Audit Findings Report

Dudley Metropolitan Borough Council

Year ended 31 March 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.

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

Andrew Smith
For Grant Thornton UK LLP
6 December 2023

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 2023 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 is being carried out between September 2023 and December 2023. The draft statement of accounts was not published until 19 September 2023 and therefore missed the statutory deadline. This was because the Council received its draft valuation report late from one of its external valuers and only received a final version on 28th November 2023. As discussed in previous years, we do not consider this is compatible with good governance with regards to the Council's financial reporting duties.

We have identified four audit misstatements in the draft accounts:

- During the audit, the Council requested an assessment (IFRIC 14) on the extent it should recognise a defined benefit pension surplus in its balance sheet and was advised by its actuary to restrict the asset to zero. This was originally shown in the draft accounts as an £9.8m net pension asset.
- When reconciling the valuations report to the fixed asset register a £11,533,000 adjustment was identified to reduce the balance of Council Dwellings in the balance sheet. The Council has also adjusted this same amount through surplus of revaluation, other comprehensive income and expenditure in the Comprehensive Income and Expenditure Statement.
- An insurance prepayment of £3.8m was processed incorrectly to the creditors balance sheet. This impacted the balance sheet only. The entries made to correct this were to increase both trade creditors and short-term debtors (payments in advance) by £3.8m.
- The balance sheet nets of cash and overdraft. This is possible only if there is a legally enforceable right of set off and the authority intends to settle on a net basis. We do not believe that to be the case. Whilst this has a nil net impact on the balance sheet, the correction of this led to an increase to both current assets and current liability by £8,644,000.

We have also raised three audit recommendations for management as a result of our audit work in Appendix A.

There are some areas outstanding on the audit which are set out on page 5. Subject to these being resolved satisfactorily, we anticipate issuing an unqualified audit opinion on the Council's accounts.

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. Auditors are required to report their commentary on the Council's arrangements under the following specified criteria: • Improving economy, efficiency and effectiveness; • Financial sustainability; and • Governance	We have not yet completed our VFM work and so are yet not in a position to issue our Auditor's Annual Report. We expect to issue our Auditor's Annual Report in December. This is in line with the National Audit Office's revised deadline. 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 risks in respect of financial sustainability, member-officer relationships and council housing. We have performed further procedures in respect of these risks. An update on this is set out in the value for money arrangements section of this report (Section 3).
Statutory duties	
The Local Audit and Accountability Act 2014 ('the Act') also requires us to: • report to you if we have applied any of the additional powers and duties ascribed to us under the Act; and • to certify the closure of the audit.	We have not exercised any of our additional statutory powers or duties. We expect to certify the completion of the audit upon the completion of our work on the Council's accounts.
Significant Matters	We encountered significant difficulties in obtaining some key reports from the Council's land and buildings external valuer.. This related to the valuation report, calculation sheets and support for assumptions used.

1. Headlines

National context – audit backlog

Nationally there have been significant delays in the completion of audit work and the issuing of audit opinions across the local government sector. Only 12% of local government bodies had received audit opinions in time to publish their 2021/22 accounts by the extended deadline of 30 November. There has not been a significant improvement over this last year, and the situation remains challenging. We at Grant Thornton have a strong desire and a firm commitment to complete as many audits as soon as possible and to address the backlog of unsigned opinions.

Over the course of the last year, Grant Thornton has been working constructively with DLUHC, the FRC and the other audit firms to identify ways of rectifying the challenges which have been faced by our sector, and we recognise the difficulties these backlogs have caused authorities across the country. We have also published a report setting out our consideration of the issues behind the delays and our thoughts on how these could be mitigated. Please see About time? (grantthornton.co.uk)

We would like to thank everyone at the Council for their very good support in working with us so constructively.

National context – level of borrowing

All Councils are operating in an increasingly challenging national context. With inflationary pressures placing increasing demands on Council budgets, there are concerns as Councils look to alternative ways to generate income. We have seen an increasing number of councils look to ways of utilising investment property portfolios as sources of recurrent income. Whilst there have been some successful ventures and some prudently funded by councils' existing resources, we have also seen some councils take excessive risks by borrowing sums well in excess of their revenue budgets to finance these investment schemes.

The impact of these huge debts on Councils, the risk of potential bad debt write offs and the implications of the poor governance behind some of these decisions are all issues which now have to be considered by auditors across local authority audits. We are pleased to say that we have not seen this at this Council.

However, we have noted an increasing trend to fund expenditure deficits from reserves. Therefore, we remain concerned about the Council's financial sustainability unless action is taken to reduce net expenditure and rebuild reserves.

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.

Conclusion

Our audit is still on-going and the following items are still outstanding;

- receipt and review of the IAS 19 assurance report from the Pension Fund auditor;
- review of work on PPE and PFI
- receipt of a signed letter of representation; and
- review of amended accounts.

Our work in this area was significantly delayed again this year as we awaited key information to conclude our work. The Council received its draft valuation report late again (the final report was received on 28th November 2023) which meant the Council could not publish draft accounts until 19 September 2023. This meant the Council missed the statutory deadline. Subsequently there were significant delays in obtaining evidence from the valuers to support a sample of the valuations and some is still outstanding. This remains 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.

We would like to take this opportunity to record our appreciation for the very good assistance provided by the central 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 were the same as those reported in our audit plan .We detail in the table below our determination of materiality for the Council

	£	Qualitative factors considered
Materiality for the financial statements	11.3m	We determined materiality for the audit of the Council's financial statements as a whole to be £11.3m, which is based on 1.5% of the Council's gross operating expenses in 2021/22.
Performance materiality	8.4m	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	560k	We determined the threshold at which we would communicate misstatements to the Audit and Standards Committee at £560,000 (5% of financial statement materiality)
Materiality for senior officer remuneration	Nil	We have set a qualitative level of materiality for senior manager remuneration disclosures because we believe these disclosures are of specific interest to the reader of the accounts. Therefore, we will consider all misstatements by their nature.

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 Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. The Authority faces external scrutiny of its spending and this could potentially place management under undue pressure in terms of how they report performance. We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk, which was one of the most significant assessed risks of material misstatement.	We • evaluated the design effectiveness of management controls over journals • analysed the journals listing and determined the criteria for selecting high risk unusual journals • identified and tested unusual journals made during the year and the accounts production stage for appropriateness and corroboration • gained an understanding of the accounting estimates and critical judgements applied by management and considered their reasonableness with regard to corroborative evidence • tested unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration; • evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions. There were no significant issues identified from our testing of journals. We noted in the previous year's audit findings report that there was not a formal process for the routine authorisation of journals and we concluded that the lack of authorisation processes exposed the Council to the risk of fraud and error. We are pleased to report that during 2022/23 the Council has put in an authorisation process for all manual journals over £10,000. However, because this was in place for only part of 2022/23, we deemed that the risk remained higher (a medium risk) and carried out more testing.
Improper revenue recognition Under ISA 240 (UK) there is a presumed risk that revenue may be misstated due to the improper recognition of revenue.	**Auditor commentary** Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the Council, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because: • there is little incentive to manipulate revenue recognition • opportunities to manipulate revenue recognition are very limited • the culture and ethical frameworks of local authorities, including the Council, mean that all forms of fraud are seen as unacceptable In addition, we completed our understanding of the processes and controls surrounding COVID-19 grant income and determined that this can also be rebutted. 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 PPE (including land and buildings and council dwellings) The valuation of land and buildings is a key accounting estimate which is derived, depending on the valuation methodology, from assumptions that reflect market observations and the condition of the asset at the time. This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved and the sensitivity of this estimate to changes in key assumptions. Additionally, management will need to ensure the carrying value in the Council's financial statements is not materially different from the current value at the financial statements date, where a rolling programme is used. The Council owns around 21,069 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 We focused our audit attention on that have large and unusual changes and / or approaches to the valuation of land and buildings, as a significant risk requiring special audit consideration. The risk was pinpointed as part of our final accounts work, after we have understood the population of assets revalued	**Auditor commentary** We: • evaluated management's processes and controls for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work; • evaluated the competence, capabilities and objectivity of the valuation expert; • wrote to the valuer to confirm the basis on which the valuation was carried out; • challenged the information and assumptions used by the valuer to assess completeness and consistency with our understanding, the Council's valuer's report and the assumptions that underpin the valuation; • evaluated the valuer's report to identify assets that have large and unusual changes and/or approaches to the valuation – these assets will be substantively tested to ensure the valuations are reasonable • tested a selection of other assets revaluations made during the year to see if they had been input correctly into the Council's asset register, revaluation reserve, and Statement of Comprehensive Income.; and • evaluated the assumptions made by management for any assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value. • engaged our own valuer to assess the instructions to the Council's valuer, the valuer's report and the assumptions that underpin the valuation. • for all assets not formally revalued or revalued on a desktop/indexation basis only, evaluated the judgement made by management or others in determination of current value of these assets • tested a sample of beacon council houses. 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. Our work on land and buildings was significantly delayed again this year as we awaited key information to conclude our work. The Council received its draft valuation report late again (the final report was provided on 28th November 2023) which meant the Council could not publish draft accounts until 19th September 2023. This meant the Council missed the statutory deadline. Subsequently there were significant delays in obtaining evidence from the valuers to support a sample of the valuations and some is still outstanding. This remains 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. Audit work on land and buildings is not currently fully completed. When reconciling the valuations report to the fixed asset register a £11,533,000 adjustment was identified to reduce the balance of Council Dwellings in the balance sheet. The Council has also adjusted this same amount through surplus of revaluation, other comprehensive income and expenditure in the Comprehensive Income and Expenditure Statement

Significant audit risks

Risks identified in our Audit Plan	Auditor commentary
Valuation of pension fund net liability 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. 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. 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. 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: • 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; • evaluating the competence, capabilities and objectivity of the Council's actuary who carried out the pension fund valuation; • 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; • 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; • 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 • performing analytical procedures in respect of the gross pension fund assets and liabilities. • 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; • assessing the accuracy and completeness of the information provided by the Authority to the actuary to estimate the liability; and • 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. 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. During the audit, the Council requested an assessment (IFRIC 14) on the extent it should recognise a defined benefit pension surplus in its balance sheet and was advised by its actuary to restrict the asset to zero. This was originally shown in the draft accounts as an £9.8m asset

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

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

Significant audit risks

Risks identified in our Audit Plan	Auditor commentary
Risk of fraud in expenditure Whilst not a presumed significant risk, we have had regard to Practice Note 10, which comments that for certain public bodies, the risk of manipulating expenditure may well be greater than that of income. Having considered the risk of improper recognition of expenditure at Dudley Metropolitan Borough Council we are satisfied that this is not a significant risk for the same reasons set out above.	Notwithstanding that we have rebutted this risk, we will still undertake a significant level of work on the Council's expenditure streams, as they are material. We will: • Update our understanding of the Council's business processes associated with accounting for expenditure • Agree, on a sample basis, expenditure and year end creditors to invoices and cash payment or other supporting evidence • Evaluate the Council's accounting policies for recognition of expenditure and compliance with the CIPFA Code We designed tests to address the risk that expenditure has been misstated by not being recognised in the correct financial year. There were no significant findings from this work.

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 Infrastructure assets includes roads, highways and streetlighting. In accordance with the LG Code, Infrastructure assets are measured using the historical cost basis, and carried at depreciated historical cost. With respect to the financial statements, there are two risks which we plan to address: • 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. • 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. 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: • Reconciled the Fixed Asset Register to the Financial statements • Using our own point estimate, considered the reasonableness of depreciation charge to Infrastructure assets • Obtained assurance that the UEL applied to Infrastructure assets is reasonable • 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 We have completed the work as set out above. The Council does not derecognise Infrastructure assets on replacement. This is a national issue and, as set out on page 4, the Department for Levelling Up, Housing & Communities (DLUHC) has drawn up a Statutory Instrument which came into force on 25 December 2022. The Statutory Instrument, together with updates to the CIPFA Code, has resolved the audit challenges related to infrastructure asset balances.

2.Financial statements – key judgements and estimates

Accounting area	Summary of management's policy	Audit Comments	Assessment
Provisions for credit losses	The Council estimate the balance of debtors which are unlikely to be received post year-end and create a provision to allow for the expected losses.	The Council has made a provision for credit losses on debtor balances at year end. The Council's estimate is based on the likelihood of receipt of income on the different income streams. 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 around 21,069 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.	We challenged the basis for this valuation and whether it meets the Code requirements. This included comparison to external housing valuation indices. When reconciling the valuations report to the fixed asset register a £11,533,000 adjustment was identified to reduce the balance of Council Dwellings in the balance sheet. The Council has also adjusted this same amount through surplus of revaluation, other comprehensive income and expenditure in the Comprehensive Income and Expenditure Statement	● 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

Key estimate	Summary of management's policy	Audit Comments	Assessment
Other land and buildings	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.. Management has considered the year end value of non-valued properties and the potential valuation change in the assets revalued at 31 March 2023 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. The Council received its draft valuation report late again (the final report was received on 28th November 2023) which meant the Council could not publish draft accounts until 19th September 2023. This meant the Council missed the statutory deadline. Subsequently there were significant delays in obtaining evidence from the valuers to support a sample of the valuations and some is still outstanding. This remains 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. This work is still in progress. The Council's general fund valuer, Bruton Knowles, has not valued nearly £22m of other land and building assets in the year. Management have completed an assessment of the potential movement in asset values since the dates these assets were last valued and estimated this to be immaterial (£2.48M) Our own estimate was very similar.(£2.42m)	TBC

2.Financial statements – key judgements and estimates

Key estimate	Summary of management's policy	Audit Comments	Assessment
Net pension liability	The Council uses Hymans 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 2022. 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. IFRIC 14 addresses the extent to which an IAS 19 surplus can be recognised on the balance sheet and whether any additional liabilities are required in respect of onerous funding commitments. IFRIC 14 limits the measurement of the defined benefit asset to the 'present value of economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.	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 2023. 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.	● Amber

Assumption	Actuary Value	PwC range	Assessment
Discount rate	4.75%	4.75%	●
Pension increase rate	2.95%	2.95% to 3.00% p.a.	●
Salary growth	3.95%	0.5-2.5% above CPI ranges of 3.45%-5.45 % p.a	●
Life expectancy – Males currently aged 45 / 65	Retiring today:: Males: 21.0 years Retiring in 20 years: after CMI 2020 update: Males: 21.6 years	Male Pensioners: 20.1 – 22.7 Non-pensioners: 21.4 – 24.3	●
Life expectancy – Females currently aged 45 / 65	Retiring today: Females: 24.0 years Retiring in 20 years: after CMI 2020 update: Females: 25.3 years	Females: Pensioners: 22.9 – 24.9 Non-pensioners: 24.8 – 26.7	●

2.Financial statements – key judgements and estimates

Key estimate	Summary of management's policy	Audit Comments	Assessment
Net pension liability		We have also reviewed the: • completeness and accuracy of the underlying information used to determine the estimate • reasonableness of the Authority's share of LGPS pension assets. • reasonableness of increase/decrease in estimate • adequacy of disclosure of estimate in the financial statements During the audit, the Council requested an assessment (IFRIC 14) on the extent it should recognise a defined benefit pension surplus in its balance sheet and was advised by its actuary to restrict the asset to zero. This was shown in the draft accounts as an £9.8m asset. Management has agreed to adjust for this.	Amber

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

Key estimate	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

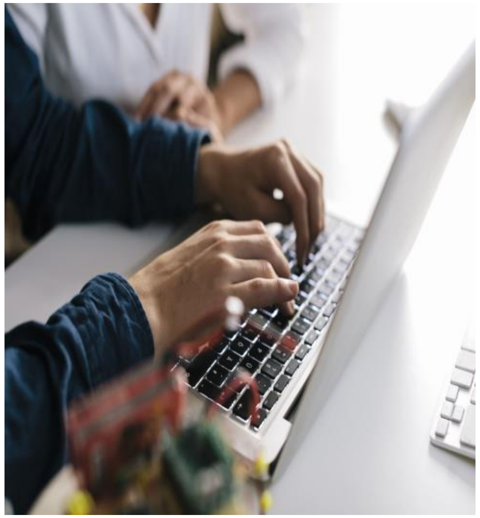
- ● We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- ● We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic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

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 requested from the Council which is included in the Audit and Standards Committee papers.

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. 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. Note 35: 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. One significant difficulty we experienced was in obtaining information from the Council's valuer. This is the second year that this has occurred. In addition, the detailed transaction listings we were given for several accounts balances from which we initially select samples to test contained a large number of unexplained contra entries (e.g. debit balances in a creditor balances listings). This created additional work for both council officers and auditors .

2. Financial Statements - other communication requirements

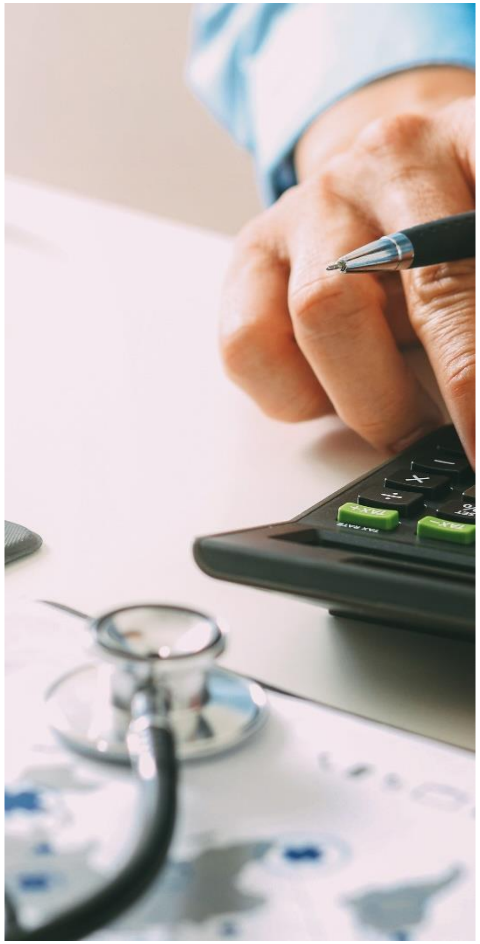
Our responsibility

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. Practice Note 10 sets out the following key principles for the consideration of going concern for public sector entities: • 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 • 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. 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: • the nature of the Council and the environment in which it operates • the Council's financial reporting framework • the Council's system of internal control for identifying events or conditions relevant to going concern • management's going concern assessment. On the basis of this work, we have obtained sufficient appropriate audit evidence to enable us to conclude that: • a material uncertainty related to going concern has not been identified • 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. No inconsistencies have been identified. We plan to issue an unmodified opinion in this respect.
Matters on which we report by exception	We are required to report on a number of matters by exception in a number of areas: • 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, • if we have applied any of our statutory powers or duties. • where we are not satisfied in respect of arrangements to secure value for money and have reported [a] significant weakness/es. We have nothing to report on these matters
Specified procedures for Whole of Government Accounts	We are required to carry out limited specified procedures (on behalf of the NAO) on the Whole of Government Accounts (WGA) consolidation pack under WGA group audit instructions. We will send the consolidation return to the NAO when the audit opinion is issued.
Certification of the closure of the audit	We expect to certify of the closure of the 2022/23 audit of **the Council** in the audit report, as detailed in Appendix E, upon completion of our work on the accounts.



3. Value for Money arrangements

Approach to Value for Money work for 2022/23

The National Audit Office issued its guidance for auditors in April 2020. 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 completed our work on VFM and so are not in a position to issue our Auditor's Annual Report. We plan to issue our Auditor's Annual Report in December 2023.

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 revised risks set out in the table below. Our work on these risks is in progress and an update is set out below.

Risk of significant weakness	Work performed to date
Our last AAR in 2020/21 noted the Council did not have a fully worked up plan to address the underlying deficit. The Council continues to rely on the use of reserves rather than implementing transformation, savings, or income generation plans. Reserves have reduced to a level where the Council may find it difficult to manage an unexpected variance in expenditure or income. The un-ringfenced GF reserve is planned to fall to £10m at 31/3/2025. The Council's DSG deficit continues to increase at a rate of about £6m p/a despite the actions of Council. Members need to support officers in setting a balanced budget, identifying new sources of income, delivering savings plans, and identifying service transformation. Due to the inherent uncertainty, we have concluded that there is a significant risk of weakness in arrangements for delivering financial sustainability.	Work performed to date: • We have held a number of meetings with key officers of the Council, including the Chief Executive and s151 officer. • We have reviewed budget reports presented to members of both the Cabinet and the Council. • We have reviewed the going concern assessment provided by management in relation to the 2022/23 financial statements. This work is still in progress. We plan to report the findings of this work in our Auditors Annual Report in December 2023.
In April 2023, the Regulator of Social Housing published a regulatory notice concluding that Dudley Council had breached the Home Standard and a result there was the potential for serious detriment to tenants. The regulator confirmed that the Council did not meet a range of health and safety requirements in thousands of its tenants' homes. The Council failed to carry out: • 8,000 remedial fire safety actions • 500 annual asbestos safety inspections • 4,000 homes had not had an electrical inspection in the past 10 years • Over 300 homes had overdue gas safety inspections Due to the discovery of a failure to meet minimum standards in a core service, we have identified a significant weakness in the Council's arrangements to achieve value for money in this regard. The Council has failed to manage its service delivery obligations and therefore failed to achieve economy, efficiency and effectiveness. We therefore consider this a risk of significant weakness.	Work performed to date • We have held a number of meetings with key officers of the Council. • We have reviewed reports setting out issues and progress to date. This work is still in progress. We plan to report the findings of this work in our Auditors Annual Report in December 2023.

3. VFM - our procedures and conclusions(continued)

Risk of significant weakness	Work performed to date
As part of our 2020/21 value for money work, we identified concerns about the relationship between members and officers at the Council. During this year, we noted several instances of inappropriate member behaviour towards officers, which raised concerns about the wider culture of the council. Our conversations with officers, the Leader, and Leader of the Opposition indicated that this is not an isolated issue, but rather a systemic problem that needs to be addressed. We found that officer and member relationships are not strong, and there is a lack of respect shown to officers. This is due, in part, to a lack of understanding among members about the roles and responsibilities of officers, and a lack of clarity about the boundaries between the two. We consider this to be a risk of significant weakness in the Council's governance arrangements.	Work performed to date: • We have identified and investigated a number of examples of inappropriate behaviour during the year • We have held a number of meetings with key officers, the Leader and the Leader of the Opposition to seek their views on the state of officer / member relationships This work is still in progress. We plan to report the findings of this work in our Auditors Annual Report in December 2023.

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
Certification of Housing capital receipts grant	£5,000 (2021/22) £7,500 (2022/23)	Self-Interest (because this is a recurring fee) Self-review (because GT provides audit services)	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. 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	£10,000 (2022/23) £7,500 (2021/22)	Self-Interest (because this is a recurring fee) Self-review (because GT provides audit services)	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. 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	£TBC (2022/23) £19,900 (2021/22)	Self-Interest (because this is a recurring fee) Self-review (because GT provides audit services)	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. 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 Homes England return	£5,500 (2022/23) £5,500 (2021/22)	Self-Interest (because this is a recurring fee) Self-review (because GT provides audit services)	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. 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.

5. Independence and ethics

As part of our assessment of our independence we note the following matters:

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

We have considered whether the ethical outcomes required by the overarching principles and supporting ethical provisions of the FRC Ethical Standard have been met by both the relevant requirements and with reference to the perspective of an objective, reasonable and informed third party. This assessment has also considered the matters reported above individually and in aggregate.

Following this consideration we can confirm that we are independent and are able to express an objective opinion on the financial statements. In making the above judgement, we have also been mindful of the quantum of non-audit fees compared to audit fees disclosed in the financial statements and estimated for the current year.

Appendices

A. Communication of audit matters to those charged with governance

Our communication plan	Audit Plan	Audit Findings
Respective responsibilities of auditor and management/those charged with governance	•	
Overview of the planned scope and timing of the audit, form, timing and expected general content of communications including significant risks	•	
Confirmation of independence and objectivity	•	•
A statement that we have complied with relevant ethical requirements regarding independence. Relationships and other matters which might be thought to bear on independence. Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged. Details of safeguards applied to threats to independence	•	•
Significant findings from the audit		•
Significant matters and issue arising during the audit and written representations that have been sought		•
Significant difficulties encountered during the audit		•
Significant deficiencies in internal control identified during the audit		•
Significant matters arising in connection with related parties		•
Identification or suspicion of fraud involving management and/or which results in material misstatement of the financial statements		•
Non-compliance with laws and regulations		•
Unadjusted misstatements and material disclosure omissions		•
Expected modifications to the auditor's report, or emphasis of matter		•

ISA (UK) 260, as well as other ISAs (UK), prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table here.

This document, the Audit Findings, outlines those key issues, findings and other matters arising from the audit, which we consider should be communicated in writing rather than orally, together with an explanation as to how these have been resolved.

Respective responsibilities

As auditor we are responsible for performing the audit in accordance with ISAs (UK), which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance.

The audit of the financial statements does not relieve management or those charged with governance of their responsibilities.

Distribution of this Audit Findings report

Whilst we seek to ensure our audit findings are distributed to those individuals charged with governance, we are also required to distribute our findings to those members of senior management with significant operational and strategic responsibilities. We are grateful for your specific consideration and onward distribution of our report to all those charged with governance.

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. 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
High	There was a significant delay in obtaining the valuation report for property plant and equipment as at 31 March 2023 from the Council's external valuation team. As a result, the Council missed the statutory deadline for publishing a draft statement of accounts. There was subsequently a delay in obtaining evidence to support the sample of valuations chosen.	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 review of the valuation process and determine how it can resolve the current delays. Management response-Management are aware of the issues raised and a review of the valuation process will be undertaken to ensure that the current issues are resolved. (Corporate Landlord Services)
Medium	There were significant delays in obtaining information from the IT team in relation to IT controls which was required for the new auditing standard this year (ISA315)	Ensure information on IT control processes is made available for audit on a timely basis. Management response-Management are aware of the issues raised and steps are being taken to ensure that resources are deployed effectively to enable timely responses. (Technology, Systems and Services)
Medium	We have noted that reporting from the finance system still includes large balances of debit and credit items that are not stripped from the population for testing. This continues to produce much larger sample sizes for testing than we would expect for a Council of this type and therefore takes more time on both the part of council staff and auditors. This has been raised previously with both officers and members, particularly in light of the impact it has on audit work. In addition, when some sample evidence was received it was initially inadequate.	Ensure breakdowns of accounts balances provided for audit only contain genuine balances and all evidence supporting samples selected is of a reasonable quality. Management response-Management are aware of the issues raised and a review of the transactional detail will be undertaken along with relevant training.(Financial Services)
Low	As asset valuations are used for financial accounting purposes it is usual for the Finance department to compile the outline requirements of the instruction to the Valuer. In turn the Valuer must prepare a written Terms of Engagement document to set out the terms of how these instructions will be met. This is a mandatory requirement of the RICS Valuation – Global Standards. For both portfolios, we have been provided with the Contract / Framework Agreement documents. We understand that that the current Valuers are instructed further to an open tender process. For the General Fund, we understand that no formal 'terms of engagement' document are issued annually from the Valuer and that instead this element is covered by this overriding valuation agreement. There is a formal 'terms of engagement' for the HRA which supplements the information covered by the overriding valuation agreement.	Ensure a formal terms of engagement is provided annually by all valuers. Management response-Management are aware the issue and all valuers will be requested to provide formal terms of engagement annually.(Corporate Landlord)

Controls

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

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 2023.

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total comprehensive income and expenditure £'000
IFRIC 14 – Net pension asset During the audit, the Council requested an assessment (IFRIC 14) on the extent it should recognise a defined benefit pension surplus in its balance sheet and was advised by its actuary to restrict the asset to zero. This was shown in the draft accounts as an £9.774m asset	9,774	9,774	9,774
Bank overdraft The balance sheet nets of cash and overdraft. This is possible only if there is a legally enforceable right of set off and the authority intends to settle on a net basis. We do not believe that to be the case. Whilst this has a nil net impact on the balance sheet, the correction of this led to an increase to both current assets and current liability by £8,644,000. The balance sheet now shows cash and cash equivalents as both current asset and current liability.	0	0 Increases cash and bank overdraft by £8,644	0
Insurance prepayment Our testing has identified £3.8m of paid insurance costs relating to 2023/24 has been accounted for within Short-Term Creditors. The balance should have been accounted for as a prepayment and classified as a Short-Term Debtor. The impact of this is that both identified balances are understated. The audit team has completed an extrapolation of the error identified, the extrapolation totals £6.6m. The Council has agreed to adjust for the factual misstatement (£3.8m) and the residual estimated error will not be adjusted for as it is auditor estimate (£2.8m). We note there is no impact to the CIES and it only impacts the balance sheet and related disclosure notes.	0	0 Increases debtors and creditors by £3,800	0
Property, Plant & Equipment- Council Dwellings When reconciling the valuations report to the fixed asset register a total of £11,533,000 adjustment was identified to reduce the balance of Council Dwellings in Note 17 and also the balance sheet. The Council has also adjusted the amount through surplus of revaluation, other comprehensive income and expenditure.	11,533	(11,533)	11,533

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
Various	A number of typographical, 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.	✓
Various	The Council has changed their directorate during 2022/23. This has resulted in a restatement of the 2021/22 comparatives in the CIES, Expenditure & Funding Analysis and Segmental Reporting Disclosure. The restatement is not material, the largest adjustment being around £4.4m and was therefore technically not required. We note that the restatement is adequately disclosed and the adjustment does not impact the subtotals and totals within the primary statements	✓
Note 17	The Council agreed to make a disclosure relating to useful economic lives of 3 vehicle plant and equipment assets which fell outside of stated policy of 5-20 years.	✓
Collection Fund	Following CIPFA guidance on the subject the council amended the comparatives to take account that Enterprise Zone balances should have been taken to the CFAA rather than retained in the Collection Fund note. The total restatement is £11k to the opening balances.	✓
Critical Judgements Note-	The reference to Dudley CCG to be updated to NHS Black Country ICB.	✓
Audit fees note	Changes were required to update the audit fees note including grant claims fees.	✓
Financial instruments	There was one difference in the value of Birmingham Airport Shares (Note 39) value reported as per Note 19 which is 32,302,000 does not agree to Note 39 i.e. £30,550,000 which is a difference of £1,752,000. Note 19 was correct.	✓

C. Audit Adjustments (continued)

Disclosure omission	Details	Adjusted
Note 10	The payroll band £60,000 - £64,999 for non-schools was understated by one staff member in the financial statements.	✓
Estimation uncertainty	We recommended the Council include OLB revaluations in this disclosure given the material balance of the accounts and sensitivity of underpinning assumptions. The Council has agreed to include the narrative but is not planning to provide a sensitivity analysis and therefore the disclosure is not fully code compliant.	X
IFRIC 14-net pensions benefit	A disclosure was required to be added regarding the reporting of any limitation on the net defined benefit asset should. This needed to explain why the pension surplus reported under IAS 19 is not fully realisable by the authority in the form of either refunds or reduction in employer's contributions so that the users of the accounts and other stakeholders can understand why the net defined pension benefit asset (if any) is limited to the economic benefits realisable by the authority and what 'realisable' might mean in this context.	✓
NIL net book value assets	In 2021/22 we recommended that the Council review fully depreciated assets for existence and complete a housekeeping exercises on its Fixed Asset Register. During this audit we identified £40m of fully depreciated Vehicles Plant and Equipment assets included in Note 17. The Council has now completed a review of assets and has derecognised £14m of aged ICT assets. The residual balance of fully depreciated assets post the adjustment is therefore £26m.We recommend the Council continue to identify fully depreciated assets for derecognition in 2023/24. The adjustment does not impact the balance sheet or CIES as the assets have a nil net book value. The adjustment only impacts Note 17 where the disposals line for both gross cost and depreciation will increase by £14m and does not impact the Balance Sheet or CIES.	✓
Estimates and judgements -PFI (Paragon Schools) disclosure	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 PFI disclosure, we identified differences between the model used by the Council and our own model which were over a trivial amount. The differences were across the split of the unitary payment (service charge, liability and finance costs) and total value. The total difference in the next year was only £14,000, in the future years 2 to 5 this was £1,168,000 and in the following five years £3,742,000.This was a total difference of £4,925,000. For Paragon schools, there was a £1.19m difference in unitary charge/expenditure in 2022/23 between our model and the Council's model, but there no variance in the outstanding liability Officers consider that their model is appropriate and have not adjusted for this.	X

C. Audit Adjustments

Impact of unadjusted misstatements

The table below provides details of adjustments identified during the 2022/23 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's general fund valuer, Bruton Knowles, has not valued nearly £22m of other land and building assets in the year. Management have completed an assessment of the potential movement in asset values since the dates these assets were last valued and estimated this to be immaterial (£2.48M) Our own estimate was very similar.(£2.42m) The asset was understated in the draft accounts.	2,420	2,420	2,420	Not material
Our testing has identified £3.8m of paid insurance costs relating to 2023/24 has been accounted for within Short-Term Creditors. The balance should have been accounted for as a prepayment and classified as a Short-Term Debtor. The impact of this is that both identified balances are understated. The audit team has completed an extrapolation of the error identified, the extrapolation totals £8m. The Council has agreed to adjust for the factual misstatement (£3.8m) and the residual estimated error will not be adjusted for as it is auditor estimate (£4.2m). We note there is no impact to the CIES and it only impacts the balance sheet and related disclosure notes.	0	4,200 increase in both debtors and creditors.	0	Not material and extrapolation
In testing the higher risk (SCOT +) sample we identified an extrapolated overstatement of valuation totalling £1.745m. This related to Isolated calculation issues and variances in external site area measurements used by the valuer and the plans provided by the Council.	1,745	1,745	1745	Not material and extrapolation

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	184,506	195,506
Total audit fees (excluding VAT)	184,506	195,506

Non-audit fees for other services	2021/22 (£)	2022/23 Proposed fee (£)	2022/23 Final fee (£)
Audit Related Services – Housing Benefits assurance	19,900	TBC	TBC
Audit Related Services – Teacher's Pensions certification	7,500	10,000	TBC
Audit related - Capital Receipts return	5,000	7,500	TBC
Audit related – Homes England	5,500	5,500	TBC

Nationally we have revised fees charged by grants to reflect the actual time it takes to complete this work.

The additional audit fee was incurred due to additional work on IFRIC 14 and other issues (namely PPE, additional samples and quality of sample evidence).

Audit fees – detailed analysis

Scale fee published by PSAA 2019	**£116,246**
Additional work on Value for Money (VfM) under new NAO Code	£20,000
Increased audit requirements of revised ISAs 540 / 240 / 700	£10000
Enhanced audit procedures on journals testing (not included in the Scale Fee)	£3000
Local Risk Factors	£16,000
Increased audit requirements of revised ISAs 315 / 240	£5,000
Additional testing in relation to employee remuneration	£500
Additional testing in relation to valuation of PPE	£5,260
Lowered materiality due to FRC expectations	£3,750
Additional quality control procedures due to FRC expectations	£1,500
Infrastructure assets	£2,500
Additional testing in relation to collection fund reliefs	£750
IFRIC 14	£4,000
Other issues (PPE/additional samples/quality of evidence)	£7,000
Total proposed audit fees 2022/23 (excluding VAT)	**195,506**

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

E. Auditing developments

Revised ISAs

There are changes to the following ISA (UK):

- ISA (UK) 315 (Revised July 2020) 'Identifying and Assessing the Risks of Material Misstatement.' This impacts audits of financial statement for periods commencing on or after 15 December 2021.
- ISA (UK) 220 (Revised July 2021) 'Quality Management for an Audit of Financial Statements'
- ISA (UK) 240 (Revised May 2021) 'The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements

A summary of the impact of the key changes on various aspects of the audit is included below:

These changes will impact audit for audits of financial statement for periods commencing on or after 15 December 2022.

Area of change	Impact of changes
Risk assessment	The nature, timing and extent of audit procedures performed in support of the audit opinion may change due to clarification of: • the risk assessment process, which provides the basis for the assessment of the risks of material misstatement and the design of audit procedures • the identification and extent of work effort needed for indirect and direct controls in the system of internal control • the controls for which design and implementation needs to be assess and how that impacts sampling • the considerations for using automated tools and techniques.
Direction, supervision and review of the engagement	Greater responsibilities, audit procedures and actions are assigned directly to the engagement partner, resulting in increased involvement in the performance and review of audit procedures.
Professional scepticism	The design, nature, timing and extent of audit procedures performed in support of the audit opinion may change due to: • increased emphasis on the exercise of professional judgement and professional scepticism • an equal focus on both corroborative and contradictory information obtained and used in generating audit evidence • increased guidance on management and auditor bias • additional focus on the authenticity of information used as audit evidence • a focus on response to inquiries that appear implausible
Definition of engagement team	The definition of engagement team when applied in a group audit, will include both the group auditors and the component auditors. The implications of this will become clearer when the auditing standard governing special considerations for group audits is finalised. In the interim, the expectation is that this will extend a number of requirements in the standard directed at the 'engagement team' to component auditors in addition to the group auditor. • Consideration is also being given to the potential impacts on confidentiality and independence.

E. Auditing developments

Area of change	Impact of changes
Fraud	The design, nature timing and extent of audit procedures performed in support of the audit opinion may change due to: • clarification of the requirements relating to understanding fraud risk factors • additional communications with management or those charged with governance
Documentation	The amendments to these auditing standards will also result in additional documentation requirements to demonstrate how these requirements have been addressed.

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 2023, 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 2022/23.

In our opinion, the financial statements:

- give a true and fair view of the financial position of the Authority as at 31 March 2023 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 2021/22; 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 2022/23 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 2022/23, 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:

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 2022/23, 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 2023.

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 2023.

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 2022. 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 2023 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 2023.

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.

Andrew Smith, Key Audit Partner

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

Birmingham

Date

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