Grant Thornton

# The Audit Findings for Dudley Metropolitan Borough Council (updated)

**Year ended 31 March 2021**

13 January 2023

# Contents

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

# 1. Headlines

This table summarises the key findings and other matters arising from the statutory audit of Dudley Borough Council's ('the Council') financial statements for the year ended 31 March 2021 for those charged with governance.

## Financial Statements

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

- the Council's financial statements give a true and fair view of the financial position of the Council and the Council's income and expenditure for the year; and
- have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting and prepared in accordance with the Local Audit and Accountability Act 2014.

We are also required to report whether other information published together with the audited financial statements including the Annual Governance Statement (AGS) and Narrative Report, is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

Our audit work was carried out between July 2021 and January 2022. The accounts were prepared to a good standard together with appropriate working papers available from the start of the audit for most areas. A notable exception to this were the papers for property valuation.

At the time of drafting our report to the September 2021 Audit and Standards Committee, our audit work was still in progress and we had issues to clear most notably in relation to council housing and land and buildings valuation. This audit work has now been completed. As a result of this work, the valuation of other land and buildings increased by £90.8m and the valuation of council housing increased by £11.8m a combined increase in Property Plant and Equipment of £102.6m as at 31 March 2021. Significant changes were also needed to the two prior years' accounts in relation to other land and building valuations. These audit adjustments are detailed in Appendix C.

Subsequent to the resolution of this issue, the audit was suspended awaiting a solution to a national issue on the accounting for infrastructure assets. Please see page 5 for more detail.

We have raised recommendations for management as a result of our audit work in Appendix A. Our follow up of recommendations from the prior year's audit are detailed in Appendix B.

Our work is now substantially complete and subject to the outstanding items set out on page 5 being resolved, we anticipate issuing an unqualified audit opinion.

We have concluded that the other information published with the financial statements, which includes the Statement of Accounts, Annual Governance Statement and Narrative Report, are consistent with our knowledge of your organisation and with the financial statements we have audited

# 1. Headlines

| Value for Money (VFM) arrangements | |
|---|---|
| Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to consider whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. Auditors are now required to report in more detail on the Council's overall arrangements, as well as key recommendations on any significant weaknesses in arrangements identified during the audit.<br><br>Auditors are required to report their commentary on the Council's arrangements under the following specified criteria:<br>- Improving economy, efficiency and effectiveness;<br>- Financial sustainability; and<br>- Governance | We completed our VFM work and issued our Auditor's Annual Report in March 2022.<br><br>As part of our work, we considered whether there were any risks of significant weakness in the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources. As part of our audit planning we identified a risk in respect of financial sustainability. Our work on this risk was completed and is summarised in the value for money arrangements section of this report. |
| **Statutory duties** | |
| The Local Audit and Accountability Act 2014 ('the Act') also requires us to:<br>• report to you if we have applied any of the additional powers and duties ascribed to us under the Act; and<br>• to certify the closure of the audit. | We have not exercised any of our additional statutory powers or duties.<br><br>We expect to certify the completion of the audit upon the completion of our work on the Council's whole of government audit work.. |
| **Significant Matters** | We encountered significant difficulties in obtaining some key reports from the Council's valuer. |

# 2. Financial Statements

## Overview of the scope of our audit

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

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

## Audit approach

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

- An evaluation of the Council's internal controls environment, including its IT systems and controls;
- Substantive testing on significant transactions and material account balances, including the procedures outlined in this report in relation to the key audit risks

We have not had to alter our audit plan, as communicated to you in April 2021.

## Conclusion

We have substantially completed our audit of your financial statements and subject to outstanding queries being resolved including outstanding infrastructure work and the receipt of am updated letter of representation, we anticipate issuing an unqualified audit opinion as detailed in Appendix E.

We received the information needed to conclude our work on land, building and housing valuation which had not all been made available to us initially. When we received this we found significant errors which necessitated major reworking of 2020/21 and prior year valuation figures. This is the second year that this has occurred. We escalated this to the Chief Executive and the responsible director. This is an area of concern for us and we consider that this reflects poorly on the governance of the Council. Urgent action is needed to resolve this issue and to strengthen controls in this area for future years.

The Code requires infrastructure assets to be valued at depreciated historical cost. It also requires that where a component of an asset is replaced, the carrying amount (i.e. net book value) of the old component is derecognised to avoid double counting. Most local authorities have been unable to comply with the requirement to assess the net book value of the replaced component and will therefore have treated the amount of the replaced component as zero. This is because the replaced component is considered to have been fully used up at the point that it is replaced. However, there is often a lack of evidence to support this assumption and some subsequent expenditure is often in addition to the previous asset rather than being a direct replacement. There was a significant risk that local authority financial statements could be subject to qualified audit opinions in this area if no action was taken. The Department for Levelling Up, Housing and Communities (DLUCH) therefore prepared a temporary statutory override with regards to infrastructure assets, whilst a permanent solution is developed by CIPFA. This statutory override was effective from 25 December 2022. In parallel to this, CIPFA revised the Code so that it reflects this temporary statutory override. We are now working through an audit work programme to make an assessment of whether there could be a material risk of misstatement for the Council. We expect to be in a position to complete this work in January 2023.

We have raised recommendations for management as a result of our audit work in Appendix A. Our follow up of recommendations from the prior year's audit are detailed in Appendix B.

We have concluded that the other information published with the financial statements, which includes the Statement of Accounts, Annual Governance Statement and Narrative Report, are consistent with our knowledge of your organisation and with the financial statements we have audited

We would like to take this opportunity to record our appreciation for the very good assistance provided by the finance team and other staff.

# 2. Financial Statements

## Our approach to materiality

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law.

Materiality levels remain the same as reported in our audit plan .We detail in the table below our determination of materiality for the Council

| | Council Amount (£) | Qualitative factors considered |
|---|---|---|
| Materiality for the financial statements | 10.25m | We determined materiality for the audit of the Council's financial statements as a whole to be £10.25m, which is 1.5% of the Council's gross operating expenses in 2019/20 |
| Performance materiality | 7.687m | We used a lower level of materiality, to determine the extent of our testing. We set this at 75% of financial statement materiality. |
| Trivial matters | 512k | We determined the threshold at which we would communicate misstatements to the Audit and Standards Committee at £512,000 (5% of financial statement materiality) |
| Materiality for senior officer remuneration | 100k | We have set a lower level of materiality for senior manager remuneration disclosures because we believe these disclosures are of specific interest to the reader of the accounts. |

# 2. Financial Statements - Significant risks

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

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

| Risks identified in our Audit Plan | Commentary |
|---|---|
| Management override of controls | We<br>- evaluated the design effectiveness of management controls over journals<br>- analysed the journals listing and determined the criteria for selecting high risk unusual journals<br>- identified and tested unusual journals made during the year and the accounts production stage for appropriateness and corroboration<br>- gained an understanding of the accounting estimates and critical judgements applied by management and considered their reasonableness with regard to corroborative evidence<br>- tested unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration;<br>- evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions.<br>There were no significant issues identified from our testing of journals.<br>We note that there is not a formal process for the routine authorisation of journals. The finance team do carry out some spot checks focussing in particular on accruals due to the heightened risk. Budgetary control is also expected to pick up errors or fraud, however, we consider that the lack of authorisation processes exposes the Council to the risk of fraud and error. We have recommended in Appendix A that the Council review its controls on the authorisation of journals. |
| Improper revenue recognition<br>Under ISA 240 (UK) there is a presumed risk that revenue may be misstated due to the improper recognition of revenue. | Auditor commentary<br>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:<br>there is little incentive to manipulate revenue recognition<br>opportunities to manipulate revenue recognition are very limited<br>the culture and ethical frameworks of local authorities, including the Council, mean that all forms of fraud are seen as unacceptable<br>In addition we completed our understanding of the processes and controls surrounding COVID-19 grant income and determined that this can also be rebutted.<br>Therefore we do not consider this to be a significant risk for the Council. |

# Significant audit risks

| Risks identified in our Audit Plan | Commentary |
|---|---|
| **Valuation of land and buildings**<br>The Council re-values its land and buildings on a rolling five year programme to ensure that the carrying value is not materially different from fair value. It also carries out a desk top exercise each year to ensure that those assets not revalued in that year are not materially misstated. This represents a significant estimate by management in the financial statements due to its size as land and buildings form a significant part of the Authority's assets.<br>We identified the valuation of land and buildings valuations as a risk requiring special audit consideration.<br>. | **Auditor commentary**<br>Our audit work included, but was not restricted to:<br>• assessing management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work;<br>• evaluating the competence, capabilities and objectivity of the Council's management experts;<br>• writing to the valuers to confirm the basis on which the valuation was carried out to ensure that the requirements of the CIPFA code are met<br>• challenging the information and assumptions used by the valuer to assess completeness and consistency with our understanding;<br>• testing revaluations and ensuring they are input correctly into the Council's asset register and accounted for correctly<br>• discussing with the valuer the basis on which the valuation was carried out, including challenging the key assumptions used; and<br>• 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.<br>The Council's accounting policy on land and buildings PPE valuations is shown in note 33 to the financial statements and related disclosures are included in note 17.<br>Our work in this area was significantly delayed again this year as we awaited key information to conclude our work. This included a valuation report, evidence to support valuations and responses to our queries. **We escalated this to the Chief Executive and the responsible director and this was eventually received. This is an area of concern for us and we consider that this reflects poorly on the governance of the Council. Urgent action is needed to resolve this issue and to strengthen controls in this area for future years. When the information was received we found material errors in the valuations. The building cost indices used for 2020/21 and prior years were incorrect leading to a change in valuation in the accounts of £90.8m as at 31 March 2021. In addition, the original valuation of your council housing stock did not reflect information provided by other valuers. Your valuer reconsidered this leading to an increase in valuation of council houses of £11.8m.** |

# Significant audit risks

| Risks identified in our Audit Plan | Auditor commentary |
|---|---|
| **Valuation of pension fund net liability**<br><br>The Authority's net pension fund liability represents a significant estimate in the Authority's financial statements. The pension fund net liability is considered a significant estimate due to the size of the numbers involved and the sensitivity of the estimate to changes in key assumptions.<br><br>The methods applied in the calculation of the IAS19 estimates are routine and commonly applied by all actuarial firms in line with the requirements set out in the Code of Practice for Local Authority Accounting (the applicable financial reporting framework) We have therefore concluded that there is not a significant risk of material misstatement in the IAS19 estimate due to the methods and models used in their calculation.<br><br>The source data used by the actuaries to produce the IAS19 estimates is provided by the administering authorities and employers. We do not consider this to be a significant risk as this is easily verifiable.<br><br>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 IAS19 liability. We have therefore concluded there is a significant risk of material misstatement in the IAS19 estimate due to the assumptions used in the calculation. With regard to these assumptions we have therefore identified the valuation of the Authority's pension fund net liability as a significant risk. | Our audit work included, but was not restricted to:<br>• Update our understanding of the processes and the controls put in place by management to ensure that the net pension fund liability was not materially misstated and evaluating the design of the associated controls;<br>• evaluating the competence, capabilities and objectivity of the Council's actuary who carried out the pension fund valuation;<br>• undertaking procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary and performing any additional procedures suggested within the report;<br>• confirming the consistency of the pension fund gross asset and gross liability figures and associated disclosures in the notes to the financial statements with the actuarial report from the actuary;<br>• obtaining 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<br>• performing analytical procedures in respect of the gross pension fund assets and liabilities.<br>• evaluating the instructions issued by management to their management expert (the actuary Barnett Waddingham) for this estimate and the scope of the actuary's work;<br>• assessing the accuracy and completeness of the information provided by the Authority to the actuary to estimate the liability; and<br>• testing 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.<br><br>The Council's accounting policy on the valuation of the net pension fund liability is shown in note 33 to the financial statements and related disclosures are included in note 28.<br><br>We note that the auditor of the West Midlands Pension Fund identified an understatement in the valuation of the Fund's assets during the course of their audit. The issue arose as a result of a lag in the valuation process for the Fund's assets. This is a function of the Fund's reporting process and is not considered indicative of a control weakness at the Council. This is not an unusual finding at Pension Fund audits, with the size of the variance being attributable of the ongoing volatility of markets at the time.<br><br>The auditor reported an extrapolated understatement in value of £79m in the value of level 3 assets (which included a quantifiable difference of £66.3m) and an actual difference of £11m in the value of level 2 assets. The Council's (7.64%) share of the total £90m difference is £6.876 million. The Council has amended for their share of the quantifiable element of £66.3 and £11m, (£77.3m in total). The adjustment was c£6m. This has reduced the Council's net pension liability and increased the return on assets in the other comprehensive income. The remaining share of £0.97 million remains an unadjusted error |

# 2. Financial Statements - other risks

| Risks identified in our Audit Plan | Commentary |
| --- | --- |
| Value of Infrastructure assets and the presentation of the gross cost and accumulated depreciation in the PPE note<br><br>Risk relates to the Council only<br><br>Infrastructure assets includes roads, highways and streetlighting. As at 31 March 2021, the net book value of infrastructure assets was £418m which is a significant multiple of materiality.<br><br>In accordance with the LG Code, Infrastructure assets are measured using the historical cost basis, and carried at depreciated<br><br>historical cost. With respect to the financial statements, there are two risks which we plan to address:<br><br>1.The risk that the value of infrastructure assets is materially misstated as a result of applying an inappropriate Useful Economic Life (UEL) to components of infrastructure assets.<br><br>2.The risk that the presentation of the PPE note is materially misstated insofar as the gross cost and accumulated depreciation of Infrastructure assets is overstated. It will be overstated if management do not derecognise components of Infrastructure when they are replaced.<br><br>For the avoidance of any doubt, these two risks have not been assessed as a significant risk at this stage, but we have assessed that there is some risk of material misstatement that requires an audit response. | We have:<br><br>**•Reconciled the Fixed Asset Register to the Financial statements**<br><br>**•Using our own point estimate, considered the reasonableness of depreciation charge to Infrastructure assets**<br><br>**•Obtained assurance that the UEL applied to Infrastructure assets is reasonable**<br><br>**•Documented our understanding of management's process for derecognising Infrastructure assets on replacement and obtain assurances that the disclosure in the PPE note is not materially misstated**<br><br>We are currently completing the work as set out above. The Council does not derecognise Infrastructure assets on replacement. As such, we cannot conclude that the disclosure is not materially misstated. This is a national issue and, as set out on page 4, the Department for Levelling Up, Housing & Communities (DLUHC) have worked on a Statutory Instrument and laid this in Parliament on 30 November 2022. It come into force on 25 December 2022. It is hoped that this Statutory Instrument, together with updates to the CIPFA Code, will resolve the majority of the ongoing audit challenges related to infrastructure asset balances |

# Other audit risks

| Risks identified in our Audit Plan | Auditor commentary |
|---|---|
| Senior Officers Remuneration<br>With a lower materiality applied owing to the sensitivities around these disclosures, there is heightened risk that a material misstatement may occur | **We:**<br>**• gained an understanding of the process used for recording Senior Officer Remuneration and evaluate the procedures;**<br>**• agreed, on a sample basis, entries in the remuneration report to payroll evidence and pension disclosures.**<br><br>**Our work did not identify any significant issues.** |
| Completeness of non-pay operating expenses and payables<br>Non-pay expenses on goods and services represent a significant percentage of the Council's operating expenses. Management uses judgement to estimate accruals of costs yet to be invoiced. There is a high instance of these estimated accruals at the year-end.<br><br>The Council has processed a number of COVID 19 related grants in 2020/21. We consider that these present an increased risk of fraud or error.<br><br>We therefore identified completeness of non-pay operating expenses and payables as a risk requiring audit consideration. | We<br>• evaluated the Council's accounting policy for recognition of non-pay expenditure for appropriateness;<br>• gained an understanding of the Council's system for accounting for non-pay expenditure and evaluate the design of the associated controls;<br>• tested a sample of balances included within trade and other payables;<br>• tested a sample of expenditure and year end balances related to COVID grants;<br>• tested a sample of payments immediately prior to and after the year end to ensure that appropriate cut-off has been applied, and therefore that the expenditure has been recognised in the correct period.<br><br>**Our work has not identified any significant issues.** |

# 2.Financial statements – key judgements and estimates

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

| Accounting area | Summary of management's policy | Audit Comments | Assessment |
|---|---|---|---|
| Provisions for NNDR appeals | The Council are responsible for repaying a proportion of successful rateable value appeals. Management's calculation is based upon the latest information about outstanding rates appeals provided by the Valuation Office Agency (VOA) and previous success rates. | The Council has made a provision for the Business Rate appeals that have been received but not settled at year end and an assessment of potential appeals. The Council's estimate is based on the likelihood of various types of claims having to be settled and the estimated value of the settlement. The Council's provision follows a similar basis to the previous year and overall we are satisfied with the approach taken and that the provision is not materially misstated. | Green |
| Land and Buildings – Council Housing - | The Council owns 21,397 dwellings and is required to revalue these properties in accordance with MHCLG's Stock Valuation for Resource Accounting guidance. The guidance requires the use of beacon methodology, in which a detailed valuation of representative property types is then applied to similar properties. The Council has engaged an external valuer to complete the valuation of these properties. The year end valuation of Council Housing was £937m in the draft accounts, a net increase from the 2019/20 balance of £925m. | We challenged the basis for this valuation and whether it meets the Code requirements. In particular we requested the external valuer to explain the reason for the uplift in values from the previous years compared to information available from other valuers. As a result of this challenge the valuer reviewed the valuation and this increased by £11.8M. | Red |

**Assessment**

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

# 2.Financial statements – key judgements and estimates

| | Summary of management's policy | Audit Comments | Assessment |
|---|---|---|---|
| Land and Buildings – Other | Other land and buildings comprises specialised assets such as schools and libraries, which are required to be valued at depreciated replacement cost (DRC) at year end, reflecting the cost of a modern equivalent asset necessary to deliver the same service provision. The remainder of other land and buildings are not specialised in nature and are required to be valued at existing use in value (EUV) at year end. The Council has engaged its in-house valuer to complete the valuation of properties as at 31 March 2020 on a five yearly cyclical basis. Management has considered the year end value of non-valued properties and the potential valuation change in the assets revalued at 31 March 2020 to determine whether there has been a material change in the total value of these properties. Management's assessment of assets not revalued has identified no material change to the properties value. | Our work in this area was significantly delayed again this year as we awaited key information to conclude our work. This included a valuation report, evidence to support valuations and responses to our queries. We escalated this to the Chief Executive and the responsible director and this was subsequently received. This is an area of concern for us and we consider that this reflects poorly on the governance of the Council. Urgent action is needed to resolve this issue and to strengthen controls in this area for future years. When the information was received we found material errors in the valuations. The building cost indices used for 2020/21 and prior years were incorrect leading to a change in valuation in the accounts of £90.8m as at 31 March 2021. | Red |

# 2.Financial statements – key judgements and estimates

| | Summary of management's policy | Audit Comments | Assessment |
|---|---|---|---|
| **Net pension liability – £m** | The Council's net pension liability in its draft accounts at 31 March 2021 is £795m (PY £557m) comprises the West Midlands Pension Fund Local Government and unfunded defined benefit pension scheme obligations. The Council uses Barnett Waddingham to provide actuarial valuations of the Council's assets and liabilities. A full actuarial valuation is required every three years. The latest full actuarial valuation was completed in 2019. A roll forward approach is used in intervening periods, which utilises key assumptions such as life expectancy, discount rates, salary growth and investment returns. Given the significant value of the net pension fund liability, small changes in assumptions can result in significant valuation movements. | PwC were engaged by the NAO as consulting actuary to undertake a central review of the actuaries used by the Local Government Pension Scheme (LGPS). They produce a report designed to provide support to auditors when assessing the competence and objectivity of, and assumptions and approach adopted by, actuaries producing IAS 19 figures in respect of the LGPS, Police and Fire schemes as at 31 March 2021.<br>We use this report to inform our assessment of the valuation of the pension fund liability in the Authority's accounts. We have compared the assumptions used by the Authority's actuary against industry benchmarks. Based on the work performed we are able to conclude that management's assumptions overall are reasonable. | Green |

| Assumption | Actuary Value | PwC range | Assessment |
|---|---|---|---|
| Discount rate | 2% | 1.95% - 2.05% | ● |
| Pension increase rate | 2.85% | 2.80%-2.85% p.a | ● |
| Salary growth | 3.85% | 1% above CPI ranges of 2.80%-2.85% p.a | ● |
| Life expectancy – Males currently aged 45 / 65 | Retiring today::<br>Males: 21.6 years<br>Retiring in 20 years: after CMI 2020 update: Males: 23.4 years | Male<br>Pensioners: 20.5 – 23.1<br>Non-pensioners: 21.9 – 24.4 | ● |
| Life expectancy – Females currently aged 45 / 65 | Retiring today:<br>Females: 23.9 years<br>Retiring in 20 years: after CMI 2020 update: Females: 25.8 years | Females:<br>Pensioners: 23.3 – 25.0<br>Non-pensioners: 24.8 – 26.4 | ● |

# 2.Financial statements – key judgements and estimates

| | Summary of management's policy | Audit Comments | Assessment |
|---|---|---|---|
| Net pension liability | | We have also reviewed the:<br>• Completeness and accuracy of the underlying information used to determine the estimate<br>• Reasonableness of the Authority's share of LGPS pension assets.<br>• Reasonableness of increase/decrease in estimate<br>• Adequacy of disclosure of estimate in the financial statements<br><br>We note that the auditor of the West Midlands Pension Fund identified an understatement in the valuation of the Fund's assets during the course of their audit. The issue arose as a result of a lag in the valuation process for the Fund's assets. This is a function of the Fund's reporting process and is not considered indicative of a control weakness at the Council. This is not an unusual finding at Pension Fund audits, with the size of the variance being attributable of the ongoing volatility of markets at the time.<br><br>The auditor reported an extrapolated understatement in value of £79m in the value of level 3 assets (which included a quantifiable of difference of £66.3m) and an actual difference of £11m in the value of level 2 assets. The Council's (7.64%) share of the total £90m difference is £6.876 million. The Council has amended for their share of the quantifiable element of £66.3 and £11m, (£77.3m in total). The adjustment was c£6m. This has reduced the Council's net pension liability and increased the return on assets in the other comprehensive income. The remaining share of £0.97 million remains an unadjusted error | |

**Assessment**

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

# 2. Financial statements – key judgements and estimates

| | Summary of management's policy | Audit Comments | Assessment |
|---|---|---|---|
| Valuation of investment in Birmingham Airport | The Council holds shares in Birmingham Airport Holdings Limited (BAHL) and is required to record this investment in the accounts at fair value. As shares in this company are not traded frequently the Council has had to estimate the value of its investment. The Council has drafted an estimation approach in conjunction with other West Midlands Metropolitan Councils that also hold shares in BAHL | We assessed management's expert as competent to carry out the valuation. Due to the additional risks, we employed our own valuation expert to review their work. We did not identify any significant issues in this work. | Green |

**Assessment**

- We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- We consider management's process and key assumptions to be reasonable

# Estimates and judgements–review of issues raised in prior year

| Issue and risk previously communicated | Update on actions taken to address the issue |
|---|---|
| **Estimates and judgements -PFI (Paragon Schools) disclosure**<br>The Council is required to disclose the future unitary payments (split into service charges, repayment of Liability, and finance costs) for the life of the schemes. For the Paragon Schools disclosure we identified differences between the model used by the Council and our own model.<br><br>The differences were across the split of the unitary payment (service charge, liability and finance costs). Overall there was a trivial impact on the total future unitary payments disclosed. There is £907,000 difference on long term borrowing in the balance sheet. | Pages 106 to 108 of the 2020/21 draft financial statements contains the required disclosure. As in previous years differences were noted, across the split of the unitary payment, between the model used by the Council and our own model. These differences are set out in the table below and overall there is a trivial impact on the total future unitary payments disclosed. Officers consider that their model is appropriate and have not adjusted for this. |

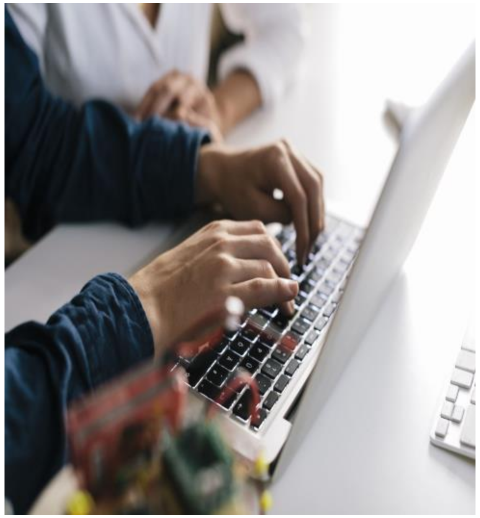
| | Service Charge £000 | Finance costs £000 | Contingent Rent £000 |
|---|---|---|---|
| Within 1 year | 389 | (300) | (138) |
| 2-5 years | 2,031 | (1,027) | (680) |
| 6-10 years | 3,137 | (647) | (1,045) |
| 11-15 years | 384 | 0 | 0 |
| **Total** | **5,941** | **(1,973)** | **(1,863)** |

# 2. Financial Statements - other communication requirements

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

| Issue | Commentary |
|---|---|
| Matters in relation to fraud | We have previously discussed the risk of fraud with the Audit and Standards Committee. We have not been made aware of any other incidents in the period and no other issues have been identified during the course of our audit procedures. |
| Matters in relation to related parties | We are not aware of any related parties or related party transactions which have not been disclosed but we do recommend that the Council review the related parties included in the accounts as they do not fully meet the definition in the Code of Practice of Local Authority Accounting. |
| Matters in relation to laws and regulations | You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work. |
| Written representations | A letter of representation was obtained from the Council which was included in the September Audit and Standards Committee papers. We have requested an update to this letter. |

# 2. Financial Statements - other communication requirements



| Issue | Commentary |
|---|---|
| Confirmation requests from third parties | We requested from management permission to send confirmation requests to third party banks and other financial institutions and a number of other local authorities. This permission was granted and the requests were sent. Of these requests all were returned with positive confirmations.<br>There are a number of third party balances where it is more efficient to undertook alternative procedures, including long term debt with the PWLB where we received central notification of the balances and temporary borrowing where the cash had been repaid before the audit commenced. |
| Accounting practices | Our review found no material omissions in the financial statements but there were some areas where there was not full compliance. These included compliance with IFRS15 disclosure requirements ( Code section 2.7.4) and the disclosure required by Code 3.4.2.31 setting out the nature of the reclassification in CIES due to structural change and in particular the amount of each item reclassified.<br>Note 36: Assumptions Made About the Future, and Other Major Sources of Estimation Uncertainty does not fully comply with the Code in reporting on uncertainty including the requirement to include a sensitivity analysis for all assumptions noted. |
| Audit evidence and explanations/ significant difficulties | Most information and explanations requested from management was provided promptly in carrying out the audit. The only significant difficulty we experienced was in obtaining information from the Council's valuer. This is the second year that this has occurred. We have escalated this to the Chief Executive and the responsible director. This is an area of concern for us and we consider that this reflects poorly on the governance of the Council. Urgent action is needed to resolve this issue and to strengthen controls in this area for future years. |

# 2. Financial Statements - other communication requirements

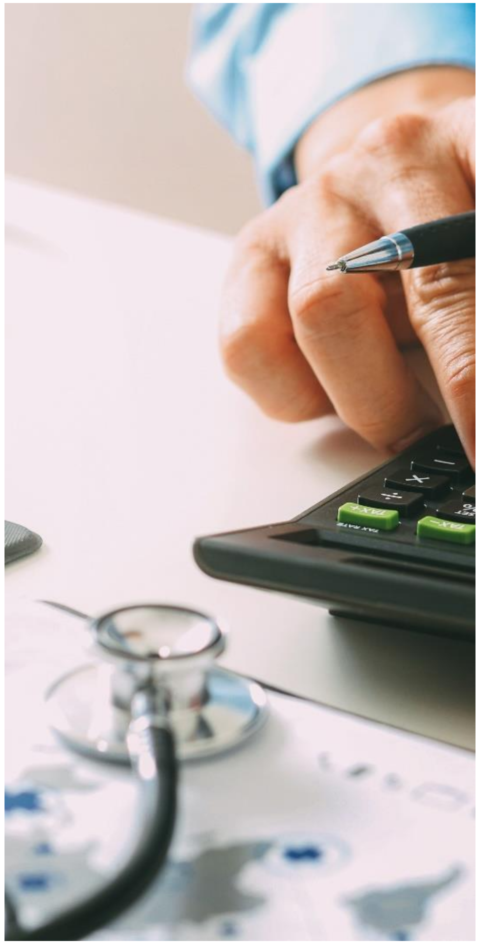
**Our responsibility**

As auditors, we are required to "obtain sufficient appropriate audit evidence about the appropriateness of management's use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the entity's ability to continue as a going concern" (ISA (UK) 570).

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

# 2. Financial Statements - other responsibilities under the Code

| Issue | Commentary |
|---|---|
| Other information | We are required to give an opinion on whether the other information published together with the audited financial statements including the Annual Governance Statement and Narrative Report , is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.<br>No inconsistencies have been identified. We plan to issue an unmodified opinion in this respect – refer to appendix E |
| Matters on which we report by exception | We are required to report on a number of matters by exception in a number of areas:<br>• if the Annual Governance Statement does not comply with disclosure requirements set out in CIPFA/SOLACE guidance or is misleading or inconsistent with the information of which we are aware from our audit,<br>• if we have applied any of our statutory powers or duties.<br>• where we are not satisfied in respect of arrangements to secure value for money and have reported a significant weakness/es.<br>We have nothing to report on these matters |



# 2. Financial Statements - other responsibilities under the Code

| Issue | Commentary |
| --- | --- |
| **Specified procedures for Whole of Government Accounts** | We are required to carry out specified procedures (on behalf of the NAO) on the Whole of Government Accounts (WGA) consolidation pack under WGA group audit instructions.<br>As the Council exceeds the specified group reporting threshold, we examine and report on the consistency of the WGA consolidation pack with the Council's audited financial statements. We have not yet completed this work. |
| Certification of the closure of the audit | We intend to delay the certification of the closure of the 2020/21 audit of **the Council** in the audit report, as detailed in Appendix E, due to incomplete WGA work. |

# 3. Value for Money arrangements

## Revised approach to Value for Money work for 2020/21

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

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

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

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

### Improving economy, efficiency and effectiveness

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

### Financial Sustainability

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

### Governance

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

## Potential types of recommendations

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

### Statutory recommendation

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

### Key recommendation

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

### Improvement recommendation

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

# 3. VFM - our procedures and conclusions

We have not yet completed all of our VFM work and so are not in a position to issue our Auditor's Annual Report. An audit letter explaining the reasons for the delay is attached in the Appendix G to this report. We issued our Auditor's Annual Report in March 2022. This wa in line with the National Audit Office's revised deadline, which requires the Auditor's Annual Report to be issued no more than three months after the date of the opinion on the financial statements.

As part of our work, we considered whether there were any risks of significant weakness in the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources. We identified the risk set out in the table below. Our work on this risk is now complete.

| Risk of significant weakness | Work performed to date |
|---|---|
| The February 2021 update for Cabinet of the Medium Term Financial Strategy (MTFS) shows that the Council is planning to fund deficits in each of the next three years from reserves and at the end of the 2023/24 financial year, the General Fund reserve will reduce to £5.3m million.<br><br>The Council needs to demonstrate that it has a medium term financial plan that will deliver a balanced and sustainable financial position in an environment of reduced funding. | We have reviewed the Medium Term Financial plan and in particular the assumptions built into this to ensure they are reasonable.. We reported this work in our Annual Auditors Report in March 2022. We did not consider this was a significant weakness. |

# 4. Independence and ethics

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

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

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

Details of fees charged are detailed in Appendix D

### Transparency

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

# 4. Independence and ethics

## Audit and non-audit services

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

| Service | Fees £ | Threats identified | Safeguards |
|---|---|---|---|
| Audit related | | | |
| Certification of Housing capital receipts grant | 5,000 | Self-Interest (because this is a recurring fee) | The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is small in comparison to the total fee for the audit and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level. |
| | | Self review (because GT provides audit services) | To mitigate against the self review threat , the timing of certification work is done after the audit has completed, materiality of the amounts involved to our opinion and unlikelihood of material errors arising and the Council has informed management who will decide whether to amend returns for our findings and agree the accuracy of our reports on grants. |
| Certification of Teachers Pension Return | 6,000 | Self-Interest (because this is a recurring fee) | The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is small in comparison to the total fee for the audit and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level. |
| | | Self review (because GT provides audit services) | To mitigate against the self review threat , the timing of certification work is done after the audit has completed, materiality of the amounts involved to our opinion and unlikelihood of material errors arising and the Council has informed management who will decide whether to amend returns for our findings and agree the accuracy of our reports on grants. |
| Certification of Housing Benefit Claim | 19,900 | Self-Interest (because this is a recurring fee) | The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is small in comparison to the total fee for the audit and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level. |
| | | Self review (because GT provides audit services) | To mitigate against the self review threat , the timing of certification work is done after the audit has completed, materiality of the amounts involved to our opinion and unlikelihood of material errors arising and the Council has informed management who will decide whether to amend returns for our findings and agree the accuracy of our reports on grants. |

# 4. Independence and ethics

### Audit and non-audit services

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

| Service | Fees £ | Threats identified | Safeguards |
|---|---|---|---|
| Non audit related | | | |
| Digital Forensics Work | 20k | Self-Interest and Self review | Our Digital Forensics Group provided Freeths LLP with a data hosting platform so that they can undertake an investigative review on behalf of Dudley Metropolitan Council. The service is to be provided to Freeths LLP who will recharge the fee to Dudley Metropolitan Borough Council. We will not be reviewing the data and no judgement/opinions will be made on the data. The level of this fee taken on its own is not considered a significant threat to independence as the fee for this work is £20,000 in comparison to the total fee for the audit and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.. |

These services are consistent with the Council's policy on the allotment of non-audit work to your auditors All services have been approved by the Audit and Standards Committee None of the services provided are subject to contingent fees.

# Appendices

# A. Action plan – Audit of Financial Statements

We have identified recommendations for the Council as a result of issues identified during the course of our audit. We have agreed our recommendations with management and we will report on progress on these recommendations during the course of the 2021/22 audit. The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

| Assessment | Issue and risk | Recommendations |
|---|---|---|
| ● Medium | We identified some disposals included in the 2020/21 accounts which had been sold or transferred in the previous financial. Whilst not material these included schools transferred from local authority control and housing land left on the asset register after the property had been sold. | Improve the process for identifying asset disposals for accounts purposes. This will include improved communication processes between the relevant departments and central finance team. |
| ● High | There was a significant delay in obtaining several key documents from the Council's in house valuation team. This included the valuation report for assets as at 31/3/21 and responses to questions raised at interim audit. This delayed progress on the audit. When this information was received it contained significant errors in relation to the assumptions on build cost. | Urgent action is needed to resolve this issue and to ensure that key documents supporting land and buildings valuations are available in future from start of final accounts audit and are accurate. We consider that the Council should undertake a governance review of the valuation team and determine how it can resolve the current delays |
| ● High | There is not a formal process for the routine authorisation of journals. The finance team do carry out some spot checks focussing in particular on accruals due to the heightened risk. Budgetary control is also expected to pick up errors or fraud, however, we consider that the lack of authorisation processes exposes the Council to the risk of fraud and error. | Introduce a process for authorisation of journals |
| ● Medium | We noted some zero value assets in the fixed asset register. We also noted that the vehicles depreciation accounting policy was incorrect and should be updated to reflect asset lives of between 3 and 25 years. | Review zero value asset lives in the asset register. In addition the vehicles lives accounting policy should be revised to more accurately reflect useful lives. |

**Controls**

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

# B. Follow up of prior year recommendations

We identified the following issues in the audit of the Council's 2019/20 financial statements, which resulted in the following recommendations being reported in our 2019/20 Audit Findings report.

| Issue and risk previously communicated | Update on actions taken to address the issue |
|---|---|
| **Accounts – valuation of Property Plant and Equipment**<br>Ensure that the Council's valuers provides workings to support valuations carried out in the year and an assessment of the potential impact of those assets not valued at the start of the audit. The valuer should also be on hand to respond promptly and appropriately to queries from the Finance team and auditors | This has not been actioned. See appendix A. |
| **Accounts – valuation of Property Plant and Equipment**<br>The Council should have a formal engagement letter with its housing stock valuer Savills | Resolved in 2020/21. |
| **Accounts – valuation of Property Plant and Equipment**<br>The Council should ensure that all information used to calculate the value of its land and buildings (such as floor areas) is accurate. To achieve this, the Council should introduce independent checks on the quality of this data | We have been told that Corporate Landlord Services have reviewed every file and updated each CAD drawing to ensure that accurate information is held and stored on the Technology Forge database. The drawings have all been through internal validation and verification checks. We found errors in this work, most importantly the build cost indicator used. |

**Assessment**

✓ Action completed

X Not yet addressed

# B. Follow up of prior year recommendations (continued)

| Issue and risk previously communicated | Update on actions taken to address the issue |
|---|---|
| **Value for money – Financial Sustainability**<br>The continued use of balances to close the financial gap is not a realistic option. The Council is at risk of not being able to meet it statutory duty to set a balanced budget for 2021/22.<br>The Council needs to give urgent consideration as to what action it needs to take to ensure it is in sustainable financial position for 2020/21 and beyond. | The Local Government Finance Settlement for 2021/22 was better than anticipated at the time of the Audit Findings Report. However, uncertainty remains in respect of later years. In making his report to Council under Section 25 of the Local Government Act 2003, the Director of Finance and Legal noted: "Although adequate to set a lawful budget for 2021/22, reserves are low (based on most recent available data) by comparison with other councils. There are significant risks in future years and members should note that, if these risks materialise, there will be a need to identify further savings and/or additional income in order to avoid imprudent reductions to the level of reserves.". Our conclusions were reported in our Auditors Annual Report. |
| **Value for money –**<br>The Dedicated Schools Grant (DSG) non schools central balance at 31 March 2020 was in deficit by £5.5m and is not forecast to return to a surplus position in the short-term.<br>There is currently no agreed robust financial recovery plan in place and this needs to be agreed and implemented as a matter of priority. | Nationally SEND is an area of concern and short term legislation has been past to ensure the deficit is not accounted for as part of the General Fund. The DfE has allocated additional funding into SEND however at this time it is uncertain as to whether this will be sufficient to bring the budget back into surplus in the short/ medium term. Our conclusions were reported in our Auditors Annual Report. |
| **Value for money – Children's Services**<br>There are interim arrangements in place for Safeguarding, Children in Care, SEND, Education Outcomes, Family Solutions and at Director and Assistant Director level in Children's Services. In our view, ensuring that there is effective substantive service leadership is essential to delivering the agreed action plan.<br>The Council needs to ensure that priority to putting substantive leadership of Children's services in place. | The Director of Children's Services and the two Service Director roles have been appointed to and as of August half of the Head of Service posts have been appointed to on a permanent basis. Our conclusions were reported in our Auditors Annual Report. |

**Assessment**

✓ Action completed

X Not yet addressed

# C. Audit Adjustments

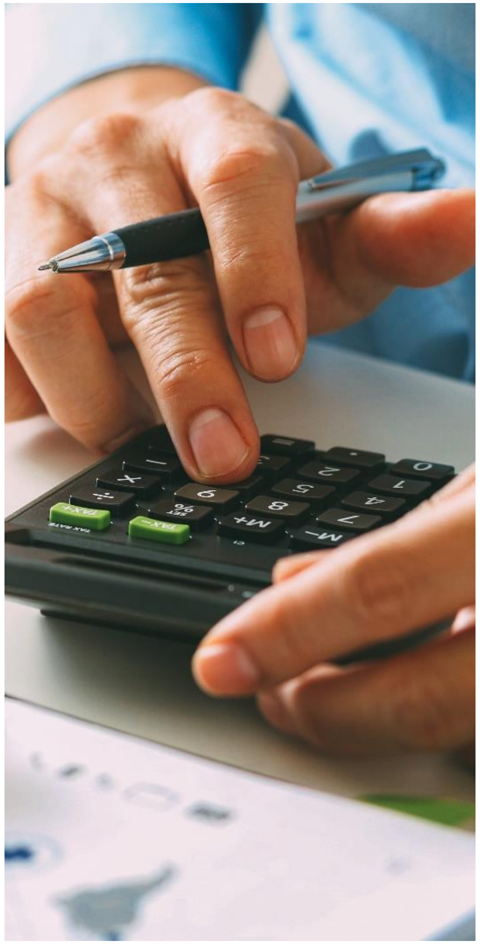
We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management.

## Impact of adjusted misstatements

All adjusted misstatements are set out in detail below along with the impact on the key statements and the reported net expenditure for the year ending 31 March 2021.

| Detail | Comprehensive Income and Expenditure Statement £'000 | Statement of Financial Position £' 000 | Impact on total net expenditure £'000 |
|---|---|---|---|
| The building cost indices used for 2020/21 (and prior years) were incorrect leading to an increase in valuation in the accounts of £90.8m as at 31 March 2021. There was also an increase in unusable reserves in the balance sheet of £102.732m | | 90,800 | |
| The impact on CIES in 2020/21 was a £6.8m decrease in total comprehensive income and expenditure. | 6,800 | | 6,800 |
| In addition as it had a material impact, the Council restated prior year statements. This increased expenditure in 2019/20 by £16.7m. It also impacted the comparatives for the cash flow statement by impacting on the Non-Cash Movements & Adjustments to the net Surplus or Deficit (£7.9m increase). Most importantly it increased the valuation of Property Plant and Equipment net book value as at 31/3/20 by £95.9 and £112.6m at 1 April 2019. This had a consequential impact on unusable reserves (revaluation reserve and capital adjustment account) in the Balance Sheet and comparatives in the Movement in Reserves Statement. The comparative figure for 2019/20 cash flow changed to reflect an increase in expenditure. The 2020/21 comparators in many notes to the accounts were also corrected and a prior period adjustment note added. | | | |
| The original valuation of your council housing stock did not reflect information provided by other valuers. Your valuer reconsidered this leading to an increase in valuation of Council houses of £11.8m. | | 11,800 | |
| Debtors to the value of £881k were incorrectly classified. This was cash received but not yet matched to debtors. The impact of the correction was to both reduce the debtors balance and increase cash. Therefore there was no net effect on current assets or CIES. | 0 | 0 | 0 |

# C. Audit Adjustments



## Impact of adjusted misstatements

All adjusted misstatements are set out in detail below along with the impact on the key statements and the reported net expenditure for the year ending 31 March 2021.

| Detail | Comprehensive Income and Expenditure Statement £'000 | Statement of Financial Position £' 000 | Impact on total net expenditure £'000 |
|---|---|---|---|
| We note that the auditor of the West Midlands Pension Fund identified an understatement in the valuation of the Fund's assets during the course of their audit. The issue arose as a result of a lag in the valuation process for the Fund's assets. This is a function of the Fund's reporting process and is not considered indicative of a control weakness at the Council. This is not an unusual finding at Pension Fund audits, with the size of the variance being attributable of the ongoing volatility of markets at the time.<br>The auditor reported an extrapolated understatement in value of £79m in the value of level 3 assets (which included a quantifiable of difference of £66.3m) and an actual difference of £11m in the value of level 2 assets. The Council's (7.64%) share of the total £90m difference is £6.876 million. The Council has amended for their share of the quantifiable element of £66.3 and £11m, (£77.3m in total). This has reduced the Council's net pension liability and increased the return on assets in the other comprehensive income. The remaining share of £0.97 million remains an unadjusted error | 5,905 | 5,905 | 5,905 |

Appendix C

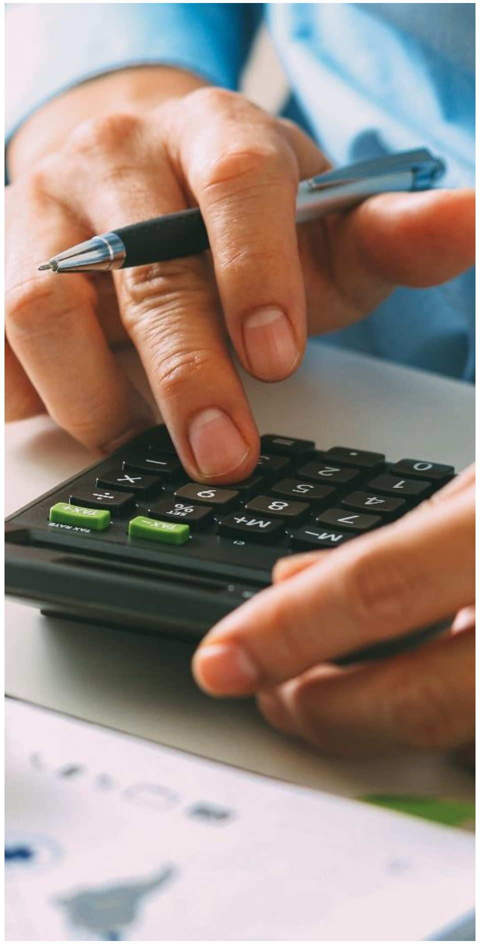
# Audit Adjustments

### Misclassification and disclosure changes

The table below provides details of misclassification and disclosure changes identified during the audit which have been made in the final set of financial statements. In addition to these some amendments were made for formatting and typographical errors.

| Disclosure omission | Details | Adjusted |
|---|---|---|
| Note 28 | The Council amended its pension disclosure note to refer to the highly significant early repayment of contributions. | ✓ |
| Capital commitments-note 27 | Some changes were made to correct the values used in the capital commitments note | ✓ |
| Various | A number of presentational, grammatical and numerical adjustments and additions were completed to the financial statements to improve the readability and understandability of disclosures and to ensure that they are in line with the current International Financial Reporting Standards. | ✓ |
| Note 17 | We noted errors on land and building disposals which effected the prior year comparators for land and buildings (PPE), Disposals of land and buildings were made in 2019/20 but not processed in the 2019/20 accounts. The total error was £6m. This did not effect the closing balance for PPE as at 31 March 2021. | ✓ |

# C. Audit Adjustments

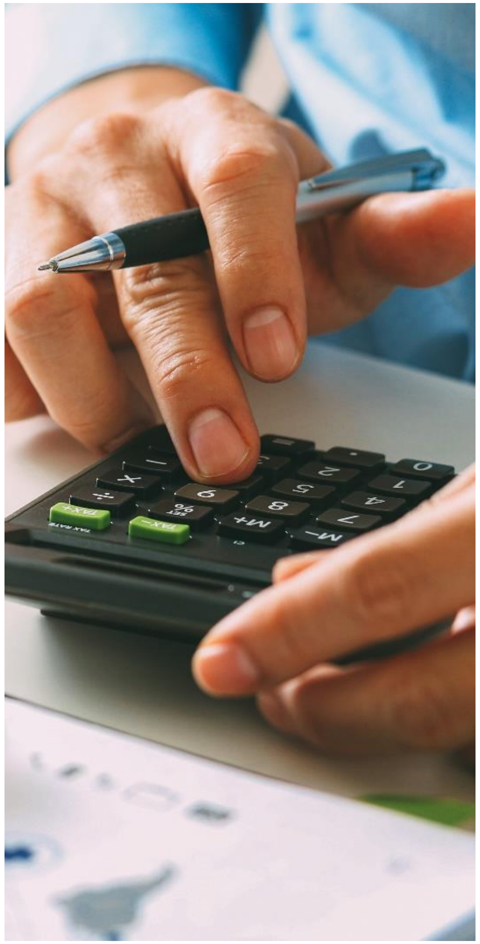


## Impact of unadjusted misstatements

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

| Detail | Comprehensive Income and Expenditure Statement £'000 | Statement of Financial Position £' 000 | Impact on total net expenditure £'000 | Reason for not adjusting |
|---|---|---|---|---|
| The Council has for several years been involved in a legal dispute with a former contractor. It is probable now that the Council will have to pay the former contractor between £580k and £615k in settlement. The Council has not currently provided for this in the 2020/21 accounts. | 600 | 600 | 600 | Not material |
| In addition to the PPE adjustments set out on page 31, our testing of PPE values also identified smaller errors on land and buildings values relating to the use of incorrect assumptions not related to build costs such as incorrect floor areas and obsolescence rates. The extrapolated error was a £5m understatement of PPE valuation. | | 5,029 | | Not material |
| During our testing of council house valuations, we found an error whereby a 3 bedroom flat which had been split into two 1 bedroom flats had not been moved to the correct valuation category (beacon). This lead to an extrapolated error of £6.7m. The Council also made us aware of an error of £452k due to houses being in the wrong valuation category increasing the total error to an £7.1m overstatement. This total error was reduced to a £1.1m overstatement following consideration of the assumed movement from the actual valuation date of 31/12/20 to 31/3/21 (which was an understatement of £6m) | | 1,100 | | Not material and mainly an extrapolated error |

# C. Audit Adjustments



## Impact of unadjusted misstatements

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| Detail | Comprehensive Income and Expenditure Statement £'000 | Statement of Financial Position £' 000 | Impact on total net expenditure £'000 | Reason for not adjusting |
|---|---|---|---|---|
| We note that the auditor of the West Midlands Pension Fund identified an understatement in the valuation of the Fund's assets during the course of their audit. The issue arose as a result of a lag in the valuation process for the Fund's assets. This is a function of the Fund's reporting process and is not considered indicative of a control weakness at the Council. This is not an unusual finding at Pension Fund audits, with the size of the variance being attributable of the ongoing volatility of markets at the time.<br><br>The auditor reported an extrapolated understatement in value of £79m in the value of level 3 assets (which included a quantifiable of difference of £66.3m) and an actual difference of £11m in the value of level 2 assets. The Council's (7.64%) share of the total £90m difference is £6.876 million. The Council has amended for their share of the quantifiable difference of £66.3 and £11m, (£77.3m in total). This has reduced the Council's net pension liability and increased the return on assets in the other comprehensive income. The remaining share of £0.97 million remains an unadjusted error | 971 | 971 | 971 | Not material |

# D. Fees

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

| **Audit fees** | **Proposed fee(£)** | **Final fee(£)** |
|---|---|---|
| Council Audit | 177,246 | 192,246 |
| Total audit fees (excluding VAT) | 177,246 | 192,246 |

See detail on next page

| **Non-audit fees for other services** | **Proposed fee (£)** | **Final fee (£)** |
|---|---|---|
| Audit Related Services –housing benefits assurance | 19,900 | 19,900 |
| Audit Related Services –teachers pensions | 6,000 | 6,000 |
| Audit related-capital receipts return | 5,000 | 5000 |
| Digital Forensics Work | 20,000 | TBC |

Appendix D

# Fees

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

| Audit fees | Proposed fee £ |
|---|---|
| Council Audit | 103,746 |
| Increased challenge and depth of work | 2,000 |
| Materiality reduction | 3,000 |
| PPE - standard | 4,350 |
| PPE Valuation – auditor’s expert including review | 5,000 |
| Pensions | 3,500 |
| PPE – local risks | 22,650 |
| VfM – Code change | 26,000 |
| ISA 540 | 10,000 |
| ISA 240, 700 | 7,000 |
| Infrastructure | 5,000 |
| **Total audit fees (excluding VAT)** | **192,246** |

# E. Audit opinion

Our audit opinion is included below.

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

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

### Report on the Audit of the Financial Statements

#### Opinion on financial statements

We have audited the financial statements of Dudley Metropolitan Borough Council (the ‘Authority’) for the year ended 31 March 2021, which comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement, the Housing Revenue Account Income and Expenditure Statement, the Movement on the Housing Revenue Account Statement, the Collection Fund Statement and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2020/21.

In our opinion, the financial statements:

- give a true and fair view of the financial position of the Authority as at 31 March 2021 and of its expenditure and income for the year then ended;
- have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2020/21; and
- have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

#### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law, as required by the Code of Audit Practice (2020) (“the Code of Audit Practice”) approved by the Comptroller and Auditor General. Our responsibilities under those standards are further described in the ‘Auditor’s responsibilities for the audit of the financial statements’ section of our report. We are independent of the Authority in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC’s Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### Conclusions relating to going concern

We are responsible for concluding on the appropriateness of the Director of Finance and Legal Services’ use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Authority’s ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify the auditor’s opinion. Our conclusions are based on the audit evidence obtained up to the date of our report. However, future events or conditions may cause the Authority to cease to continue as a going concern.

In our evaluation of the Director of Finance and Legal Services’ conclusions, and in accordance with the expectation set out within the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2020/21 that the Authority’s financial statements shall be prepared on a going concern basis, we considered the inherent risks associated with the continuation of services provided by the Authority. In doing so we had regard to the guidance provided in Practice Note 10 Audit of financial statements and regularity of public sector bodies in the United Kingdom (Revised 2020) on the application of ISA (UK) 570 Going Concern to public sector entities. We assessed the reasonableness of the basis of preparation used by the Authority and the Authority’s disclosures over the going concern period.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Authority’s ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In auditing the financial statements, we have concluded that the Director of Finance and Legal Services’s use of the going concern basis of accounting in the preparation of the financial statements is appropriate

# E. Audit opinion (continued)

The responsibilities of the Director of Finance and Legal Services with respect to going concern are described in the 'Responsibilities of the Authority, the Director of Finance and Legal Services and Those Charged with Governance for the financial statements' section of this report.

### Other information

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

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

We have nothing to report in this regard.

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

Under the Code of Audit Practice published by the National Audit Office in April 2020 on behalf of the Comptroller and Auditor General (the Code of Audit Practice) we are required to consider whether the Annual Governance Statement does not comply with 'delivering good governance in Local Government Framework 2016 Edition' published by CIPFA and SOLACE or is misleading or inconsistent with the information of which we are aware from our audit. We are not required to consider whether the Annual Governance Statement addresses all risks and controls or that risks are satisfactorily addressed by internal controls.

We have nothing to report in this regard.

### Opinion on other matters required by the Code of Audit Practice

In our opinion, based on the work undertaken in the course of the audit of the financial statements and our knowledge of the Authority, the other information published together with the financial statements in the Statement of Accounts for the financial year for which the financial statements are prepared is consistent with the financial statements.

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

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

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

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

### Responsibilities of the Authority, the Director of Finance and Legal Services and Those Charged with Governance for the financial statements

As explained in the Statement of Responsibilities set out on page 124, the Authority is required to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the Director of Finance and Legal Services. The Director of Finance and Legal Services is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2020/21, for being satisfied that they give a true and fair view, and for such internal control as the Director of Finance and Legal Services determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

# E. Audit opinion (continued)

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

The Audit and Standards is Those Charged with Governance. Those Charged with Governance are responsible for overseeing the Authority's financial reporting process.

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

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

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

**Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud**

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. Owing to the inherent limitations of an audit, there is an unavoidable risk that material misstatements in the financial statements may not be detected, even though the audit is properly planned and performed in accordance with the ISAs (UK).

The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below:

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We obtained an understanding of the legal and regulatory frameworks that are applicable to the Authority and determined that the most significant ,which are directly relevant to specific assertions in the financial statements, are those related to the reporting frameworks (international accounting standards as interpreted and adapted by the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2020/21, the Local Audit and Accountability Act 2014, the Accounts and Audit Regulations 2015, The Local Government and Housing Act 1989, the Local government Act 1972 and the Local Government Act 2003

- We enquired of senior officers and the Audit and Standards concerning the Authority's policies and procedures relating to:
  - the identification, evaluation and compliance with laws and regulations;
  - the detection and response to the risks of fraud; and
  - the establishment of internal controls to mitigate risks related to fraud or non-compliance with laws and regulations.
- We enquired of senior officers, internal audit and the Audit and Standards Committee, whether they were aware of any instances of non-compliance with laws and regulations or whether they had any knowledge of actual, suspected or alleged fraud.
- We assessed the susceptibility of the Authority's financial statements to material misstatement, including how fraud might occur, by evaluating officers' incentives and opportunities for manipulation of the financial statements. This included the evaluation of the risk of management override of controls and any other fraud risks identified for the audit. We determined that the principal risks were in relation to:

- journals that altered the Council's financial performance for the year
- potential management bias in determining accounting estimates, especially in relation to

  - the calculation of the valuation of the Council's land and buildings and defined benefit pensions liability valuations; and

  -accruals of income and expenditure at the end of the financial year.

# E. Audit opinion (continued)

- Our audit procedures involved:
  - evaluation of the design effectiveness of controls that the Director of Finance and Legal Services has in place to prevent and detect fraud;
  - journal entry testing, with a particular focus on significant journals at the year-end which had an impact on the Council's financial performance;
  - challenging assumptions and judgements made by management in its significant accounting estimates in respect of land and buildings and defined benefit pensions liability valuations;
  - assessing the extent of compliance with the relevant laws and regulations as part of our procedures on the related financial statement item.
- These audit procedures were designed to provide reasonable assurance that the financial statements were free from fraud or error. However, detecting irregularities that result from fraud is inherently more difficult than detecting those that result from error, as those irregularities that result from fraud may involve collusion, deliberate concealment, forgery or intentional misrepresentations. Also, the further removed non-compliance with laws and regulations is from events and transactions reflected in the financial statements, the less likely we would become aware of it.
- The team communications in respect of potential non-compliance with relevant laws and regulations, including the potential for fraud in revenue and expenditure recognition, and the significant accounting estimates related to land and buildings and defined benefit pensions liability valuations.
- Assessment of the appropriateness of the collective competence and capabilities of the engagement team included consideration of the engagement team's.
  - understanding of, and practical experience with audit engagements of a similar nature and complexity through appropriate training and participation
  - knowledge of the local government sector
  - understanding of the legal and regulatory requirements specific to the Authority including:
    - **the provisions of the applicable legislation**
    - **guidance issued by CIPFA, LASAAC and SOLACE**
    - **the applicable statutory provisions.**
- In assessing the potential risks of material misstatement, we obtained an understanding of:
  - the Authority's operations, including the nature of its income and expenditure and its services and of its objectives and strategies to understand the classes of transactions, account balances, expected financial statement disclosures and business risks that may result in risks of material misstatement.
  - the Authority's control environment, including the policies and procedures implemented by the Authority to ensure compliance with the requirements of the financial reporting framework.

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

### Matter on which we are required to report by exception – the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

Under the Code of Audit Practice, we are required to report to you if, in our opinion, we have not been able to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2021.

Our work on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources is not yet complete. The outcome of our work will be reported in our commentary on the Authority's arrangements in our Auditor's Annual Report. If we identify any significant weaknesses in these arrangements, these will be reported by exception in a further auditor's report. We are satisfied that this work does not have a material effect on our opinion on the financial statements for the year ended 31 March 2021.

# E. Audit opinion (continued)

**Responsibilities of the Authority**

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

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

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

We undertake our review in accordance with the Code of Audit Practice, having regard to the guidance issued by the Comptroller and Auditor General in April 2021. This guidance sets out the arrangements that fall within the scope of 'proper arrangements'. When reporting on these arrangements, the Code of Audit Practice requires auditors to structure their commentary on arrangements under three specified reporting criteria:

- Financial sustainability: how the Authority plans and manages its resources to ensure it can continue to deliver its services;
- Governance: how the Authority ensures that it makes informed decisions and properly manages its risks; and
- Improving economy, efficiency and effectiveness: how the Authority uses information about its costs and performance to improve the way it manages and delivers its services.

We document our understanding of the arrangements the Authority has in place for each of these three specified reporting criteria, gathering sufficient evidence to support our risk assessment and commentary in our Auditor's Annual Report. In undertaking our work, we consider whether there is evidence to suggest that there are significant weaknesses in arrangements.

Report on other legal and regulatory requirements – Delay in certification of completion of the audit

We cannot formally conclude the audit and issue an audit certificate for Dudley Metropolitan Borough Council for the year ended 31 March 2021 in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice until we have completed our work on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources and issued our Auditor's Annual Report and we had completed the work necessary to issue our Whole of Government Accounts (WGA) Component Assurance statement for the year ended 31 March 2021.

We are satisfied that this work does not have a material effect on the financial statements.

Use of our report

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

Mark Stocks, Key Audit Partner

for and on behalf of Grant Thornton UK LLP, Local Auditor

Birmingham

Date

Grant Thornton

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