 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.



Introduction and headlines

Significant risks

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

- Valuation of property, plant and equipment;
- Valuation of the net pension liability; and
- Management override of controls.

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 £11.3m (PY £11.3m) for the Council, which equates to 1.5% of your prior year gross expenditure for the year. We are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. As part of our risk assessment, we have considered the impact of unadjusted prior period errors. Clearly trivial has been set at £565k (PY £500k).

We have also set a specific materiality on a qualitative basis for the disclosures relating to senior officers remuneration.

Value for Money arrangements

Our Value for Money risk assessment remains in progress. However, based on the assessment completed to date we do not anticipate any significant VFM audit risks that will impact the audit for 2022-23.

We will continue our review of your arrangements, including reviewing your Annual Governance Statement, before we issue our auditor's annual report.

New Auditing Standards

There are two auditing standards which have been significantly updated this year. These are ISA 315 (Identifying and assessing the risks of material misstatement) and ISA 240 (the auditor's responsibilities relating to fraud in an audit of financial statements). We provide more detail on the work required later in this plan.

Audit logistics

Our interim visit has taken place in February and our final visit will begin in July. Our key deliverables are this Audit Plan, our Audit Findings Report and Auditor's Annual Report.

Our proposed fee for the audit will be £184,506 (PY: £185,809) for the Council, subject to the Council delivering a good set of financial statements and working papers.

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.

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	Reason for risk identification	Key aspects of our proposed response to the risk
Management over-ride of controls	<p>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. The Council faces external scrutiny of its spending and this could potentially place management under undue pressure in terms of how they report performance.</p> <p>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.</p>	<p>We will:</p> <ul style="list-style-type: none"> • evaluate the design effectiveness of management controls over journals; • analyse the journals listing and determine the criteria for selecting high risk unusual journals; • test high risk 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.

‘Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, due to either size or nature, and that therefore occur infrequently. Judgmental matters may include the development of accounting estimates for which there is significant measurement uncertainty.’ (ISA (UK) 315)

Significant risks identified

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
Valuation of land and buildings	<p>Revaluation of property, plant and equipment should be performed with sufficient regularity to ensure that carrying amounts are not materially different from those that would be determined at the end of the reporting period. The Council revalues its land and buildings on a rolling basis to ensure that the carrying value is not materially different from the current value or fair value (for surplus assets) at the financial statements date.</p> <p>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.</p> <p>The risk will be pinpointed as part of our final accounts work, once we have understood the population of assets revalued. We will report an updated risk assessment for valuation of land and buildings in our Audit Findings Report.</p>	<p>We will:</p> <ul style="list-style-type: none"> • 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 to ensure that the requirements of the CIPFA code are met; • challenge the information and assumptions used by the valuer to assess completeness and consistency with our understanding; • test, on a sample basis, revaluations made during the year to see if they had been input correctly into the Council's asset register and accounted for correctly; and • evaluating the assumptions made by management for those assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value at year end.

Significant risks identified

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
Valuation of the pension fund net liability	<p>The pension fund net liability, as reflected in the balance sheet as the net defined benefit liability, represents a significant estimate in the financial statements.</p> <p>The pension fund net liability is considered a significant estate due to the size of the numbers involved and the sensitivity of the estimate to changes in key assumptions.</p> <p>The methods applied in the calculation of the IAS 19 estimates are routine and commonly applied by all actuarial firms in line with the requirements set out in the Code of practice for local government accounting (the applicable financial reporting framework). We have therefore concluded that there is not a significant risk of material misstatement in the IAS 19 estimate due to the methods and models used in their calculation.</p> <p>The source data used by the actuaries to produce the IAS 19 estimates is provided by administering authorities and employers. We do not consider this to be a significant risk as this is easily verifiable.</p> <p>The actuarial assumptions used are the responsibility of the entity but should be set on the advice given by the actuary. A small change in the key assumptions (discount rate, inflation rate, salary increase and life expectancy) can have a significant impact on the estimated IAS 19 liability. In particular the inflation rates and life expectancy. We have therefore concluded that there is a significant risk of material misstatement in the IAS 19 estimate due to the assumptions used in their calculation. With regard to these assumptions we have therefore identified valuation of the Authority's pension fund net liability as a significant risk.</p>	<p>We will:</p> <ul style="list-style-type: none"> • 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 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.

Management should expect engagement teams to challenge management in areas that are complex, significant or highly judgmental which may be the case for accounting estimates and similar areas. Management should also expect to provide to engagement teams with sufficient evidence to support their judgments and the approach they have adopted for key accounting policies referenced to accounting standards or changes thereto.

Where estimates are used in the preparation of the financial statements management should expect teams to challenge management's assumptions and request evidence to support those assumptions.

Significant risks identified

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
Risk of fraud in revenue recognition and expenditure	<p>Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue.</p> <p>This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.</p> <p>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:</p> <ul style="list-style-type: none"> • There is little incentive to manipulate revenue recognition • Opportunities to manipulate revenue recognition are very limited • The culture and ethical frameworks of local authorities, including Dudley Metropolitan Borough Council mean that all forms of fraud are seen as unacceptable. <p>Whilst not a presumed significant risk, we have had regard to Practice Note 10, which comments that for certain public bodies, the risk of manipulating expenditure may well be greater than that of income.</p> <p>Having considered the risk of improper recognition of expenditure at Dudley Metropolitan Borough Council we are satisfied that this is not a significant risk for the same reasons set out above.</p>	<p>Notwithstanding that we have rebutted this risk, we will still undertake a significant level of work on the Council's revenue streams, as they are material. We will:</p> <p><u>Accounting policies and systems</u></p> <ul style="list-style-type: none"> • Evaluate the Council's accounting policies for recognition of income and expenditure for its various income streams and compliance with the CIPFA Code • Update our understanding of the Council's business processes associated with accounting for income <p><u>Fees, charges and other service income</u></p> <ul style="list-style-type: none"> • Agree, on a sample basis, income and year end receivables from other income to invoices and cash payment or other supporting evidence. <p><u>Taxation and non-specific grant income</u></p> <ul style="list-style-type: none"> • Income for national non-domestic rates and council tax is predictable and therefore we will conduct substantive analytical procedures • For other grants we will sample test items back to supporting information and subsequent receipt, considering accounting treatment where appropriate. <p><u>Expenditure</u></p> <ul style="list-style-type: none"> • Update our understanding of the Council's business processes associated with accounting for expenditure • Agree, on a sample basis, expenditure and year end creditors to invoices and cash payment or other supporting evidence <p>We will also design tests to address the risk that income and expenditure have been misstated by not being recognised in the correct financial year.</p>

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 2022/23 financial statements, consider and decide upon any objections received in relation to the 2022/23 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.

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.

Description	Planned audit procedures
<p>Determination</p> <p>We have determined financial statement materiality based on a proportion of the gross expenditure of the Council for the financial year. Materiality at the planning stage of our audit is £11.3m, which equates to 1.5% of your gross expenditure for the prior period.</p>	<p>We determine planning materiality in order to:</p> <ul style="list-style-type: none"> • establish what level of misstatement could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements • assist in establishing the scope of our audit engagement and audit tests • determine sample sizes and • assist in evaluating the effect of known and likely misstatements in the financial statements
<p>Other factors</p> <p>An item does not necessarily have to be large to be considered to have a material effect on the financial statements.</p>	<p>An item may be considered to be material by nature where it may affect instances when greater precision is required.</p> <ul style="list-style-type: none"> • We have identified senior officer remuneration as a balance where we will apply a lower materiality level, as these are considered sensitive disclosures. This will be considered on a qualitative basis.

Our approach to materiality

Description	Planned audit procedures
<p>Reassessment of materiality</p> <p>Our assessment of materiality is kept under review throughout the audit process.</p>	<p>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.</p>
<p>Other communications relating to materiality we will report to the Audit Committee</p> <p>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 and Standards 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.</p>	<p>We report to the Audit and Standards Committee any unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work.</p> <p>In the context of the Council, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £0.0565m (PY £0.0565m). 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 and Standards Committee to assist it in fulfilling its governance responsibilities.</p>

Our approach to materiality

	Amount (£)
Materiality for the financial statements	11,300,000
Performance Materiality	8,475,000
Trivial Matters	565,000
Materiality for specific transactions, balances or disclosures	Errors in the senior officer remuneration disclosure note will be assessed on a qualitative basis



IT audit strategy

In accordance with ISA (UK) 315 Revised, we are required to obtain an understanding of the relevant IT and technical infrastructure and details of the processes that operate within the IT environment. We are also required to consider the information captured to identify any audit relevant risks and design appropriate audit procedures in response. 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 and implementation of relevant ITGCs. We say more about ISA 315 Revised on slide 21.

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
Unit 4 Business World/Agresso	Financial reporting	Detailed ITGC assessment (design effectiveness only)
iTrent	Payroll	Detailed ITGC assessment (design effectiveness only)
Northgate	Housing Benefits/Council Tax/Business Rates	Detailed ITGC assessment (design effectiveness only)

Value for Money arrangements

Approach to Value for Money work for the period ended 31 March 2023

The National Audit Office issued its latest Value for Money guidance to auditors in January 2023. The Code expects auditors to consider whether a body has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. Auditors are expected to report any significant weaknesses in the body's arrangements, should they come to their attention. In undertaking their work, auditors are expected to have regard to three specified reporting criteria. These are as set out below:



Improving economy, efficiency and effectiveness

How the body uses information about its costs and performance to improve the way it manages and delivers its services.



Financial Sustainability

How the body plans and manages its resources to ensure it can continue to deliver its services.



Governance

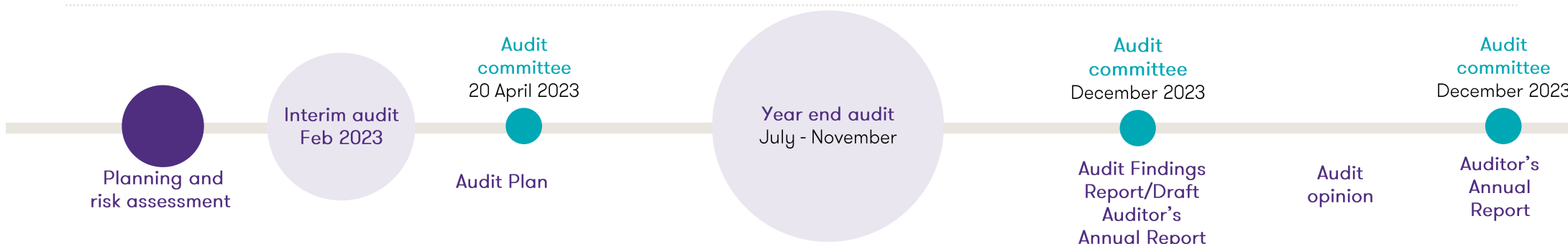
How the body ensures that it makes informed decisions and properly manages its risks.

We are considering the implication of the issues for our Auditors' Annual Report 2021/22 and 2022/23. At present we are minded to consider that this represents a significant weakness in the Council's:

- financial sustainability, as reserves will have reduced to an unsustainable level
- governance, as the Council has been unable to remain within its budget less than 3 months after the budget was agreed, and these issues have been reported to members by officers but does not appear to have elicited an appropriate response. We are also concerned re Press statements have been released in advance of formal decisions.

We will continue our review of your arrangements, including reviewing your Annual Governance Statement, before we issue our auditor's annual report.

Audit logistics and team



Andrew Smith, Key Audit Partner

Andy's role will be lead to our relationship with you and be a key contact for the s151 Officer and the Audit and Standards Committee. Andy will take overall responsibility for the delivery of a high quality audit, meeting the highest professional standards and adding value to the Authority as well as ensuring that Grant Thornton's full service offering is at your disposal.



Terry Tobin, Senior Audit Manager

Terry's role will be to manage the delivery of a high quality audit, meeting the highest professional standards and adding value to the Authority.

Audited Entity 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 audited bodies. Where the elapsed time to complete an audit exceeds that agreed due to an entity 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 an entity 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

To minimise the risk of a delayed audit, you need to :

- ensure that you produce draft financial statements of good quality by the deadline you have agreed with us, including all notes, the Annual 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 samples 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 and updated Auditing Standards including ISA 315 Revised

In 2017, PSAA awarded a contract of audit for Dudley Metropolitan Borough Council to begin with effect from 2018/19. Since that time, there have been a few developments, particularly in relation to the revised Code and ISA's which are relevant for the 2022/23 audit. For details of the changes which impacted on years up to 2021/22 please see our prior year Audit Plans.

The major change impacting on our audit for 2022/23 is the introduction of ISA (UK) 315 (Revised) - Identifying and assessing the risks of material misstatement ('ISA 315'). There are several significant changes that will impact the nature and extent of our risk assessment procedures and the work we perform to respond to these identified risks. Key changes include:

- Enhanced requirements around understanding the Council's IT Infrastructure, IT environment. From this we will then identify any risks arising from the use of IT. We are then required to identify the IT General Controls ('ITGCs') that address those risks and test the design and implementation of ITGCs that address the risks arising from the use of IT.
- Additional documentation of our understanding of the Council's business model, which may result in us needing to perform additional inquiries to understand the Council's end-to-end processes over more classes of transactions, balances and disclosures.
- We are required to identify controls within a business process and identify which of those controls are controls relevant to the audit. These include, but are not limited to, controls over significant risks and journal entries. We will need to identify the risks arising from the use of IT and the general IT controls (ITGCs) as part of obtaining an understanding of relevant controls.
- Where we do not test the operating effectiveness of controls, the assessment of risk will be the inherent risk, this means that our sample sizes may be larger than in previous years.

These are significant changes which will require us to increase the scope, nature and extent of our audit documentation, particularly in respect of your business processes, and your IT controls. We will be unable to determine the full fee impact until we have undertaken further work in respect of the above areas. However, for an authority of your size, we estimate an initial increase of £3,000. We will let you know if our work in respect of business processes and IT controls identifies any issues requiring further audit testing. There is likely to be an ongoing requirement for a fee increase in future years, although we are unable yet to quantify that.

The other major change to Auditing Standards in 2022/23 is in respect of ISA 240 which deals with the auditor's responsibilities relating to fraud in an audit of financial statements. This Standard gives more prominence to the risk of fraud in the audit planning process. We will let you know during the audit should we be required to undertake any additional work in this area which will impact on your fee.

Considering the above, our proposed work and fee for 2022/23, as set out below, is detailed overleaf.

Audit fees

	Actual Fee 2020/21	Actual Fee 2021/22	Proposed fee 2022/23
Dudley Metropolitan Borough Council Audit	£187,246	£185,809	£184,506
Total audit fees (excluding VAT)	£187,246	£185,809	£184,506

Assumptions

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

- prepare a good quality set of accounts, 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.

Audit fees – detailed analysis

Scale fee published by PSAA 2019	£116,246
Additional work on Value for Money (VfM) under new NAO Code	£20,000
Increased audit requirements of revised ISAs 540 / 240 / 700	£10,000
Enhanced audit procedures on journals testing (not included in the Scale Fee)	£3,000
Local Risk Factors	£16,000
Increased audit requirements of revised ISAs 315 / 240	£5,000
Additional testing in relation to employee remuneration	£500
Additional testing in relation to valuation of PPE	£5,260
Lowered materiality due to FRC expectations	£3,750
Additional quality control procedures due to FRC expectations	£1,500
Infrastructure assets	£2,500
Additional testing in relation to collection fund reliefs	£750
Total proposed audit fees 2022/23 (excluding VAT)	£184,506

All variations to the scale fee will need to be approved by PSAA.

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

The following other services provided by Grant Thornton were identified

The amounts detailed are fees agreed to-date for audit related and non-audit related 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
Housing Benefit subsidy certification 2021/22 and 2022/23	19,900	For these audit-related services, we consider that the following perceived threats may apply: <ul style="list-style-type: none"> Self Interest (because these are recurring fees) Self Review Management 	The level of recurring fees taken on their own is not significant in comparison to the confirmed scale fee for the audit of £184,506 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, each is a fixed fee and there is no contingent element to any of them. These factors all mitigate the perceived self-interest threat to an acceptable level.
Certification of Pooling of Housing Capital Receipts 2021/22 and 2022/23	5000 and 7,000		Our team has no involvement in the preparation of the form which is certified, and do not expect material misstatements in the financial statement to arise from the performance of the certification work. Although related income and expenditure is included within the financial statements, the work required in respect of certification is separate from the work required to the audit of the financial statements, and is performed after the audit of the financial statements has been completed.
Teachers Pensions 2021/22 and 2022/23	7,500		The scope of work does not include making decisions on behalf of management or recommending or suggesting a particular course of action for management to follow. Our team perform these engagements in line with set instructions and reporting frameworks. Any amendments made as a result of our work are the responsibility of informed management.

Communication of audit matters with those charged with governance

Our communication plan	Audit Plan	Audit Findings	<p>ISA (UK) 260, as well as other ISAs (UK), prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table here.</p> <p>This document, the Audit Plan, outlines our audit strategy and plan to deliver the audit, while the Audit Findings will be issued prior to approval of the financial statements and will present key issues, findings and other matters arising from the audit, together with an explanation as to how these have been resolved.</p> <p>We will communicate any adverse or unexpected findings affecting the audit on a timely basis, either informally or via an audit progress memorandum.</p> <p>Respective responsibilities</p> <p>As auditor we are responsible for performing the audit in accordance with ISAs (UK), which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance.</p> <p>The audit of the financial statements does not relieve management or those charged with governance of their responsibilities.</p>
Respective responsibilities of auditor and management/those charged with governance	•		
Overview of the planned scope and timing of the audit, form, timing and expected general content of communications including significant risks and Key Audit Matters	•		
Confirmation of independence and objectivity of the firm, the engagement team members and all other indirectly covered persons	•	•	
A statement that we have complied with relevant ethical requirements regarding independence. Relationships and other matters which might be thought to bear on independence. Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged. Details of safeguards applied to threats to independence	•	•	
Significant matters in relation to going concern	•	•	
Significant findings from the audit		•	
Significant matters and issue arising during the audit and written representations that have been sought		•	
Significant difficulties encountered during the audit		•	
Significant deficiencies in internal control identified during the audit		•	
Significant matters arising in connection with related parties		•	
Identification or suspicion of fraud(deliberate manipulation) involving management and/or which results in material misstatement of the financial statements (not typically council tax fraud)		•	
Non-compliance with laws and regulations		•	
Unadjusted misstatements and material disclosure omissions		•	
Expected modifications to the auditor's report, or emphasis of matter		•	

Informing the audit risk assessment for Dudley Metropolitan Borough Council 2022/23



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 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 your business or any weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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Purpose

The purpose of this report is to contribute towards the effective two-way communication between Dudley Metropolitan Borough Council's external auditors and Dudley Metropolitan Borough Council's Audit and Standards Committee, as 'those charged with governance'. The report covers some important areas of the auditor risk assessment where we are required to make inquiries of the Audit and Standards Committee under auditing standards.

Background

Under International Standards on Auditing (UK), (ISA(UK)) auditors have specific responsibilities to communicate with the Audit and Standards Committee. ISA(UK) emphasise the importance of two-way communication between the auditor and the Audit and Standards Committee and also specify matters that should be communicated.

This two-way communication assists both the auditor and the Audit and Standards Committee in understanding matters relating to the audit and developing a constructive working relationship. It also enables the auditor to obtain information relevant to the audit from the Audit and Standards Committee and supports the Audit and Standards Committee in fulfilling its responsibilities in relation to the financial reporting process.

Communication

As part of our risk assessment procedures we are required to obtain an understanding of management processes and Dudley Metropolitan Borough Council's oversight of the following areas:

- General Enquiries of Management
- Fraud,
- Laws and Regulations,
- Related Parties, and
- Accounting Estimates.

Purpose

This report includes a series of questions on each of these areas and the response we have received from Dudley Metropolitan Borough Council's management. The Audit and Standards Committee should consider whether these responses are consistent with its understanding and whether there are any further comments it wishes to make.

General Enquiries of Management

Question	Management response
1. What do you regard as the key events or issues that will have a significant impact on the financial statements for 2022/23?	No significant issues in 2022/23.
2. Have you considered the appropriateness of the accounting policies adopted by Dudley Metropolitan Borough Council? Have there been any events or transactions that may cause you to change or adopt new accounting policies?	Yes accounting policies have been reviewed and there are no changes. Note that the accounting policies regarding infrastructure were updated for both the 2020/21 and 2021/22 accounts following the change to the Code and introduction of the new Statutory Instrument relating to infrastructure.
3. Is there any use of financial instruments, including derivatives?	We use financial instruments including 2 longstanding LOBOs but not derivatives.
4. Are you aware of any significant transaction outside the normal course of business?	No

General Enquiries of Management

Question	Management response
5. Are you aware of any changes in circumstances that would lead to impairment of non-current assets?	No
6. Are you aware of any guarantee contracts?	Yes we have provided loan guarantees to local organisations such as Resonance (Music Institute), Dudley Canal Trust, Very Light Rail project including relating to the Black Country Innovative Manufacturing Organisation. We have also under-written various schemes under the Black Country Collaboration Agreement.
7. Are you aware of the existence of loss contingencies and/or un-asserted claims that may affect the financial statements?	No
8. Other than in house solicitors, can you provide details of those solicitors utilised by Dudley Metropolitan Borough Council during the year. Please indicate where they are working on open litigation or contingencies from prior years?	<p>Freeth (Energy for Waste)</p> <p>Harrison Clark Rickerbys (Holiday Pay Claims - Defendant)</p> <p>Trowers and Hamblins were instructed on the IPI</p> <p>Browne Jacobson have been instructed on ASB matters</p> <p>Sharpes reviewed the contract terms to bring them up to date with Data Protection</p> <p>Anthony Collins have been instructed on the care contracts</p> <p>Weightmans were instructed on the VLR</p>

General Enquiries of Management

Question	Management response	
9. Have any of Dudley Metropolitan Borough Council's service providers reported any items of fraud, non-compliance with laws and regulations or uncorrected misstatements which would affect the financial statements?	No	
10. Can you provide details of other advisors consulted during the year and the issue on which they were consulted?	<p>Avison Young and Gateley Hamer, Eddisions - Portersfield Development</p> <p>Amion Consulting, EWP Consulting, Gately Hamer, Launchpad and DWF Law ,KPMG; Trowers & Hamlins LLP; Amion Consulting & Robert J Kennedy consulting, Eddisions -Towns fund and future Hight streets</p> <p>Friths, Laser, Kelake - Waste / Energy Strategy</p> <p>Arcadis Consulting; Solihull MBC; DWF Law LLP; Red Kite, Network LLP; Thomas Lister Ltd - Levelling Up Funds bid</p> <p>Arcadis – Depot transformation</p> <p>APSE – Transport</p> <p>Quadient and Pyrus – Print Services /projects</p> <p>Riverside Consultancy – Adult Social Care</p> <p>Bevan Brittan – Extra Care scheme</p> <p>Newton Europe / CIPFA – Delivering Better Value programme</p>	

Fraud

Issue

Matters in relation to fraud

ISA (UK) 240 covers auditors responsibilities relating to fraud in an audit of financial statements.

The primary responsibility to prevent and detect fraud rests with both the Audit and Standards Committee and management. Management, with the oversight of the Audit and Standards Committee, needs to ensure a strong emphasis on fraud prevention and deterrence and encourage a culture of honest and ethical behaviour. As part of its oversight, the Audit and Standards Committee should consider the potential for override of controls and inappropriate influence over the financial reporting process.

As Dudley Metropolitan Borough Council's external auditor, we are responsible for obtaining reasonable assurance that the financial statements are free from material misstatement due to fraud or error. We are required to maintain professional scepticism throughout the audit, considering the potential for management override of controls.

As part of our audit risk assessment procedures we are required to consider risks of fraud. This includes considering the arrangements management has put in place with regard to fraud risks including:

- assessment that the financial statements could be materially misstated due to fraud,
- process for identifying and responding to risks of fraud, including any identified specific risks,
- communication with the Audit and Standards Committee regarding its processes for identifying and responding to risks of fraud, and
- communication to employees regarding business practices and ethical behaviour.

We need to understand how the Audit and Standards Committee oversees the above processes. We are also required to make inquiries of both management and the Audit and Standards Committee as to their knowledge of any actual, suspected or alleged fraud. These areas have been set out in the fraud risk assessment questions below together with responses from Dudley Metropolitan Borough Council's management.

Fraud risk assessment

Question	Management response
<p>1. Have Dudley Metropolitan Borough Council assessed the risk of material misstatement in the financial statements due to fraud?</p> <p>How has the process of identifying and responding to the risk of fraud been undertaken and what are the results of this process?</p> <p>How do the Dudley Metropolitan Borough Council's risk management processes link to financial reporting?</p>	<p>The Council maintains a fraud risk register that is updated on a regular basis. It is benchmarked against the registers held by other Local Authorities. Fraud risk is also assessed and significant fraud risks are considered for inclusion in the Annual Audit Plan. This regular assessment of fraud would include the risk of material misstatement of the financial statements due to fraud.</p> <p>Included in the list of risks reported to Strategic Executive Board on a quarterly basis is a risk in relation to fraud. The Director of Finance and Legal Services is responsible for the risk and the Head of Audit and Risk Management is responsible for ensuring that the appropriate mitigating actions are in place and are working effectively.</p> <p>The Audit and Standards Committee approved a revised Risk Management Framework at its April 2021 meeting. One criteria for assessing the impact of a risk is "Finance".</p>
<p>2. What have you determined to be the classes of accounts, transactions and disclosures most at risk to fraud?</p>	<p>The following areas are considered to provide the potential for significant fraud:</p> <ul style="list-style-type: none"> - Adults Social Care Personal Budgets/Direct Payments - Housing Tenancy Fraud - Housing Benefits/Council Tax Reduction

Fraud risk assessment

Question	Management response
<p>3. Are you aware of any instances of actual, suspected or alleged fraud, errors or other irregularities either within Dudley Metropolitan Borough Council as a whole or within specific departments since 1 April 2020?</p> <p>As a management team, how do you communicate risk issues (including fraud) to those charged with governance?</p>	<p>The Council maintains a Fraud Register (Corporate Fraud/Housing Tenancy Fraud) that lists all perceived frauds that have been brought to the attention of the Fraud Teams. Information on significant fraud is included in the Interim Performance Reports that are presented to Audit and Standards Committee. Also, an Annual Fraud Report and a Fraud Action Plan is presented to Audit and Standards Committee in April of each year.</p> <p>A risk report is normally presented to Audit and Standards Committee in June , September, December and April. These reports include a risk on fraud.</p>
<p>4. Have you identified any specific fraud risks?</p> <p>Do you have any concerns there are areas that are at risk of fraud?</p> <p>Are there particular locations within Dudley Metropolitan Borough Council where fraud is more likely to occur?</p>	<p>A Fraud Risk Register is maintained and fraud risk is regularly assessed. There are areas of the Council where fraud is more likely to occur. However, these areas are recognised and actions are in place to mitigate the risks. There are locations that due to the nature of their activity have an inherent risk of fraud e.g. stores.</p>
<p>5. What processes do Dudley Metropolitan Borough Council have in place to identify and respond to risks of fraud?</p>	<p>The Head of Audit and Risk Management is responsible for creating an environment where fraud is not tolerated. Reporting to the Head of Audit and Risk Management is a Corporate Fraud Manager who is dedicated to ensuring fraud is prevented, detected, investigated and resolved. He is supported by other members of the Audit Services Team, as required.</p> <p>There are also other teams who identify and respond to fraud risk, such as Housing Tenancy Fraud, The Corporate Fraud Manager would support these teams, if appropriate.</p> <p>The Council has an Anti-Fraud and Corruption Strategy and an Annual Fraud Report and a Fraud Action Plan are presented to Audit and Standards Committee each year. There is an online fraud awareness course (mandatory to complete) and various tools and resources on the Audit Services' intranet site (Connect). Audit Services will regularly share good practice across the Council, including specialised training, as well as providing advice on how to prevent fraud occurring.</p> <p>A Fraud and Enforcement Group is held on a regular basis.</p> <p>Audit Services co-ordinates the investigation of the matches identified through the National Fraud Initiative (NFI) and other internal and external data matching initiatives.</p>

Fraud risk assessment

Question	Management response
<p>6. How do you assess the overall control environment for Dudley Metropolitan Borough Council, including:</p> <ul style="list-style-type: none"> the existence of internal controls, including segregation of duties; and the process for reviewing the effectiveness the system of internal control? <p>If internal controls are not in place or not effective where are the risk areas and what mitigating actions have been taken?</p> <p>What other controls are in place to help prevent, deter or detect fraud?</p> <p>Are there any areas where there is a potential for override of controls or inappropriate influence over the financial reporting process (for example because of undue pressure to achieve financial targets)?</p>	<p>The Head of Audit and Risk Management designs his audit plan so that he is able to provide an annual opinion on the effectiveness of governance, risk management and internal control. This opinion is included in his annual report that is presented to Audit and Standards Committee. This opinion is then used to inform the Annual Governance Statement.</p> <p>Strategic Executive Board (SEB) and Senior Managers are involved in assessing the control environment as part of their work on the Annual Governance Statement. SEB formally agree the Annual Governance Statement before it is presented to Audit and Standards Committee for approval.</p> <p>The audit planning process would consider the potential for the override of controls or inappropriate influence over the financial reporting process. Where a significant fraud risk has been identified, the area would be considered for inclusion in the Annual Audit Plan.</p> <p>Audit Services follow up all Minimal assurance audit reports and all Critical and High actions. This helps to ensure that internal control issues are addressed on a timely basis.</p> <p>The Council has Financial Regulations, Contract Standing Orders, Codes of Conduct and Codes of Practice that set out the controls that need to be in place and adhered to.</p> <p>There is a robust budget monitoring process in place that would identify any significant error or fraud.</p>
<p>7. Are there any areas where there is potential for misreporting?</p>	<p>We are not aware of any areas where there is potential for misreporting.</p>

Fraud risk assessment

Question	Management response
<p>8. How do Dudley Metropolitan Borough Council communicate and encourage ethical behaviours and business processes of it's staff and contractors?</p> <p>How do you encourage staff to report their concerns about fraud?</p> <p>What concerns are staff expected to report about fraud?</p> <p>Have any significant issues been reported?</p>	<p>The Council has Codes of Conduct for Employees and Members. Employees are required to formally accept the Code of Conduct and declare any interests. Members are provided with training on ethical behaviour/Code of Conduct. The Council has a Whistleblowing Policy. An annual report on whistleblowing is presented to Audit and Standards Committee.</p> <p>The Council has a Suppliers' Code of Conduct which has been brought to the attention of all significant suppliers.</p> <p>Audit Services maintains a Fraud and Whistleblowing Hotline which is widely publicised. Staff have a number of ways to raise fraud or whistleblowing concerns, anonymously if required.</p> <p>Audit Services regularly audits governance processes including the acceptance of the Code of Conduct, declaration of interests and the recording of gifts and hospitality.</p>
<p>9. From a fraud and corruption perspective, what are considered to be high-risk posts?</p> <p>How are the risks relating to these posts identified, assessed and managed?</p>	<p>We have not identified any significant high risk posts.</p>
<p>10. Are you aware of any related party relationships or transactions that could give rise to instances of fraud?</p> <p>How do you mitigate the risks associated with fraud related to related party relationships and transactions?</p>	<p>We are not aware of any related party relationships that could give rise to instances of fraud. The need to comply with the Code of Conduct for Employees and Members is regularly publicised and potential conflicts of interest need to be formally declared. On each agenda for Member Committees is the requirement to formally declare any interests and these declarations are recorded in the minutes.</p> <p>For each tendering exercise, officers on the tender evaluation panel are required to declare any potential interests prior to the process starting.</p>

Fraud risk assessment

Question	Management response
<p>11. What arrangements are in place to report fraud issues and risks to the Audit and Standards Committee?</p> <p>How does the Audit and Standards Committee exercise oversight over management's processes for identifying and responding to risks of fraud and breaches of internal control?</p> <p>What has been the outcome of these arrangements so far this year?</p>	<p>Information on fraud is included in the Interim Performance Reports that are normally presented twice yearly to Audit and Standards Committees. Also, an Annual Fraud Report along with a proposed Fraud Action Plan is presented to the April meeting of Audit and Standards Committee.</p> <p>A risk report is presented to Strategic Executive Board and Audit and Standards Committee four times a year. These reports contain what is considered to be the most significant risks.</p> <p>Audit and Standards Committee are provided with all Critical and High priority Actions raised by Audit Services as well as management responses to resolve the actions.</p> <p>All Minimal assurance audit reports and Critical and High priority actions raised are followed up.</p> <p>Audit and Standards Committee ensure action is taken to resolve the identified issues.</p>
<p>12. Are you aware of any whistle blowing potential or complaints by potential whistle blowers? If so, what has been your response?</p>	<p>All whistleblowing referrals (if meet definition) are independently investigated.</p> <p>Whistleblowing referrals relating to fraud are investigated by Audit Services. The Monitoring Officer is made aware of all whistleblowing referrals and they are recorded and monitored centrally.</p>
<p>13. Have any reports been made under the Bribery Act?</p>	<p>No.</p>

Law and regulations

Issue

Matters in relation to laws and regulations

ISA (UK) 250 requires us to consider the impact of laws and regulations in an audit of the financial statements.

Management, with the oversight of the Audit and Standards Committee, is responsible for ensuring that Dudley Metropolitan Borough Council's operations are conducted in accordance with laws and regulations including those that determine amounts in the financial statements.

As auditor, we are responsible for obtaining reasonable assurance that the financial statements are free from material misstatement due to fraud or error, taking into account the appropriate legal and regulatory framework. As part of our risk assessment procedures we are required to make inquiries of management and the Audit and Standards Committee as to whether the entity is in compliance with laws and regulations. Where we become aware of information of non-compliance or suspected non-compliance we need to gain an understanding of the non-compliance and the possible effect on the financial statements.

Risk assessment questions have been set out below together with responses from management.

Impact of laws and regulations

Question	Management response
<p>1. How does management gain assurance that all relevant laws and regulations have been complied with?</p> <p>What arrangements does Dudley Metropolitan Borough Council have in place to prevent and detect non-compliance with laws and regulations?</p> <p>Are you aware of any changes to the Dudley Metropolitan Borough Council's regulatory environment that may have a significant impact on the Dudley Metropolitan Borough Council's financial statements?</p>	<p>a)</p> <ul style="list-style-type: none"> -Attendance of S151 Officer and Monitoring Officer at Strategic Executive Board. -Reports to Full Council/Cabinet/Committees have legal implications considered by appropriate lawyers. -Liaison between lawyers and officers when considering decisions with possible legal implications. <p>b) No</p>
<p>2. How is the Audit and Standards Committee provided with assurance that all relevant laws and regulations have been complied with?</p>	<p>S151 Officer and Monitoring Officer attend Audit and Standards Committee.</p> <p>Regular audit of Services across the Council with attendance of relevant Directors. Reviews of unimplemented Audits.</p> <p>Also, see question 1 above</p>
<p>3. Have there been any instances of non-compliance or suspected non-compliance with laws and regulation since 1 April 2021 with an on-going impact on the 2021/22 financial statements?</p>	<p>No</p>
<p>4. Is there any actual or potential litigation or claims that would affect the financial statements?</p>	<p>no</p>

Impact of laws and regulations

Question	Management response
5. What arrangements does Dudley Metropolitan Borough Council have in place to identify, evaluate and account for litigation or claims?	Liaison between relevant Services and lawyers. Also, see response in previous slide.
6. Have there been any report from other regulatory bodies, such as HM Revenues and Customs which indicate non-compliance?	No

Related Parties

Issue

Matters in relation to Related Parties

Dudley Metropolitan Borough Council are required to disclose transactions with entities/individuals that would be classed as related parties. These may include:

- entities that directly, or indirectly through one or more intermediaries, control, or are controlled by Dudley Metropolitan Borough Council;
- associates;
- joint ventures;
- an entity that has an interest in the authority that gives it significant influence over the Council;
- key management personnel, and close members of the family of key management personnel, and
- post-employment benefit plans (pension fund) for the benefit of employees of the Council, or of any entity that is a related party of the Council.

A disclosure is required if a transaction (or series of transactions) is material on either side, i.e. if a transaction is immaterial from the [type of body]'s perspective but material from a related party viewpoint then the Council must disclose it.

ISA (UK) 550 requires us to review your procedures for identifying related party transactions and obtain an understanding of the controls that you have established to identify such transactions. We will also carry out testing to ensure the related party transaction disclosures you make in the financial statements are complete and accurate.

Related Parties

Question	Management response
<p>1. Have there been any changes in the related parties including those disclosed in Dudley Metropolitan Borough Council's 2022/23 financial statements?</p> <p>If so please summarise:</p> <ul style="list-style-type: none"> the nature of the relationship between these related parties and Dudley Metropolitan Borough Council whether Dudley Metropolitan Borough Council has entered into or plans to enter into any transactions with these related parties the type and purpose of these transactions 	<p>No additions to related parties anticipated. We did remove some organisations from the related party disclosure note for 2021-22 where Dudley members' interest is not material and will continue to operate on this basis for 2022/23.</p>
<p>2. What controls does Dudley Metropolitan Borough Council have in place to identify, account for and disclose related party transactions and relationships?</p>	<p>A number of arrangements are in place for identifying the nature of a related party and reported value including:</p> <ul style="list-style-type: none"> Maintenance of a register of interests for Members a register for pecuniary interests in contracts for Officers and Senior Mangers requiring disclosure of related party transactions. Annual return from senior managers/officers requiring confirmation that they have read and understood the declaration requirements and stating details of any known related party interests. Review of in-year income and expenditure transactions with known identified related parties from prior year or known history. Review of the accounts payable and receivable systems and identification of amounts paid to/from assisted or voluntary organisation. Review of year end debtor and creditor positions in relation to the related parties identified.
<p>3. What controls are in place to authorise and approve significant transactions and arrangements with related parties?</p>	<p>There is nothing specific for related parties as all transactions are subject to checks with appropriate limits in place at each stage of the process.</p>
<p>4. What controls are in place to authorise and approve significant transactions outside of the normal course of business?</p>	<p>Financial transactions outside the normal course of business would need to approved by the S151 or deputy S151 officer</p>

Accounting estimates

Issue

Matters in relation to Related Accounting estimates

ISA (UK) 540 (Revised December 2018) requires auditors 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?

We would ask the Audit Committee to satisfy itself that the arrangements for accounting estimates are adequate.

Accounting Estimates - General Enquiries of Management

Question	Management response
1. What are the classes of transactions, events and conditions, that are significant to the financial statements that give rise to the need for, or changes in, accounting estimate and related disclosures?	Land & Buildings inc. Council House Dwellings and Depreciation Pension Liability Airport Valuation PFI Liabilities Credit Loss Allowance NNDR appeals provision Insurance Provision
2. How does the Council's risk management process identify and addresses risks relating to accounting estimates?	As part of the budget setting process and the update of the Medium Term Financial Strategy, risks are considered (including relating to accounting estimates) and detailed within appropriate reports and if a risk is considered material in line with the Risk Management Framework it is included on the Spectrum Risk Management System. All risks are reviewed as a minimum quarterly and all risks classified as Very High (Residual) are brought to the attention of Strategic Executive Board and Audit and Standards Committee. The Director of Finance and Legal Services has director responsibility for risk management.
3. How do management identify the methods, assumptions or source data, and the need for changes in them, in relation to key accounting estimates?	Using technical guidance and data obtained from various organisations, including Analyse Local, Link, BDO, Insurance actuaries, Savills, Bruton Knowles and SIGOMA. Service accountancy teams are embedded within the directorates that they support and therefore have access to all relevant source data, e.g. past claims data, number of Check, Challenge and Appeals data. The service accountancy teams working through the normal annual monitoring cycle, budget setting and final accounts discuss estimate assumptions regularly with Directorate Management teams and Strategic Executive Board
4. How do management review the outcomes of previous accounting estimates?	Estimates are constantly reviewed as part of budget setting, financial monitoring and the production of final accounts.
5. Were any changes made to the estimation processes in 2022/23 and, if so, what was the reason for these?	No changes made to estimation processes in 2022/23.

Accounting Estimates - General Enquiries of Management

Question	Management response
6. How do management identify the need for and apply specialised skills or knowledge related to accounting estimates?	All the key accounting estimates have been identified for many years including those that require specialised skills and knowledge such as pension liability, land and building valuations so processes for applying specialised skills and knowledge are well established. Financial Services staff work very closely with services, including attendance at senior management meetings. Therefore all significant transactions that require estimation eg a new provision would be reported to Financial Services. Decision Sheets and members reports have to be approved by Finance managers. Finance staff attend relevant training events and review guidance on any developments in accounting matters where the requirement for specialised skills would be flagged up eg IFRS 16
7. How does the Council determine what control activities are needed for significant accounting estimates, including the controls at any service providers or management experts?	Where we have concerns we have held meetings with the service management team. We have reviewed the detail documentation supporting the estimate, we have audited and where appropriate made recommendations for control process for the environment. Where relevant we review the contracts for appointing experts e.g. valuation of airport
8. How do management monitor the operation of control activities related to accounting estimates, including the key controls at any service providers or management experts?	For valuations regular monitoring meetings are held with valuers and the internal valuers monitor the output from external valuers for reasonableness and accuracy
9. What is the nature and extent of oversight and governance over management's financial reporting process relevant to accounting estimates, including: <ul style="list-style-type: none"> - Management's process for making significant accounting estimates - The methods and models used - The resultant accounting estimates included in the financial statements. 	A report was taken to Audit & Standards Committee on Accounting estimates to be used for 2022-23 Statement of Accounts in March 2023

Accounting Estimates - General Enquiries of Management

Question	Management response
10. Are management aware of transactions, events, conditions (or changes in these) that may give rise to recognition or disclosure of significant accounting estimates that require significant judgement (other than those in Appendix A)?	No
11. Are the management arrangements for the accounting estimates, as detailed in Appendix A reasonable?	Yes a risk based approach is taken to the management of approach of accounting estimates .
12. How is the Audit Committee provided with assurance that the arrangements for accounting estimates are adequate ?	Our approach was taken to the Audit & Standards Committee in March 2023

Appendix A Accounting Estimates

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Land and buildings valuations	Fair value for land/buildings defined as 'existing use' by Dudley Metropolitan Borough Council.	Valuations are performed annually to ensure that the fair value of a revalued asset does not differ materially from its carrying amount. For land and buildings all material assets will be considered in 2022/23	Yes – Internal and external valuers	Degree of uncertainty inherent with any revaluation. We employ professional valuers and rely on expert opinion and adherence to the latest RICS guidance	No
Council dwelling valuations	Existing Use Value – Social Housing	Valuations are performed annually to ensure that the fair value of a revalued asset does not differ materially from its carrying amount.	External valuers	Estimation method is prescribed by DLUHC	No
Depreciation	Each part of an item of property, plant and equipment with a significant cost in relation to the total cost is depreciated separately. Depreciation methods, useful lives and residual values are reviewed each financial year and adjusted if appropriate.	See left box	Valuers to assess useful lives	Depreciation is calculated on a straight line basis as this reflects consumption of assets and is a reasonable assumption	No

Appendix A Accounting Estimates

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Valuation of defined benefit net pension fund liabilities	Calculated by the actuary Hymans Robertson	Valuations are checked for reasonableness by the Central Finance Team	Yes – Hymans Robertson	The nature of these figures forecasting into the future are based upon the best information held at the current time and are developed by experts in their field.	No
Level 2 investments	Discounted contractual cashflows at the market rate for a similar investment of the same remaining term with a similar counterparty. Estimates are a disclosure only	Link's valuations are checked for reasonableness by Central Finance staff	Yes – Link Asset Services	Detailed in the Link Report	No
Level 3 investments	Earnings based approach for the airport shares	Valuations checked by Central Finance staff	Yes – BDO used by all the West Mids districts	Detailed in the BDO report	No
Fair value estimates	This is detailed within the table for each type of fair value estimate				

Appendix A Accounting Estimates

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Provisions	Provisions are identified through detailed monthly management accounts which flags any potential issues to management	Each provision is separately reviewed by Central Finance and a working is put together to support the calculation.	As necessary on an individual basis	Each provision is assessed on an individual basis to ensure that it meets the criteria of a provision per IAS 37. The degree of uncertainty is assessed when determining whether a provision is the correct treatment for an item	No
Accruals	We use standard accruals accounting –accruals are based on expenses incurred that have not yet been paid	Monthly management accounts provides rigorous analysis so that any accruals are highlighted and actioned throughout the year.	N/A.	N/A.	No
Credit loss and impairment allowances	The simplified approach is used to estimate the impairment loss allowance for trade receivables. Debts unpaid within 35 days are reviewed monthly and any debts that are deemed to be irrecoverable are written off on a 6 monthly basis.	Knowledge by the Accounts Receivables team in likelihood of recoverability and the aging of the debts. S151 Officer signs off the write offs	N/A	N/A	No

Appendix A Accounting Estimates (Continued)

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Finance lease liabilities	Spreadsheet model developed in-house	Review of property and vehicle databases	No	Standard lease valuation methodology used	No
PFI Liabilities	PFI conversion model created by an expert	Reviewed by finance staff	Yes	Detailed in expert's reports	No



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Audit and Standards Committee – 17th July, 2023

Report of the Lead for Law and Governance (Monitoring Officer)

Re-appointment of the Standards Sub-Committee

Purpose of Report

1. To confirm the re-appointment of the Standards Sub-Committee.

Recommendation

2. That the re-appointment of the Standards Sub-Committee for 2023/24, with its existing terms of reference, be confirmed.
3. That the Membership of the Sub-Committee comprise the Chair (Councillor A Lees), the Vice-Chair (Councillor D Borley) together with a Labour Member to be nominated at the meeting.

Background

4. In accordance with the Localism Act 2011 and the Council's Standards Arrangements, this Committee has previously agreed to appoint a Standards Sub-Committee.
5. The purpose of the Standards Sub-Committee is to hear and determine complaints against Members and Co-opted Members under the provisions of the Members' Code of Conduct and in accordance with local procedures.
6. The Sub-Committee comprises three elected members. Political proportionality is waived as to Membership and it is a matter for this Committee to decide the composition and membership.

7. In 2022/23, the Sub-Committee comprised the Chair (Councillor A Lees), the Vice-Chair (Councillor D Borley) and Councillor J Cowell.

Finance

8. The cost of holding meetings of the Sub-Committee are met from within existing resources.

Law

9. The relevant provisions are contained in the Localism Act, 2011 together with regulations, orders and statutory guidance issued by the Secretary of State.

Risk Management

10. There are no material risks arising from this proposal in relation to the Council's Risk Management Framework.

Equality Impact

11. The Sub-Committee will hear and determine complaints about alleged breaches of the Local Code of Conduct requiring Members and Co-opted Members to behave in a manner that is consistent with seven overriding principles so as to achieve best value for their residents and maintain public confidence in the Authority. The principles will have a bearing on issues such as equality.

Human Resources / Organisational Development

12. There are no direct Human Resources / Organisational Development implications.

Commercial / Procurement

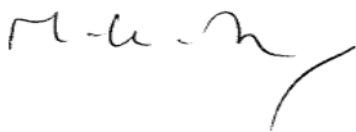
13. There are no commercial or procurement implications.

Environment/Climate Change

14. There are no environmental/climate change issues associated with this report.

Council Priorities and Projects

15. The Standards Sub-Committee is part of the Council's governance arrangements in relation to Member Conduct. The Constitution underpins the delivery of key Council priorities including the Borough Vision, Council Plan and Future Council Programme.



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Mohammed Farooq
Lead for Law and Governance (Monitoring Officer)

Report Author: Karen Taylor (Telephone: 01384 818116)
Email: karen.taylor@dudley.gov.uk

List of Background Papers
[The Council's Constitution](#)

Audit and Standards Committee – 17th July 2023

Report of the Director of Finance and Legal Services

Committee Work Plan 2023-24

Purpose of the Report

1. To introduce a work plan setting out a schedule of agenda items to consider at Committee meetings in the new Municipal year.

Recommendation

2. The Committee notes the contents of this report and approves the agenda schedule at **Appendix A**.

Background

3. The Committee has previously agreed to the introduction of a work plan report setting out scheduled agenda items for the Committee at the first meeting in the Municipal year.
4. Attached at **Appendix A** is a draft schedule of agenda items for the five meetings in the new Municipal year.

Finance

5. There are no direct financial implications of this report.

Law

6. The Accounts and Audit Regulations 2015 require the council to maintain a sound system of internal control which facilitates the effective exercise of its functions and the achievement of its aims and objectives; ensures that the financial and operational management of the authority is effective; and includes effective arrangements for the management of risk. The meetings of Audit and Standards Committee help to ensure that a sound system of internal control is in place.

Risk Management

7. The proposals contained within this report do not raise any “material” risks.

Equality Impact

8. This report does not raise any equal opportunities issues.
9. The work of Audit and Standards Committee helps to protect the interests of children and young people, albeit they were not consulted on, or involved, with the production of this report.

Human Resources/Organisational Development

10. There are no human resources/organisational development implications arising from this report.

Commercial/Procurement

11. This report does not have any commercial/procurement implications.

Environment/Climate Change

12. There are no environmental/climate change issues associated with this report.

Council Priorities/Projects

13. The work undertaken by Audit and Standards Committee helps to ensure council priorities are achieved by ensuring the council has an effective framework of governance, risk management and internal control.



Iain Newman
Director of Finance and Legal Services

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List of Background Papers

Appendix A - Schedule of Agenda items – Municipal Year 2023-24

APPENDIX A

Schedule of Agenda items – Municipal Year 2023-24

17th July 2023	Grant Thornton Annual Audit Plan 2022-23 including Informing the Audit Risk
	Re-appointment of Standards Sub-Committee
	Committee Work Plan 2023-24
	Audit and Risk Management Services Annual Performance Report 2022-23
25th September 2023	Grant Thornton Annual Auditors' Report 2021-22 and 22-23
	Statement of Accounts 2022-23
	Annual Governance Statement 2022-23
	Code of Corporate Governance
	Whistleblowing Policy
	Treasury Management
	Standing Orders relating to Contracts
	Exemptions from the requirement for a competitive procurement process
6th December 2023	Grant Thornton Audit Findings Report 2022-23
	Annual Report of the Committee on Standards in Public Life
	Risk Management Report
	Suspensions
	Audit and Risk Management Services Interim Performance Report
	Annual Audit Report 2022-23 – Chief Executive
19th February 2024	Treasury Management
	Annual Audit Report 2022-23 – Deputy Chief Executive
	Housing Assurance Board Report

24th April 2024	Grant Thornton Audit Plan 2023-24 including Informing the Audit Risk Assessment
	Annual Fraud Report
	Audit and Risk Management Services Annual Audit Plan 2024-25
	Risk Management Report
	Audit and Standards Committee Annual Report 2023-24
	Accounting Policies, Critical Accounting Judgements and Key Sources of Estimation Uncertainty

The Governance – Programmes, Projects and Contract Management Action Plan Report due to be presented to the Committee following the January 2023 meeting, will be scheduled when completed.

Due to the size of the agenda for the 25th September 2023 meeting, it may be necessary to arrange an additional Committee meeting.

Audit and Standards Committee – 17th July 2023

Report of the Director of Finance and Legal Services

Audit and Risk Management Services' Annual Performance Report 2022-23

Purpose of the Report

1. To give Members an overview of the performance of Audit and Risk Management Services for the financial year ending 31st March 2023.

Recommendations

2. The Committee accept this report on the performance of Audit and Risk Management Services during 2022-23.
3. The Committee requests Members to complete the questionnaire included at **Appendix D** and forward to the Head of Audit and Risk Management Services.

Background

Independence

4. The Public Sector Internal Audit Standards require that Audit Services (Internal Audit) is independent, and this is achieved by the Head of Audit and Risk Management Services reporting to the Audit and Standards Committee and having free and unfettered access to the Chief Executive and the Chair of the Audit and Standards Committee.
5. The Head of Audit and Risk Management Services is not aware of any issues that have impinged on the independence of Audit and

Risk Management Services during 2022-23 or interference in determining the scope of internal auditing, performing work and communicating results.

Performance Management

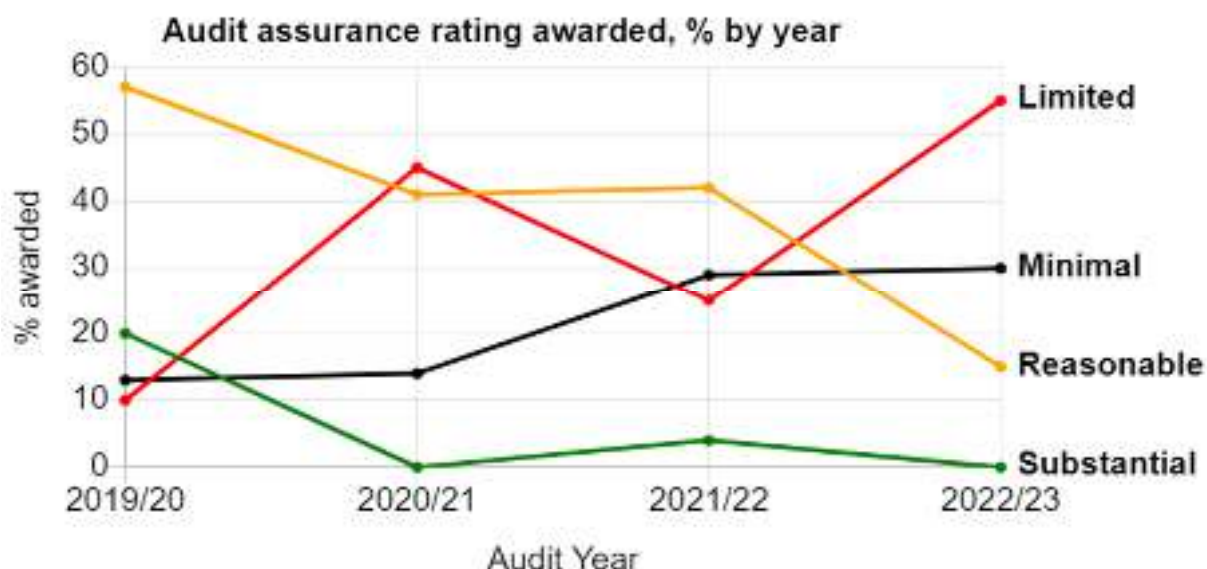
6. Audit and Risk Management Services completed 93% of the audit plan as at 31st March 2023 (compared with 93% in 2021/22). The work outstanding at the year-end is being finalised.
7. Audit and Risk Management Services reviewed 42 areas of activity, which are summarised in **Appendix A**. Cancelled audits and audits completed during 2022-23 that were not in the original audit plan are shown in **Appendix B**. In addition to this, Audit and Risk Management Services carried out:
 - 3 Honorary audits (8 sets of individual accounts),
 - 42 School Financial Value Standard assessment reviews,
 - Work on 1 Multi - Academy Trust audit.
8. The audit work carried out resulted in 466 Actions being raised. Of these, 7 were classified as “Critical” priority, 194 as “High” priority, 210 as “Medium” priority, and 55 as “Advisory”. In addition, there were also 64 actions that were unimplemented from the previous review. Please see **Appendix C**. The following assurance ratings were given for Council and school audits:

	2022-23	2021-22	2020-21	2019/20
Assurance Rating	Percentage Achieved (%)	Percentage Achieved (%)	Percentage Achieved (%) Council only (NB2)	Percentage Achieved (%) Council only (NB1)
Substantial	3	6	0	20
Reasonable	34	49	50	57
Limited	44	21	36	10
Minimal	19	24	14	13

NB1 – No school audits included as different audit assurance ratings were used for schools.

NB2 – No school audits undertaken due to the Covid pandemic

9. The below graph shows the audit assurance ratings for the Council (Directorates) reviews completed over the last 4 years, when the current assurance ratings were introduced. School audits are not included as prior to 2021/22 different assurance ratings were given.



10. Audit and Risk Management Services have a target of nine weeks to produce and issue the draft report from the start date of the audit. During 2022-23 (as at 31st March 2023), Audit and Risk Management Services achieved 89% (84% in 2021/22) against a target of 90%. There have been some extensive audits completed this year, which caused audits to take longer to complete.

In addition, the Team have completed 2 significant investigations, requested by the Director of Finance and Legal Services and the Director for Housing and Community Services respectively, which required significant resources from senior members of the team, which impacted upon targets and other responsibilities.

Also, Council Managers are under a lot of resource pressures and there have been difficulties with the supply of documents and explanations required on a timely basis.

11. Managers are required to provide an initial response within four weeks of the date of the draft report. This is to encourage Managers to liaise with Audit and Risk Management Services on a more-timely basis. 86% of Managers (as at 31st March 2023) provided an initial response within four weeks (94% during 2021/22).

12. Audit and Risk Management Services currently have a target of issuing the final audit report within six weeks of the date of the draft report. This target requires the support and co-operation of Directors. During 2022-23 (as at 31st March 2022), 50% of final reports were issued within six weeks of the date of the draft report. This compares with 67% during 2021/22. Audit and Risk Management Services regularly remind managers of this target and provide support if required.

Fraud

13. The Annual Fraud Report details what work has been completed in line with the Fraud Action Plan on prevention, detection, investigation and resolution. This was presented to the April 2023 meeting of Audit and Standards Committee.

Governance

14. Audit and Risk Management Services updated the Code of Corporate Governance, with support from Council Managers, which was then discussed at Strategic Executive Board and approved by Audit and Standards Committee in September 2022.
15. Audit and Risk Management Services made further improvements to the Annual Governance Statement for 2021/2022, which was discussed at Strategic Executive Board on two occasions and was approved by Audit and Standards Committee in January 2023.
16. Audit and Risk Management Services' staff have supported council Managers during the year with advice on procedures/systems, IT security, and compliance with Financial Regulations. Members of the team also attended a number of corporate and external groups.

Risk Management

17. During 2022/23 Audit and Risk Management Services have been working to implement and embed the Council's revised Risk Management Framework. The following has been completed:
- Risk workshops have been held with Directorate Management Teams,
 - Training and support provided to Directorate Management Teams,
 - Audit and Risk Management Services' staff have assisted directorates to produce and review their risk registers,

- Further changes have been made to the Risk Management System (Spectrum),
 - Risk Management reports have been provided to Strategic Executive Board and this Committee,
 - All Directors and Heads of Service who report directly to the Chief Executive, have completed a Risk Assurance Protocol for 2022/2023.
18. Due to the dynamic nature of risk management, the key risks recorded on the Strategic Executive Board Risk Report may change during the year, but as at 31st March 2023, the following risk areas were rated as “Very High” at the residual level (the rating above the Council’s Risk Appetite):
- Budget Management (R392),
 - Recruitment and Retention of staff (R399),
 - Regeneration Benefits (R408),
 - Statutory building safety and compliance responsibilities (R413),
 - Carbon reduction targets (R414),
 - Programme and project management oversight and assurance (R419),
 - Metro route between Dudley Town Centre and Brierley Hill (R580).

Follow Up of Previous Actions

19. It was previously resolved by this Committee, that Audit and Risk Management Services would follow up audit reports which had an overall assurance rating of “Minimal” within six months of the date the final report was issued, and the results would be presented to this Committee. This was to enable the Committee to assess management action, in appropriate cases on a more-timely basis. During the year the following “Minimal” assurance reports were issued or followed up:

Audit	Original Rating	First Follow Up Rating	Second Follow Up Rating	Follow Up Date
Travel Support Team	Minimal	Limited	N/A	N/A NB1
Children’s Direct Payments	Minimal	Limited	N/A	N/A NB1

Housing Property Compliance	Minimal	NB2	N/A	N/A
Managing Children's Services Performance	Minimal	Reasonable	N/A	N/A NB1
Electoral Services	Minimal	NB3	N/A	July 2023
Liquid Logic and Controcc Systems	Minimal	Limited	N/A	N/A NB1
Employee Warning System	Minimal	Minimal	N/A	Audit included in 2023/2024 Plan
Corporate Procurement	Minimal	N/A	N/A	August 2023
BACS System	Minimal	N/A	N/A	August 2023
Corporate Building Compliance Checks	Minimal	N/A	N/A	September 2023
Early Years Funding and Childcare Sufficiency	Minimal	N/A	N/A	November 2023
Regeneration Project Management Governance	Minimal	N/A	N/A	December 2023

NB1 – In line with Audit and Risk Management Services Follow Up Procedures where an audit assurance rating has improved from a “Minimal” rating, then future follow up work will cover the “High” Priority action ratings to ensure that these are all fully implemented.

NB2 – Audit and Risk Management Services agreed to postpone the follow up audit and the Council has referred itself to the Regulator of Social Housing.

NB3 – The follow up work was agreed to be postponed due to the new Elections Manager being appointed and the completion of the May Local Elections. This is now scheduled for the summer of 2023.

20. In addition to the follow up of “Minimal” audit reports, Audit and Risk Management Services also follows up all “High” priority Actions, approximately six months after the issue of the final audit report. During the period up to the 31st March 2023, Audit and Risk Management Services undertook 24 separate reviews and followed up in excess of 80 “High” priority Actions.

Budget

21. The cost of providing Audit and Risk Management Services during 2022/23 was approximately £450K (excluding overhead recharges) which was overspent by approximately £10,000. This was due to £17,000 in legal fees being incurred to support the special audit investigation reported to Audit and Standards Committee in November 2022. Audit and Risk Management Services have an income target that is difficult to achieve. The income target was missed by approximately £46,000, which was covered by the current Principal Auditor vacancy.

Customer Feedback

22. To obtain feedback about the quality of work, post-audit questionnaires are issued to customers after most audits. They are asked to respond to questions relating to the various stages of the audit process and also to provide an overall rating. For all questionnaires returned, except one, these indicated that either a “Very Good” or “Good” service had been received. The other questionnaire reported a “Satisfactory” service.
23. Audit and Risk Management Services also received 13 compliments during 2022/23 and no complaints.

Quality Assurance and Improvement Programme

24. From the 1st April 2013, CIPFA endorsed the new Public Sector Internal Audit Standards (PSIAS) which are based on the international standards for the professional practice of internal auditing but provide additional requirements and interpretations for UK public sector bodies.
25. The Head of Audit and Risk Management Services maintains a quality assurance and improvement programme that covers all aspects of internal audit activity and includes both internal and external assessments. Internal assessments would include the following:

- The Head of Audit and Risk Management Services would review all planning documentation and audit terms of reference (except for Schools) prior to them being issued. For Schools, a methodology is agreed in advance of the annual audit plan commencing to determine which areas are to be considered,
 - All internal audit work is reviewed by a more senior officer,
 - The Head of Audit and Risk Management Services reviews all draft reports and agrees all final reports before they are issued,
 - Post audit questionnaires are returned to the Head of Audit and Risk Management Services for review,
 - The Head of Audit and Risk Management Services undertakes the detailed review of a number of audit files each year,
 - The Head of Audit and Risk Management Services monitors the quality reports generated from the audit electronic system (Galileo),
 - The Head of Audit and Risk Management Services monitors the time spent on audits and the timeliness of audits being completed and ensures key performance indicators are being achieved,
 - The Head of Audit and Risk Management Services meets with Directors and Heads of Service on a regular basis and views on the internal audit service are obtained,
 - Benchmarking of procedures and activities are undertaken with other council internal audit teams on a regular basis,
 - Internal Audit Plans and Corporate Risk Registers are compared with similar organisations,
 - An Action Plan detailing all improvement and quality activity is maintained,
 - The Head of Audit and Risk Management Services monitors the internal audit press/media to understand developments in the profession.
 - Training is delivered in accordance with the agreed training priorities, which would include any training identified to assist in delivering the current year's plan.
26. The internal quality assurance programme has not identified any significant non- conformances with the Public Sector Internal Audit Standards (PSIAS) including the Code of Ethics. Regular discussions are held in Management and Team meetings on procedures and issues that have been identified.
27. Public Sector internal audit functions are required to have an external assessment to confirm compliance with the public sector internal audit standards every five years. The last assessment was undertaken by Business Risk Solutions (external assessor) in April

2020. The external assessor concluded that “Dudley MBC Internal Audit Division is delivering a service to a standard that meets the Public Sector Internal Audit Standards.”

Audit and Standards Committee

28. CIPFA published revised guidance on Audit Committees (June 2022), and a new position statement on the role of the Audit Committee. A self-assessment against this guidance will be undertaken during the coming municipal year and the results will be presented to Audit and Standards Committee.
29. CIPFA also suggests Members should evaluate their skills and knowledge on a regular basis and have developed a questionnaire for the purpose that is included at **Appendix D**. Although some Members of this Committee may have completed the questionnaire in the past, there may be benefit in updating the assessment, which will then be used to identify training needs.

External Audit

30. Audit and Risk Management Services have regular dialogue with Grant Thornton and provide access to working papers and reports. This helps to co-ordinate audit activity and avoids unnecessary duplication.

Head of Audit and Risk Management Services' Opinion

31. The Head of Audit and Risk Management Services is required by Public Sector Internal Audit Standards to deliver an annual report which contains an internal audit opinion. The internal audit opinion must conclude on the overall adequacy and effectiveness of the Council's framework of governance, risk management and control.
32. This opinion is based upon the work carried out by Audit and Risk Management Services during 2022-23 and any significant external assurance received by the Council that has been relied upon. It must be acknowledged, however, that it is not possible to review all aspects of governance, risk management and control within a single year. In giving the opinion it should be noted that assurance can never be absolute and the most that internal audit can provide is reasonable assurance that there are no major weaknesses in the Council's governance, risk management and control processes. In assessing the level of assurance, the following have been taken into account:

- All internal audit reviews undertaken including consultancy for the year ending 31st March 2023,
- Follow up reviews undertaken on “High” priority actions and audits that have been given a “Minimal” assurance rating,
- Continuing work being undertaken by Management to respond to actions arising from internal audit work,
- Whether any “Critical” or “High” priority actions have not been accepted by Management,
- Any other assurance opinion given by other providers that Audit and Risk Management Services have relied upon.

33. The Head of Audit and Risk Management Services’ opinion is as follows:

“I am satisfied that sufficient assurance work has been carried out to allow me to form a reasonable conclusion as to the adequacy and effectiveness of Dudley MBC’s overall internal control environment and there has been no limitations to the scope of our activity or resource constraints imposed on Audit and Risk Management Services which have impacted on our ability to meet the full internal audit needs of the council. Taking into account what is detailed in paragraph 32, for the 12 months ended 31st March 2023, I am able to provide ‘Reasonable’ assurance on Dudley MBC’s framework of governance, risk management and internal control, which is required in order to achieve the council’s priorities. The main concerns which I am required to bring to your attention are:

- The Regulator of Social Housing has concluded that the Council has breached the Home Standard and as a consequence there was the potential for serious detriment to tenants. This followed a self-referral from the Council to the regulator after the identification of a failure to be able to evidence statutory health and safety requirements in some of its homes. The Council had found that gas, fire, electrical and asbestos safety checks may not have been completed for every property that needed one. Also, a high number of fire remedial actions in the communal areas of its blocks were overdue.
- An Ofsted inspection in October/November 2022 (report issued January 2023) concluded “there has been an overall decline in the quality of services for children in Dudley since the last inspection in 2018. Children in Dudley are not receiving consistently effective services to improve their lives. Senior leaders and elected members understand the main challenges they face to improve the experiences of their most vulnerable

children, particularly in securing a stable and strong workforce. However, the response to these challenges is too slow. Political leaders do not give sufficient priority to the needs of vulnerable children, as frontline workforce capacity continues to be a huge factor preventing improvement”.

- Issues have been identified with the Council’s approach to managing programmes, projects and contracts.

Finance

34. There are no direct financial implications arising from this report. The cost of internal audit is met from within the base budget of the council.

Law

35. The council has a statutory duty under section 151 of the Local Government Finance Act 1972 to make arrangements for the proper administration of their financial affairs. This includes a duty to have effective controls and procedures in place to prevent, detect and investigate fraud.
36. Accounts and Audit Regulations 2015 state a relevant authority must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance.

Risk Management

37. The proposals contained in this report do not create any “material” risks.

Equality Impact

38. This report does not raise any equal opportunities issues.
39. The work of Audit and Risk Management Services helps to protect the interests of children and young people, albeit they were not consulted on, or involved, with the production of this report.

Human Resources/Organisational Development

40. This report does not contain any human resources/organisational development implications.

Commercial/Procurement

41. There are no commercial/procurement considerations relating to this report.

Environment/Climate Change

42. There are no environmental/climate change issues associated with this report.

Council Priorities and Projects

43. An effective framework of governance, risk management and internal control will greatly assist the council in achieving its priorities.



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List of Background Papers

Appendix A – Audit work carried out during 2022-23
Appendix B – Cancelled audits and additional audits
Appendix C – Summary of Actions
Appendix D – Member Core Areas of Knowledge

Public Sector Internal Audit Standards
CIPFA's Audit Committees Practical Guidance for Local Authorities and Police (2022)
Audit and Risk Management Services' Reports

Appendix A

AUDIT WORK CARRIED OUT DURING 2022-23

Status	Audit	Level of Assurance
Adult Social Care (3 audits)		
Final	Adult Safeguarding	Reasonable
Final	Central Purchasing Team	Reasonable
Final	Personal Budgets and Direct Payments	Minimal
Chief Executive (4 audits)		
Final	Corporate Performance Management	Limited
Final	Performance Data Quality	Limited
Final	Social Media	Limited
Final	Time Recording	Consultancy
Children's Services (5 audits)		
Final	Adoptions Payments	Limited
Final	Early Years Funding and Childcare Sufficiency	Minimal
Final	Restorative Practice DfE Grant Certification	N/a
Final	Strengthening Families Grant Claim	N/a
Draft	Children in Care Sufficiency	Limited
Digital, Customer and Commercial Services (3 audits)		
Final	BACS System	Minimal
Final	Corporate Procurement	Minimal
Draft	ICT Security Logging and Monitoring	Consultancy
Environment (2 audits)		
Final	Environment Contract Management	Limited
Final	Highways Maintenance	Limited
Finance and Legal (3 audits)		
Final	Corporate Governance (Annual Governance Statement/Code of Corporate Governance)	Consultancy
Final	Corporate Health and Safety	Limited
Final	Test and Trace Support Payments Grant Certification	N/a
Housing and Community Services (4 audits)		
Final	Council Property Lettings	Reasonable

Status	Audit	Level of Assurance
Final	Green Homes Local Authority Delivery Phase 2 Grant Certification	N/a
Final	Private Sector Housing Enforcement	Limited
Final	Protect and Vaccinate Grant Certification	N/a
Public Health and Wellbeing (2 audits)		
Final	Contain Outbreak Management Fund Grant Certification	N/a
Final	Environmental Safety	Limited
Regeneration and Enterprise (3 audits)		
Final	Corporate Building Compliance Checks	Minimal
Draft	CCTV	Limited
Final	Regeneration Project Management Governance	Minimal
Schools (13 audits)		
Final	Belle Vue Primary School	Reasonable
Final	Brierley Hill Primary School	Reasonable
Final	Caslon Primary School	Reasonable
Final	Dawley Brook Primary School	Reasonable
Final	Hawbush Primary School	Limited
Final	Netherton Park Nursery School	Substantial
Final	Our Lady and St Kenelm Primary School	Reasonable
Final	Queen Victoria Primary School	Reasonable
Final	Rosewood School	Limited
Final	Sycamore Short Stay School	Reasonable
Final	Woodsetton School	Reasonable
Draft	Dingle Community Primary School	Limited
Final	Schools Financial Value Standard Verification	Consultancy

Appendix B

CANCELLED AND ADDITIONAL AUDITS

Cancelled Audits

DIRECTORATE	REASON
Chief Executive	
Recruitment	The planned audit was delayed at the request of the Assistant Director People and Inclusion, as the service was undertaking a process review. This audit is included within the 2023/2024 Audit Plan.
Finance and Legal	
Business Rates	The planned audit was cancelled due to resources available within Audit and Risk Management Services. This audit is included within the 2023/2024 Audit Plan.
Treasury Management	The planned audit was cancelled due to resources available within Audit and Risk Management Services. The Treasury Management Team had also seen key members of staff leave. It was agreed to reschedule the audit, it is included within the 2023/2024 Audit Plan.
Regeneration and Enterprise	
Very Light Railway	The planned audit was cancelled due to resources available within Audit and Risk Management Services, and key staff leaving the Regeneration and Enterprise management team. This audit is included within the 2023/2024 Audit Plan.
Environment	
Public Realm Grant Claim	Due to a lack of spend against the grant, the final certification of grant expenditure has been delayed.

Additional Audits (Not included in the original Audit Plan)

DIRECTORATE	AUDIT
Chief Executive	Special Investigation Review
Chief Executive	Time Recording Consultancy
Childrens Services	Restorative Practice DfE Grant Certification
Finance and Legal	Test and Trace Support Payments Grant Certification
Housing and Community Services	Housing Maintenance Investigation
Housing and Community Services	Green Homes Local Authority Delivery Phase 2 Grant Certification
Housing and Community Services	Protect and Vaccinate Grant Certification
Public Health and Wellbeing	Contain Outbreak Management Fund Grant Certification

Appendix C

SUMMARY OF ACTIONS

Directorate	Total Actions	Critical	High	Medium	Advisory	Un
Adult Social Care (3 audits)	49	2	13	24	10	5
Chief Executive (4 audits)	47	0	15	27	5	5
Children's Services (5 audits)	20	1	8	7	4	2
Digital, Customer & Commercial Services (3 audits)	42	1	25	12	4	9
Environment (2 audits)	37	0	15	16	6	0
Finance & Legal (3 audits)	22	0	13	9	0	5
Housing & Community Services (4 audits)	29	0	14	9	6	10
Public Health & Wellbeing (2 audits)	13	0	8	4	1	0
Regeneration & Enterprise (3 audits)	81	3	48	28	2	11
Schools (13 audits)	126	0	35	74	17	17
TOTAL	466	7	194	210	55	64

Un – Unimplemented Finding/Action

Appendix D

Audit Committee members – knowledge and skills framework CORE AREAS OF KNOWLEDGE

Knowledge Area	Details of core knowledge required	How the Audit Committee member is able to apply the core knowledge	Required (Y or N)
Organisational knowledge	<ul style="list-style-type: none"> • An overview of the authority's governance structures and decision making processes. • Knowledge of the organisational objectives and major functions of the authority. 	<ul style="list-style-type: none"> • This knowledge will be core to most of the audit committee's activities, including the AGS review, internal and external audit reports and risk registers. 	
Audit committee role and functions	<ul style="list-style-type: none"> • An understanding of the audit committee's role and place within the governance structures. • Familiarity with the committee's terms of reference and accountability arrangements. • Knowledge of the purpose and role of the audit committee. 	<ul style="list-style-type: none"> • This knowledge will enable the audit committee to prioritise its work to ensure it discharges its responsibilities under its terms of reference and to avoid overlapping the work of others. • It will help the committee undertake a self-assessment and prepare its annual report. 	
Governance	<ul style="list-style-type: none"> • Knowledge of the seven principles as outlined in Delivering Good Governance in Local Government: Framework (CIPFA/Solace, 2016). • The requirements of the AGS. • How the principles of governance are implemented locally as set out in the local code of governance. 	<ul style="list-style-type: none"> • The committee will review the local code of governance and consider how governance arrangements align to the principles in the Framework. • The committee will plan the assurances it is to receive to adequately support the AGS. • The committee will review the AGS and consider how the authority is meeting the principles of good governance. • The committee will receive audit reports and information on risks relating to governance. 	

Internal audit	<ul style="list-style-type: none"> • An awareness of the key principles of the PSIAS and the LGAN. • Knowledge of the arrangements for delivery of the internal audit service in the authority and the charter. • How the role of the head of internal audit is fulfilled. • Details of the most recent external assessment and level of conformance with the standards. • Internal audit's strategy, plan and most recent annual opinion. 	<ul style="list-style-type: none"> • The audit committee has oversight of the internal audit function and will monitor its adherence to professional internal audit standards. • The audit committee will review the assurances from internal audit work and will review the risk-based audit plan. • The committee will also receive the annual report, including an opinion and information on conformance with professional standards. • In relying on the work of internal audit, the committee will need to be confident that professional standards are being followed. • The audit committee chair is likely to be interviewed as part of the external quality assessment, and the committee will receive the outcome of the assessment and action plan. 	
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Financial management and financial reporting	<ul style="list-style-type: none"> • Awareness of the financial statements that a local authority must produce and the principles it must follow to produce them. • An understanding of good financial management practice as set out in the CIPFA Financial Management Code (FM Code) and the level of compliance with it. • Knowledge of how the organisation meets the requirements of the role of the CFO as required by The Role of the Chief Financial Officer in Local Government (CIPFA, 2016) and The Role of CFOs in Policing (2021). • An overview of the principal financial risks the authority faces 	<ul style="list-style-type: none"> • Reviewing the financial statements prior to publication, asking questions. • Receiving the external audit report and opinion on the financial audit. • Reviewing both external and internal audit recommendations relating to financial management and controls. • The audit committee should consider compliance with the FM Code and the role of the CFO and how this is met when reviewing the AGS. 	
External audit	<ul style="list-style-type: none"> • Knowledge of the role and functions of the external auditor and who currently undertakes this role. • Knowledge of the key reports and assurances that external audit will provide. • Familiarity with the auditor's most recent plan and the opinion reports. • Knowledge about arrangements for the appointment of auditors and quality management undertaken. 	<ul style="list-style-type: none"> • The audit committee will meet with the external auditor regularly and receive their reports and opinions. • Monitoring external audit recommendations and maximising the benefit from the audit process. • The audit committee should monitor the relationship between the external auditor and the authority and support the delivery of an effective service 	

Risk management	<ul style="list-style-type: none"> • Understanding of the principles of risk management, including how it supports good governance and decision making. • Knowledge of the risk management policy and strategy of the organisation. • Understanding of risk governance arrangements, including the role of members and of the audit committee. • Knowledge of the current risk maturity of the organisation and any key areas of improvement. 	<ul style="list-style-type: none"> • In reviewing the AGS, the committee will consider the robustness of the authority's risk management arrangements. • Awareness of the major risks the authority faces is necessary to support the review of several audit committee agenda items, including the risk-based internal audit plan, external audit plans and the explanatory foreword of the accounts. Typically, risk registers will be used to inform the committee. • The committee should also review reports and action plans to develop the application of risk management practice 	
Counter fraud	<ul style="list-style-type: none"> • An understanding of the main areas of fraud and corruption risk that the organisation is exposed to. • Knowledge of the principles of good fraud risk management practice in accordance with the Code of Practice on Managing the Risk of Fraud and Corruption (CIPFA, 2014). • Knowledge of the organisation's arrangements for tackling fraud 	<ul style="list-style-type: none"> • Knowledge of fraud risks and good fraud risk management practice will be helpful when the committee reviews the organisation's fraud strategy and receives reports on the effectiveness of that strategy. • An assessment of arrangements should support the AGS, and knowledge of good fraud risk management practice will support the audit committee member in reviewing that assessment. 	

Values of good governance	<ul style="list-style-type: none"> • Knowledge of the Seven Principles of Public Life. • Knowledge of the authority's key arrangements to uphold ethical standards for both members and staff (eg code of conduct). • Knowledge of the whistleblowing arrangements in the authority. 	<ul style="list-style-type: none"> • The audit committee member will draw on this knowledge when reviewing governance issues and the AGS. • Oversight of the effectiveness of whistleblowing will be considered as part of the AGS. The audit committee member should know to whom concerns should be reported 	
Treasury management (only if it is within the terms of reference of the committee to provide scrutiny)	<ul style="list-style-type: none"> • Effective Scrutiny of Treasury Management is an assessment tool for reviewing the arrangements for undertaking scrutiny of treasury management. The key knowledge areas identified are: – regulatory requirements – treasury risks – the organisation's treasury management strategy – the organisation's policies and procedures in relation to treasury management. See also Treasure your assets (Centre for Governance and Scrutiny, 2017) 	<ul style="list-style-type: none"> • Core knowledge on treasury management is essential for the committee undertaking the role of scrutiny 	