The Audit Findings for Sandwell Council

Year ended 31 March 2022

July 2024

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 will be discussed with management and the Audit Committee.

Name : Mark Stocks
For Grant Thornton UK LLP
Date : July 2024

1. Headlines

This table summarises the key findings and other matters arising from the statutory audit of Sandwell Metropolitan Council ('the Council') and the preparation of the group and Council's financial statements for the year ended 31 March 2022 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 its income and expenditure for the year; and

have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting and prepared in accordance with the Local Audit and Accountability Act 2014.

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

Our audit work was completed remotely between December 2023 to July 2024. with a draft set of accounts supplied 12 December 2023. Our findings are summarised on pages 3 to 26. We have identified 13 adjustments to the financial statements that have resulted in the surplus on provision of services increasing from £36.6m to £56.7m and total comprehensive income and expenditure reducing from £520m to £506m. General fund balances have reduced from £211.7m to £199.1m.

There have been a significant number of both presentational adjustments to disclosures and adjustments to the financial statements. In total there are 121 items on the 'issues log'. This is considerably more than would be expected on an audit of well prepared and reviewed accounts. Reviewing the amendments to the accounts has taken some considerable time.

Audit adjustments are detailed in Appendix C. It is unusual for the accounts to require this volume of adjustments and we would expect that management ensure that the quality of the financial statements, as presented for audit, is substantially improved in future years.

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

Our work is substantially complete subject to the following outstanding matters;

- Completion of review of revised accounts
- Completion of review of investment properties prior period adjustment
- Finalisation of SL&P adjustment review
- Receipt of management representation letter; and
- Review of the final set of financial statements and Annual Governance Statement.

We have concluded that the other information to be published with the financial statements, is consistent with our knowledge of your organisation and the financial statements we have audited.

Our anticipated audit report opinion will be unmodified , although it will reflect matters in relation to value for money and statutory recommendations issued [Appendix E).

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 completed our VFM work for 2021/22 and our detailed commentary is set out in the separate Auditor’s Annual Report, which has previously been presented to the Audit Committee. We identified significant weakness in the Council’s arrangements and so are not satisfied that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. Our findings are set out in the value for money arrangements section of this report.

The Interim AAR was issued in March 2023. In 2020/21 our risk- based work identified signficant weakness in arrangements to deliver value for money in the use of Council Resources that impacted on both Governance and Economy, Efficiency, and Effectiveness thematic areas of review. For the purposes of our 2021/22 assessment, these weaknesses are assessed to have carried forward into that year whilst the new arrangements and Improvement Plan continues to be delivered. However, the AAR does recognise that signficant progress had been made as referenced in the Governance Review issued to Cabinet in December 2022. A new key recommendation was made in relation to the timeliness of the financial statements.

Statutory recommendations were made in 2020/21 and the AAR references that three were brought forward in to 20201/22 and were not addressed in the financial year and thus remain in place for the 2021/22 opinion.

Due to the delay in completion of the 2021/22 audit and issue of this Audit findings report, a further AAR has been issued which references that further improvements have been made and the statutory recommendations have been addressed.

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.

As referenced above, three statutory recommendations issued in 2022/21 continue to apply in 2021/22. however, no further statutory recommendations have been issued.

1. Headlines

Significant Matters

Delay in accounts production and audit	As referenced above, we issued a key recommendation in March 2023 related to the delay in production of the accounts. A draft set of accounts for 2021/22 was received on 12 December 2023, which is after the statutory deadline, and draft accounts have yet to be prepared for either the 2022/23 or 2023/24 financial years. We do not currently have confidence that there will be adequate plans, or resources in place, for management to prepare 2024/25 accounts by the anticipated statutory deadline of 31 May 2025. We consider that the key recommendation remains in place for both the 2022/23 and the 2023/24 value for money conclusion. We understand that the draft 2022/23 accounts will be available in late July, with the audit to follow thereafter. The expected 'back stop' for 30 September has not been confirmed and we are currently working to the expectation that the 2022/23 accounts will need to be audited by 31 December 2024. Management does not have a properly resourced closedown plan for production of either the 2022/23 or 2023/24 sets of accounts. We feel that thorough consideration has not been given to how the finance team will support preparing the 2023/24 accounts whilst both supporting the 2022/23 audit and undertaking the 'business as usual' accounting tasks of the finance team. **The Audit Committee should be sighted on management's plans to get the council back on track for production of the draft 2024/25 financial statements by the statutory deadline of 31 May 2024. This should include preparation of a fully resourced closedown plan for both the 2023/24 and 2024/25 accounts.** The Council is implementing a new financial ledger during the summer of 2024. The 'old' ledger will need to be available for management to prepare the 2023/24 accounts, and for them to be audited. **Management should obtain an extension of the necessary licences on the 'old' ledger to enable the finance team to have access to relevant information to prepare the 2023/24 accounts and have them audited.**
Sandwell land and Property Limited (SL&P)	SL&P was wound up on the 31/3/22. As a wholly owned subsidiary, the assets of the company transferred back to the Council. We requested that management prepare an accounting paper to support the judgments and accounting treatment of the wind up and transfer of SL&P assets and the relinquishing of the Councils share allocation. This paper was drafted by a consultant, subsequent to the issue of the draft accounts. On receipt of this paper, management changed the accounting treatment, and this resulted in some material amendments to the accounts. We further challenged management on the accounting basis of some of the judgements made, and a further paper was produced by management, more properly explaining the rationale, as this was unclear in the original paper. We are now satisfied that management has properly explained the accounting basis of the treatment and are satisfied that the approach adopted is not unreasonable and does not result in a material misstatement.
Reclassification of investment properties	Subsequent to the issue of the draft accounts, management reviewed the classification of some of investment properties. This led to amendments to the draft accounts, but also resulted in a prior period adjustment.
Volume of matters arising	We retain an 'issues log' of matters arising in the audit. Some of these are more minor presentational matters however there have been a signficant number of both presentational adjustments to disclosures and adjustments to the financial statements. There are 121 items on the 'issues log' which is considerably more than would be expected on an audit of well prepared and reviewed accounts. Reviewing the amendments to the accounts has taken some considerable time. In our previous audits we have recommended that **management should undertake a thorough review of the accounts, prior to them being issued for audit. The accounts should be supported by comprehensive working papers, which again should be reviewed before being shared.** Clearly this has not happened again this year and remains a recommendation going forward. This will mean that the significant weakness raised in our Annual Auditors Report will remain in place, until both the timeliness and the quality of the Council's financial statements are substantially improved.

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;
- An evaluation of the components of the group based on a measure of materiality considering each as a percentage of the group's gross revenue expenditure to assess the significance of the component and to determine the planned audit response. The SL&P was wound up in 2021/22 and thus the group arrangement is limited to the Council and the Children's Trust. An audit of the Children's Trust is undertaken by colleagues within Grant Thornton. An unqualified opinion was issued on the Children's Trust in December 2022.
- Substantive testing on significant transactions and material account balances, including the procedures outlined in this report in relation to the key audit risks.

Conclusion

We have substantially completed our audit of your financial statements and subject to outstanding queries being resolved, we anticipate issuing an unqualified audit opinion following the Audit Committee meeting in July 2024. These outstanding items include:

- Completion of review of revised accounts
- Completion of review of investment properties prior period adjustment
- receipt of management representation letter; and
- review of the final set of financial statements and Annual Governance Statement.
- We have concluded that the other information to be published with the financial statements, is consistent with our knowledge

Acknowledgements

We would like to take this opportunity to record our appreciation for the assistance provided by the finance team and other staff. Both your finance team and our audit team faced audit challenges again this year, due to the delay in the 2020/21 audit impacting on production of the 2021/22 financial statements. This was coupled with ongoing pressures within the finance team from staff turnover and sickness.

Management faced particular challenges around the capital accounting aspect of the closedown, with signficant reliance on interims. Preparation of the capital entries in the accounts is a key factor in the delay to preparation of the 2022/23 draft accounts.

The revised accounts contained a substantial number of amendments, partly due to the limited time available for the finance team to undertake a robust quality review of the accounts before presentation for audit. Audit staff commenced some sporadic work on the accounts in September 2023, with a draft set of accounts provided in December 2023.

The finance team have been extremely committed to supporting the audit and are clearly taking steps to improve the general skills of the finance team and quality of the financial statements. Turnover of staff remains a challenge to the council.

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.

We detail in the table below our determination of materiality for Sandwell Council. Headline materiality level has been adjusted from planning materiality of £13m, as this was based on the 2020/21 outturn. We have reduced as part of the final accounts planning, reflecting changes in gross expenditure.

	Group Amount (£000)	Council Amount (£000)	Qualitative factors considered
Materiality for the financial statements	12,100	12,800	Materiality is assessed as 1.4% of gross expenditure. Here we have considered the business environment and external factors.
Performance materiality	7050	7.680	We have determined performance materiality at 60% of the materiality. We have decreased the percentage from the 2020/2021 audit of 70%. In the last three years of audit there have been significant misstatements arising as a result of the financial statements audits. In addition, there has been turnover of senior management and key reporting personnel in the finance team.
Trivial matters	605	640	Triviality is set at 5% of Headline Materiality.
Materiality for Senior officer remuneration	100	100	Due to the sensitive nature of these disclosures, a separate, lower materiality threshold is set.

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. 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.	Journals We have • evaluated the design effectiveness of management controls over journals • analysed the journals listing and determined the criteria for selecting high risk unusual journals • tested unusual journals recorded during the year and after the draft accounts stage for appropriateness and that they are in line with business purpose. • gained an understanding of the accounting estimates and critical judgements applied made by management and consider their reasonableness with regard to corroborative evidence – this work focused on pensions and investments which have been documented in full as part of the related significant / other risks • evaluated the rationale for any changes in accounting policies, estimates or significant unusual transaction – none identified We noted a control weakness because journals Period 1 to period 12 are only approved retrospectively as opposed to being approved prior to being posted to the Ledger (which is what we expect). Oracle produces a list from the system of all journals posted by each user where each user self- check their postings. Batch checks are then completed on a monthly basis to identify any errors or unusual entries before the period is closed. These checks are helpful but are not sufficient to mitigate the weakness in control. Only period 13 Journals are approved via assigned authorisers list, where the assigned authoriser approves a proposed journal over Email before it is processed in Oracle. We have raised this as a control deficiency as Journals should be approved before posting by a senior officer. We understand that approval of all journals is challenging to due to the large number of journals posted and we understand management are looking at ways in which the number of journals could be reduced **Recommendation: As a minimum management should set financial parameters above which journals posted should be authorised. These journals should be authorised prior to posting.**

2. Financial Statements - Significant risks

Risks identified in our Audit Plan	Commentary
Improper revenue recognition Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue. This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition. 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 Sandwell Metropolitan Borough Council mean that all forms of fraud are seen as unacceptable.	No changes have been made to our assessment reported in the audit plan. No signficant issues have been identified in relation to revenue recognition, that are indicative of fraudulent reporting. We note that management has responded to previous recommendations around the basis of provision for impairment of debt and we now only remain concerned about the evidence to support the impairment allowance associated with rent arrears. Management is unable to provide an aged analysis of HRA debt which we consider is necessary to enable us to assess the reasonableness of the provision but is also relevant management information to support management of rent arrears. This is reflected in the unadjusted errors. We also noted that management had incorrectly accounted for academy income and expenditure, which should not have been recognised in the CIES, inflating both income and expenditure by £8,871k (net £nil). The equivalent misstatement in 2020/21 is £6,107k which has not been adjusted for as judged to not be material. We also noted that the CIES contained more analysis of taxation and specific grants than is necessary, which should be included in a note to the accounts, so that the key information required by the Code is not obscured. Management should consider this as part of the 2022/23 draft accounts
The expenditure cycle includes fraudulent transactions Practice Note 10: Audit of Financial Statements of Public Sector Bodies in the United Kingdom (PN10) states: "As most public bodies are net spending bodies, then the risk of material misstatement due to fraud related to expenditure may be greater than the risk of material misstatements due to fraud related to revenue recognition". Public sector auditors therefore need to consider whether they have any significant concerns about fraudulent financial reporting of expenditure which would need to be treated as a significant risk for the audit. We have rebutted this presumed risk for Sandwell Metropolitan Borough Council because: • expenditure is well controlled and the Council has a strong control environment; and • the Council has clear and transparent reporting of its financial plans and financial position to the Council. We therefore do not consider this to be a significant risk for the majority of the Council expenditure streams. We consider that there is a risk around COVID 19 related grant expenditure.	No matters were identified in the course of the audit that were indicative of fraud in expenditure. Our assessment at planning remains appropriate. There were amendments made to note 28 – income and expenditure by nature, subsequent to the receipt of the draft accounts, reanalysing the expenditure by category. This is an important note as it drives much of the audit testing, and so we would urge management to be sure that the note is given due attention when drafting the 2022/23 accounts. Amendments included reducing employee benefits expenditure by £9.3m, increasing other services expenditure by £20m, and decreasing depreciation, amortisation and impairment by £12m. Within the group accounts working papers we noted that there were formula errors, and this has resulted in a gross overstatement of £13m. Again, we stress the importance of management review of working papers.

2. Financial Statements - Significant risks

Risks identified in our Audit Plan	Commentary
Valuation of land and buildings (£2,309m) and Investment property (£66m) The Council revalue its assets on a minimum rolling five-yearly basis; and revalue schools and leisure centres every year. This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved (£2b) and the sensitivity of this estimate to changes in key assumptions. Additionally, management will need to ensure the carrying value in the Council's financial statements is not materially different from the current value at the financial statements date, where a rolling programme is used. For assets not revalued in year, an Analysis of Indexation is completed, which comprises a cumulative index to identify if any material movements in value have occurred. We have identified valuation of land and buildings, particularly revaluations and impairments, as a significant risk, which was one of the most significant assessed risks of material misstatement, and a key audit matter.	We: • evaluated management's processes and assumptions for the estimation of asset values, 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; • tested revaluations made during the year to see if they had been input correctly into the Council's asset register; and • evaluated the assumptions made by the valuer for those assets revalued at 31 March 2021. For any assets not formally revalued in year we will assess how management has satisfied themselves that these assets are not materially different to the current value at the year end. The Council has two valuers, Savills for the housing stock valuation and Wilks Head and Eve for the remaining council property holdings. We employed an auditor's expert (Gerald Eve) to support our review of the revaluation of land and buildings, including the council housing stock. Overall, no concerns were raised around the competency of the respective valuers although Gerald Eve made a number of observations that we were required to follow up as part of the audit. The accounts include reference within note 4, to a material uncertainty in relation to the Council's high-rise stock. This reflects the view stated by the Council's valuer Savills and is consistent with comments in prior years. The uncertainty relates to Grenfell disaster which has created an uncertainty within the market on the valuation of all multistorey properties. The risk is not specific to Sandwell because as far as we are aware there are no specific at risk properties. The valuer did not quantify the financial impact of that risk specifically for SMBC. Management should encourage the valuer to review this uncertainty in future years and to be more specific about the range of risk that the council faces. We have in previous years raised a number of concerns in relation to the quality of the underlying property source data held within property services and the continuing use of excel spreadsheets as the council asset register, in view of the size and value of council property holdings. We have again seen errors caused by the use of spreadsheets. Management is currently implementing a new property data-base and this should be supported by a full review of property records to ensure they are up to date and accurate. Some errors were also identified where there were discrepancies between the data being used by the valuer for floor areas and build dates when compared to the records available at the council. We have identified control deficiencies in relation to the council asset records. Large amendments have been made to the property, plant and equipment (PPE) balances and disclosures due to matters raised in the audit. These are covered in more detail on in the significant estimates section.

2. Financial Statements - Significant risks

Risks identified in our Audit Plan	Commentary
Valuation of land and buildings (£2,309m) and Investment property (£66m) (continued)	Discussions took place with management on 2 key issues: Sandwell council house (£8.9m 31/3/22) There was a reduction in valuation of £12.9m on the prior year, reflecting the refurbishment costs that had taken place over recent years which had not added value to the building. We challenged management whether impairment should have been recognised in prior years, however we were comfortable with management explanation as to why it was appropriate to recognise all the impairment loss in the current financial year and that prior year accounts were not materially misstated as a consequence of management's judgement. Brandhall golf course: we challenged management on the key assumptions driving the valuation, which included an adjustment for a school that had yet to be built which we considered to be unusual. Management obtained a new valuation for 2022/23 which we are content reflected all the current information on the proposed development of the site and this more clearly articulated the basis of the valuation. As this valuation was not substantially different to the original 2020/21 valuation, we formed a judgement that the basis of the 2020/21 valuation was unlikely to be materially misstated.
Valuation of Investment Property (£65m) **Investment properties are held to earn rentals or for capital appreciation or both.** Investment properties are valued at existing use fair value. Consequently, they are generally valued annually rather than as part of any rolling programme of valuations. Similarly to OLB, the valuation of Investment properties requires the exercise of estimates and judgements and are highly material, consequently we consider these to be items having signficant risk of misstatement.	Management undertook to review the classification of Investment properties. As a consequence, management determined that assets should be reclassified out of investment properties, mainly into surplus. . Management identified £10m of assets that were included in investment properties in the 2021/22 accounts and determined that £8m should be treated as surplus (also valued at fair value so the impact was classification only). £1.2m of assets were reclassified as community and valued at £nil, which is written off to the CIES. The £1m balance that went to other land and buildings was not revalued, however management has taken the view that due to the value, these are unlikely to be materially misstated, and we are comfortable with that judgement. We had requested that management would provide a paper setting out the basis of reclassification against the standard (IAS40) on an asset by asset basis, setting out the rationale for the reclassification and whether this was indicative of an error in the prior year. Such a paper was not provided. We undertook testing of the largest items, and concluded that the basis and rationale for the adjustments was reasonable. It was determined that this was a material 'error' in previous year's accounts and thus management has prepared a prior period adjustment to the 2020/21 accounts and prepared a third balance sheet. A note is also added to explain the PPA. We have yet to complete our review of these adjustments.

2. Financial Statements - Significant risks

Risks identified in our Audit Plan

Valuation of {pension fund net liability }

The Authority's pension fund net liability represents a significant estimate in the financial statements due to its value £754 m (p/y £1,104m) in the Authority's balance sheet and the sensitivity of the estimate to changes in key assumptions.

The methods applied in the calculation of the IAS 19 estimates are routine and commonly applied by all actuarial firms in line with the requirements set out in the Code of practice for local government accounting (the applicable financial reporting framework). We have therefore concluded that there is not a significant risk of material misstatement in the IAS 19 estimate due to the methods and models used in their calculation.

The source data used by the actuaries to produce the IAS 19 estimates is provided by administering authorities and employers. We do not consider this to be a significant risk as this is easily verifiable.

The actuarial assumptions used are the responsibility of the entity but should be set on the advice given by the actuary. A small change in the key assumptions (discount rate, inflation rate, salary increase and life expectancy) can have a significant impact on the estimated IAS 19 liability. We have therefore concluded that there is a significant risk of material misstatement in the IAS 19 estimate due to the assumptions used in their calculation.

With regard to these assumptions we have therefore identified valuation of the Authority's pension fund net liability as a significant risk, which was one of the most material assessed risk of material misstatement, and a key audit matter.

Commentary

We have:

- updated our understanding of the processes and controls put in place by management to ensure that the Council's pension fund net liability is not materially misstated and evaluated the design of the associated controls;
- evaluated the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work;
- assessed the competence, capabilities and objectivity of the actuary who carried out the Council's pension fund valuation;
- assessed the accuracy and completeness of the information provided by the Council to the actuary to estimate the liability;
- tested 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;
- undertaken procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performing any additional procedures suggested within the report; and
- obtained assurances from the auditor of the West Midlands Pension Fund as to the controls surrounding the validity and accuracy of membership data; contributions data and benefits data sent to the actuary by the pension fund and the fund assets valuation in the pension fund financial statements.

The Council is an admitted body to West Midlands Pension Fund. The latest triennial valuation for the pension fund was published prior to completion of the financial statements and so the valuation used in the accounts reflects this triennial valuation. Additional audit work has been required in respect of the triennial valuation which has included obtaining assurance in respect of updated membership data, considering the reasonableness of revised assumptions and estimates and checking the accuracy of management's adjustments to the financial statements. we have relied upon assurances from the pension fund auditor to help support completion of this work. No significant matters have been identified.

Understatement of level 3 assets

The auditor of West Midlands Pension Fund (WMPF) identified an understatement of the Fund's assets in the course of their audit procedures. The auditor reported a quantifiable understatement of level 3 investments which was then extrapolated to a total potential error of £90m. The Council's share of this total estimated £90m error is approximately £10.4m.

This issue arose as a result of a lag in the valuation process for the Fund's hard to value investments. This is a function of the Fund's reporting process and is not considered to be indicative of a control weakness at the Council. This is also not an unusual finding in pension fund audits, with the size of the variance this year being attributable to ongoing market volatility.

An adjustment has been made for the quantifiable elements of this issue in the Council's financial statements increasing the Councils share of the pension fund assets by £8.3 m and recognising an impact on the Council's pension reserve. The estimated element of £2.2m is reflected in the unadjusted misstatements. There is no impact on the Council's general fund balance. See Appendix C for further detail.

Further matters are raised in the significant estimates section of the report.

2. Financial Statements - other risks

Risks identified in our Audit Plan	Commentary
Accounting for the winding up and transfer of Sandwell Land and property Ltd. Valuation of Land on SL&P balance sheet is £26m, £61m DRC value within the consolidated accounts. A resolution to wind up Sandwell Land and Property Ltd was made in March 2022 with the beneficial interests in the land and buildings distributed to the Council on 31 March 2022. The legal interest transferred on 14 June 2022. The Council will need to set out the rationale and basis for the year end accounting of the assets and valuation.	The draft accounts included the consolidation of SL&P in the single entity accounts. We requested that management prepared a paper explaining the accounting basis and setting out the judgments made in the accounting. This was provided at the end of March 23 and subsequently there were material accounting adjustments made to the accounts. We have yet to fully conclude on this aspect of the audit.
Pension prepayment (£30.5m) An upfront payment of £30.5m was made in May 2020, covering the period 2020/21 to 2022/23. This was incorrectly accounted for requiring a material adjustment to the accounts	No issues have been identified in the accounting for the pension prepayment in the 2021/22 accounts
Grants income; recognition and presentation In the prior year there were several issues associated with grants accounting, including where it was recognised on the CIES, assessment of whether arrangements were on an agency or principal basis and accounting for grants received in advance. Significant adjustments were made to the accounts. (prior year: £2.2m capital grants, RIA & £18.9m LRSG (increased surplus) 5m Covid grant incorrectly classified) £15.9 Covid (classification no impact CIES)	Three material errors were identified in the accounting for grants and the related creditors: **Agency grants:** Management had incorrectly accounted for agency grants –The impact is material at £25m and was also a matter reported in the prior year. Whilst the income and expenditure related to agency grants should be removed from the councils CIES– the accounts should reflect the cash held at the year end. Management had incorrectly netted this out of the accounts. This has been amended by management and the net adjustment is reflected in the balance sheet and reduces the overdraft and increases creditors. **Short term creditors / revenue grants received in advance:** There was a posting error of £20m which understated short term creditors and overstated revenue grants received in advance, which has now been adjusted for. **S31 Grants:** The balance of S31 grants due back to Central Government at 31 March 2022 has not been correctly accounted for £12.5m). As a result, Creditors are under stated and the balance held in General Fund (earmarked reserves) is over-stated. Whilst this has impacted on general fund balances in the year, management have confirmed that it is a timing issue as the amount was committed within earmarked reserves and so there is no impact on overall financial plans. **Capital grants received in advance** Management were unable to provide evidence to support old contributions that are brought forward on capital grants received in advance, such as grant notifications or bank statements. We are therefore unclear as to whether the balances recognised are cash backed and available to finance capital spend. We recommend that management review the basis of the capital grants received in advance where the balances remain unused from the prior financial year. Management should ensure that all grants are correctly accounted for in the 2022/23 and 2023/24 accounts

2. Financial Statements - other risks

Risks identified in our Audit Plan	Commentary
Cash: bank reconciliation For the past two years material errors have been found in the bank reconciliation. Management has arrangements in place to review bank reconciliation but this process is not identifying errors. Incorrect treatment of agency grants in 2020/21 resulted in a £32m reduction in overdraft and corresponding increase in creditors. There was also a £2.9m error in accounting for a year end Bacs payment.	Once again there was a material error in the accounts £26m associated with the accounting for agency grants. No other issues were identified from our work on bank reconciliation.
PFI schemes *Each audit year there has been issues in relation to the accounting for the councils PFI and service concession contracts. We have flagged in prior years that the council does not have sufficient in-house expertise around its PFI schemes, both in terms of keeping these up to date or understanding the basis of the unitary charges in relation to the contracts, and subsequent contract variations. We consider that this is a control weakness. Prior year £2.2m error on Portway scheme)*	Serco - PFI Lifecycle Model: Fleet vehicles scheduled to be replaced were found to be consistent between the Council's lifecycle accounting model and Serco's Oct 2023 fleet replacement matrix. However, some of the dates for replacement post 2021-22 were not fully aligned. This will impact on the Council's future payment disclosure. The Council should update the Lifecycle accounting model fleet replacement dates to ensure consistency with the most up to date agreed profile notified by Serco and amend the future payment profile disclosure accordingly. The Council's disclosure of the future Serco UC payments analysed by nature shows interest for all future periods as £nil. This is not in line with expectations as we expect there to be an interest charge on the vehicle lease liability. Other PFI schemes There were other non material issues relating to the other schemes that have been adjusted for and are detailed in the disclosure adjustments.
Debtors: impairment and business rates appeals provisions; Impairment of debtors: The Council makes an assessment of the collectability of its arrears and impairs these to reflect the likely amount that will be collected. This is a matter for management judgement using the best available information which may include historic collection rates and known economic factors that could impact on future collection. Management undertook an assessment of the collectability however were unable to support this with aged debt analysis for housing rents and housing benefits being collected from ongoing benefit. We consider that the absence of such information is a control weakness. In 2021 we considered there to be the following errors in impairments: • Sundry debtors £2m • HB ongoing claimants £5m • Housing rents £4.6m	Management assessment in this area was improved compared to previous audits. One remaining matter has yet to be adequately addressed in our view: **HRA arrears impairment:** Management include a 10% allowance against current tenant rent and court costs as the basis of provision. The recovery rate is 95% and thus 10% is considered adequate. Management are unable to provide an aged debt of the arrears and thus it is impossible to determine how much of the year end arrears is > 6 months or older; older debt being much harder to collect. Without an aged analysis it is impossible to determine whether the allowance is adequate. We therefore consider that there is an uncertainty in relation to the arrears. We have therefore included as an unadjusted error. (Current Tenant rent arrears £4,881k - provision (£488k) & Current Tenant Court costs arrears £497k - provision (£49k)).

2. Financial Statements - other risks

Risks identified in our Audit Plan

Commentary

Creditors (accruals)

We identified weakness in management approach to expenditure accruals. This included management accruing to budget and making estimates when actual information was available.

Errors in 2020/21 included

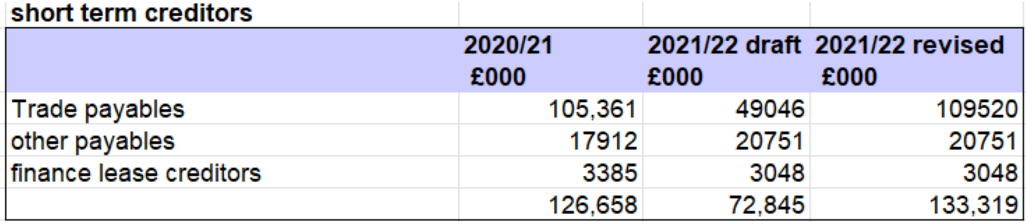
£2.9m accruals misstatement

IT invoice misstated £1.1m

We therefore determined that there was some increased risk around year end accruals.

Accounting for creditors

As a consequence of the errors in grant accounting there has been a material movement in the creditors balance between draft and final. The revised accounts now being more in line with the prior year.
The unusual year on year variance with the draft accounts (as demonstrated below) should have been investigated as part of the quality review of the draft accounts and could have been addressed prior to the audit



short term creditors

	2020/21 £000	2021/22 draft £000	2021/22 revised £000
Trade payables	105,361	49046	109520
other payables	17912	20751	20751
finance lease creditors	3385	3048	3048
	126,658	72,845	133,319

See also the' other risks' – grants section page 13 – the understatement of creditors is £12.5m and this has impacted on the reduction in overall general fund reserves as referenced on page 3. The other most significant movements in creditors is £26m agency grants and £20m grants received in advance.

Annual Leave Accrual

The annual leave accrual has reduced by £1.8m (19.6%) in year. The amount £7.4m is reflected in the unusable reserve accumulated absences account. It is not possible to agree £2.6m of the non teaching staff accrual to source data - as it is based on a calculation made in 2012/13 for what the average annual leave accrual was in that year by grade - uplifted by pay rates and current staff numbers. Client should rerun the exercise for 22/23 to provide assurance that the basis of the historic assessment is reasonable.

No signficant matters were identified as part of the remaining creditors testing this year.

Cash Flow statement

There were balancing items within the cashflow statement – management should not routinely include balancing items within the accounts. Management should ensure that the cashflow working papers include the most up to date model that supports the accounts presented. (amount was not material but would not expect any error).

The cashflow statement in the draft contained errors. These are addressed in the revised version.

2. Financial Statements - other risks

Risks identified in our Audit Plan	Commentary
Infrastructure assets In 2021/22 we disagreed with the methodology applied by management in the determination of depreciation in relation to historic infrastructure assets. A £2m error was reported in the AFR. We acknowledge that this was the first year and there was late guidance around this.	No issues arising from our audit in 21/22. There has been no change to the approach to depreciation in 2021/22
Group accounts/ arrangements • There are several risks associated with the councils accounting for group relationships: • Management has not prepared a comprehensive assessment of all its relationships and whether there is a group arrangement and what the impact is in accounting terms • For a number of the companies related to the Council, where staff have in the past TUPEd, the council holds a pension guarantee. We found that the assessment of the guarantee was not complete in 2020/21. • The consolidation of the Children's Trust into the group accounts had not properly removed intercompany income and expenditure in 2020/21 In 2021 we identified a consolidation error of £3m.	Group Accounts **Pension liability:** Management has not yet progressed the prior year recommendation that they prepare a specific agreement with the Children Trust to cover off the weakness in formal documentation between the two parties on the 'ownership' of the risk of the former SMBC staff who have transferred to the Childrens' Trust. Several disclosure matters were identified. These are referenced in Appendix C. **Error in consolidation:** We reviewed the Council's Group CIES consolidation work paper and identified that gross expenditure appears to be overstated by £13,140k and Gross income also overstated by a similar amount. Error identified in relation to the consolidation of debtor and creditor balances, both are understated by £1,034k

2. Financial Statements – new issues and risks

This section provides commentary on new issues and risks which were identified during the course of the audit that were not previously communicated in the Audit Plan and a summary of any significant deficiencies identified during the year

Issue	Commentary	Auditor view
The CIES reflects the new management restructure. It is expected in such circumstances that the prior year comparatives in the CIES are also restated to ensure that there is a like for like comparison.	The adjustment to the CIES had been correctly restated but the CIES was not headed 'restated'. No disclosure has been included in the accounts explaining the nature of the restatement. Column headers should be amended to include 'Restated' for all statements and notes impacted, along with a reconciliation between amounts previously reported, and those reported in the current year comparatives. Although the net expenditure remains consistent between years, amendments have been made to gross expenditure and gross income in 2020/21 which is not in line with expectations, and needed to be corrected. The prior year EFA will also need to be restated on the same basis. (Code reference 3.4.2.32)	The restated EFA was provided Footnote was added to the CIES to highlight a restructure – however a reconciliation and more detailed note has not been included in the accounts
Termination benefit:	Management was unable to supply a Termination policy or clarify standard procedures for approval of terminations. There was also a lack of clear audit trail on one of the terminations, where different versions of the approval changed whether the termination was voluntary or compulsory. Similarly, the evidence supplied to support approval of the termination payment was not fully signed in all cases tested.	The Council should formally document the process and procedures to be followed for terminations of officers of the council
Movement in Reserves Statement The MIRS only includes a table showing the 21-22 movements. The prior year statement should also be included after the current year	Group MIRS - The line 'Adjustments between group accounts and authority accounts' does not have an analysis of amounts included within this line. (Code ref 3.4.2.56 and 3.4.2.57) Entries for the Council in the Group MIRS when compared against the MIRS in the Council's single entity accounts were found to be consistent. However, we would not expect these to be the same and the Group MIRS should include a further line for 'adjustments between group and single entity accounts'. The MIRS therefore does not appear to have been compiled in line with the Code (Further guidance can be found in the CIPFA publication 'Accounting for Collaboration in Local Government' - see paras 12.7 and 12.8.	The Council should review whether its accounting for group reserves requires amendment.

2. Financial Statements – key judgements and estimates

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

Significant judgement or estimate	**Summary of management's approach**	**Audit Comments**	**Assessment**
Land and Building valuations – £760,208m (general fund) £1,218,471 (HRA)	Management adopts a rolling programme of valuation of its other land and buildings, although schools are valued annually. Investment, surplus and any asset held for sale are valued annually. HRA assets are valued annually using a 'beacon' approach. General fund assets: Management undertake an assessment of assets not valued and this was partly completed by the external valuer and partly by management, using available indices. The estimate is that the valuation is understated by less than £7m which is not signficant in relation to the total valuation of non -current assets. The council's portfolio contains specialised assets such as schools and libraries, which are required to be valued at depreciated replacement cost (DRC) at year end, reflecting the cost of a modern equivalent asset necessary to deliver the same service provision. The remainder of other land and buildings are not specialised in nature and are required to be valued at existing use in value (EUV) at year end. The Council has engaged Wilks Head and Eve to value the general fund assets and Savills to complete the valuation of properties as at 31 March 2022. For general fund assets the valuation at 31/3/22 is increased on the prior year, mainly by the addition of £61m of SL&P assets that had previously been reflected in the group accounts, being held by Sandwell Land and Property Ltd. These reflect the value of school land which had previously been reflected in the consolidated group accounts of assets owned by SL&P. HRA The accounts reflect a net increase in value of the HRA stock valuation of £34m, reflecting a £64m increase on the brought forward stock valued by Savills, offset by a £29m loss on additions in the year. We have referenced a control weakness around the group approach to HRA records Assets held for sale The revised accounts (balance sheet) include £9.6m of assets held for sale relating to providence place, that had previously been included in surplus assets. The asset was sold early in the 2022/23 financial year and was clearly being held for sale at the year end. This had no impact on the valuation and the value in the accounts is commensurate with the eventual sale price	We are satisfied that use of the management expert is appropriate We are satisfied that the general basis of valuations is reasonable. we have identified some control weakness in processes particularly around information shared between management and the external valuer. We have undertaken sufficient procedures to challenge management and the valuer on the basis of assumptions used and are satisfied that the basis of estimate is reasonable and that the valuation is not materially misstated The Terms of engagement and valuation report make no reference of limitation of liability and should	🟦

Assessment

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

2. Financial Statements – key judgements and estimates

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Land and Building valuations – (continued)	**Impairment** In the prior year the aquatics centre had been impaired and a further impairment was deemed necessary this year. This was considered at audit request and the accounts have been adjusted accordingly. We also challenged management on the considerations around impairment of the works undertaken to the Council house. The accounting policy requires that management undertake an annual impairment review which should include assets under construction. This should be more formally built into year-end processes and documented. A control weakness is identified for this and a recommendation made in Appendix A. **Assets under construction (AUC)** Included within AuC there are two projects 1. Land to rear of (formerly part of Smethwick Council House), High Street, Smethwick- £1,197,056 and Firardake Close (0.588 Acre)- £1,005,003. No expenditure has been incurred on these assets during 2021-22, or post year end. This would suggest that these assets do not meet the definition of an Asset under Construction. Officers have not been able to provide us with any evidence to confirm the future plans for these assets and as such there is an uncertainty around both the classification and valuation basis for these two assets. These assets should either be brought into use and revalued or if the expenditure has not resulted in an asset then it should be written off to the CIES. One sampled asset (Smethwick Pavilion) £2,591k that was completed prior to the year end, and should properly have been reclassified as operational OLB. The Council's valuer as part of the year end valuation exercise valued the new Pavilion at £1,672k. The Council therefore are proposing to reclassify the Pavilion costs of £2,591k into operational Land and Buildings, and subsequently recognise an impairment of £919k to reflect the year end valuation. This has been adjusted for in the revised accounts We make further observations on arrangements as part of the control deficiencies section – see Page and recommendations for improvement in the appendix.	See previous slide	

2. Financial Statements - key judgements and estimates

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Investment Property Valuation - £65m	Management has undertaken valuations on the Investment properties using the external valuer Wilks Head and Eve. Following the preparation of the draft accounts, management undertook a retrospective review of the classification of a number of its Investment properties, and many were reclassified as surplus, not meeting the definition of Investment properties (solely held for income or capital appreciation) The majority of those reclassified were surplus assets and thus there was little variation in valuation, although the classification on the face of the balance sheet changes. The impact in the prior year was material at £15m (20/21) and Brand hall a partial prior period adjustment has been made for £13m, with the balance included within our unadjusted misstatements . The basis of valuation in many cases was based on current rental values and evidence was provided to support the valuers judgements. In addition, we have seen evidence that the valuer considered other factors such as comparable commercial rent. There has been an overall loss in the valuation of investment properties of £2.2m (3.5%) as set out in note 14.	We have judged that the management expert is appropriately qualified and experienced to undertake the valuation of investment properties. Our sample revie of valuations confirmed that the valuer had undertaken appropriate consideration of market indicators in forming the valuation. Based on our sample testing , the judgments around the reclassified assets were reasonable. We are content that valuation exercise was complete. The overall reduction in valuation is appropriately supported by valuations.	🟪

2. Financial Statements - key judgements and estimates

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Net pension liability – £754 m (p/y £1,104m)	The Council's [total] net pension liability at 31 March 2022 is £754m (PY £1,104m) comprising the West Midlands Pension Local Government and unfunded defined benefit pension scheme obligations. The Council uses Hymans Robertson to provide actuarial valuations of the Council's assets and liabilities derived from this scheme. A full actuarial valuation is required every three years. The latest full actuarial valuation was completed at 31 March 2022. Given the significant value of the net pension fund liability, small changes in assumptions can result in significant valuation movements.	See below	

Our audit procedures have been in line with the plan which has involved:

- Assessment of management's expert (Hymans Robertson)
- Assessment of actuary's approach taken, which has involved considering the assurances provided by the West Midlands Pension Fund auditor.
- Use of PwC as auditor's expert to assess actuary and assumptions made by actuary –table below compares with Actuary assumptions

Assumption	Actuary Value	PwC range	Assessment
Discount rate	2.7%	2.7% to 2.75%	●
Pension increase rate	3.2%	3.15% to 3.3%	●
Salary growth	4.2%	3.65% to 5.8%	●
Life expectancy – Males currently aged 45 / 65	22	21.4-24.3	●
Life expectancy – Females currently aged 45 / 65	25.4	24.8-26.7	●

Our work did not identify any concerns with:

- Completeness and accuracy of the underlying information used to determine the estimate
- Impact of any changes to valuation method
- Reasonableness of the Council's share of LPS pension assets.
- Reasonableness of increase/decrease in estimate
- Adequacy of disclosure of estimate in the financial statements]

We were also content with the approach taken to the triennial valuation, which included assurances from the pension fund auditor on the accuracy of membership data.

2. Financial Statements - key judgements and estimates

Significant judgement or estimate	Summary of management's approach (continued)	Audit Comments	Assessment
Net pension liability – £754 m (p/y £1,104m)		Lagged assets: WMPF - Fund understatement on Level 3 assets We have been informed by the auditors of the West Midlands Pension Fund that there is a large but not material to the Fund understatement on Level 3 assets. This is to do with the timing of valuations vs accounts production dates and is not uncommon at pension funds. The share relating to Sandwell MBC is £10.47m as per split provided by the PF auditor (Total error £119m - Sandwell share 8.8%, Actual £8.27m and extrapolated £2.2m). Inquiries made with the Actuary have established that the IAS19 assets do not allow for the lagged valuations to ensure consistency with the assets at the formal valuation. The net pension liability recognised in the statement of accounts is therefore overstated by £10.47m. Provision of Data to the Actuary - Sandwell Children's Trust (SCT) The pension fund liability of SCT remains with SMBC. The Council is therefore responsible for submitting contribution and other data to the Pension fund for SMBC and SCT. Audit procedures have confirmed that contribution data for both SMBC and SCT were communicated to the Pension Fund. The Council however were unable to confirm that proper processes and controls are in place to capture additional other contribution data relating to SCT i.e. employer added years, redundancy costs and early retirement strains. This represents a control deficiency. Pension Guarantees Our review of the Council's assessment of pension guarantees has identified some weaknesses that will need to be addressed going forward. The assessment does not clearly set out the nature of the guarantee issued for each body i.e. what exactly are the Council guaranteeing and what would trigger a payment. The Council's assessment is that the guarantees issued meet the definition of an insurance contract within the scope of IFRS 4, as opposed to a derivative financial liability under IFRS 9, however the Council should document this judgement in more detail with reference to the standards, and based on the nature of the arrangements between the parties involved. There is no 'one size fits all' solution and it all depends on the exact terms of the contractual arrangement and the risks involved. We need the Council to demonstrate how their judgement links to the terms of the contractual agreements and the risks attached to the LGPS deficit, in order to determine the appropriate accounting treatment. The judgement on the balance of risk between financial and non-financial risk will need to be supported by sound reasoning.	●

Assessment

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

2. Financial Statements - key judgements and estimates

As part of our planning we identified the following to be key estimates:

- Valuation of land and buildings council dwellings and Investment properties - our consideration on this is covered pages 18-20
- Valuation of the pension fund liability – covered pages 20-21
- Depreciation
- Accruals
- Bad debts

Significant judgement or estimate	**Summary of management's approach**	**Audit Comments**	**Assessment**
Provisions (note 22) Key provisions includes collection fund related £6.7m (p/y £9.9m and Insurance provision £7.7m (p/y 7.7m)	The most signficant collection fund provisions is business rates appeals. The basis of the provisions is informed by the information provided by management expert – Analyse local The Insurance provision is reviewed periodically by management expert, the last review being in 2020/21, updated for the movement in outstanding claims as reflected in the insurance records	Business rates appeals The reduction in provision is in line with our expectations based on the closure of the 2017 appeals. We have reviewed management assumptions and sampled a selection of individual appeals provided for and are content with the approach adopted by management The management expert used by the Council is also used by other local authorities and is experienced in the area. Insurance For insurance claims we have agreed to underlying data and are content the valuation is reasonably based.	
Depreciation £36m (note 10	GF depreciation: this is based on the useful lives of individual assets as determined by management HRA depreciation: management componentise their assets and apply depreciation at a rate determined for the various components. This is done on a group basis as the asset register does not record assets at an individual asset level	Our approach to auditing depreciation is through a substantive analytical review. No signficant concerns were identified in terms of the accuracy of depreciation recorded in he accounts using this approach Fully depreciated assets: Vehicles. Plant, Furniture and Equipment The closing cost of this category of assets as at 31st March 2022 per Note 10 PPE is £106,654k. Within this total are Plant, furniture and equipment assets totalling c£60m that have no remaining useful life and are now fully depreciated. There is the potential that gross assets include asset that are no longer in use , or alternatively that the basis of depreciation does not realistically reflect the life of assets. (continued)	

2. Financial Statements - key judgements and estimates

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Depreciation £36m (note 10)	(continued)	The Council have not been able to provide us with any assurance that there is an understanding of what assets are in use and operational. The Cost and accumulated depreciation for this category of assets therefore are potentially overstated by up to £60m. Whilst there is no impact on the net book value and thus the balance sheet, management should ensure that the value of assets is fairly stated. And a housekeeping exercise should be undertaken to gain an understanding of assets in use, and this would be timely as part of the implementation of the new asset management system to ensure opening records are as accurate as possible.	🟪
Accruals	Accruals made are subject to the usual controls around the procurement system and raising of journals (segregation of duties and authorisation limits). Creditor Accruals are either based on known cost which has not yet been paid or when this information is not available, an estimate should be made based on the best information available to the council at year end for example activity carried out and the cost of the activity per unit in the last month of the year or projected activity based on prior year/months activity.	We have not identified any significant issues in relation to management approach to making year end accruals	▨
Impairment loss	The Electronic Document Management System is used to complete and authorize relevant documentation - which comprises the fundamental Write off Policy procedure used to base the write off policy on in terms of trade receivables Sundry debtors) Collection fund (council tax and NNDR) bad debt allowances information system for this will be claims outstanding from the Revs and Bens system NEC. Housing benefit impairment allowance information system is iWorld HRA information system is rent arrears which are held within SHAPE provided by 'Capita'	We were content with the approach adopted by management for determining provisions for impairment losses in the key areas. This was improved on the prior year. We do still however have concerns around the underlying evidence to support the housing rent bade debts – see page 13 for further details	🟦

2. Financial Statements - Internal Control

Assessment	Issue and risk	Recommendations
● Significant deficiency	• OLB asset records: the council does not have robust records pf gross internal area for some of its asset base. • The fixed asset register is in the form of multiple excel spreadsheets. This is not fit for purpose with the current asset base and this has caused errors in the reporting • There is no robust evidence to support key communications between the external valuer and the council. This has meant that there is the risk that relevant information such as expenditure on assets in the year has not been factored into valuations • The HRA assets are not recorded at an individual asset level. This means that it is likely that the accounting for revaluations through the revaluation reserve and the CIES could be substantially different had they not been accounted for on a group basis. • Whilst the council requests that the external valuer provides a commentary on impairment based on market trends, there is no evidence to support an annual impairment review undertaken by management locally, to include assets under construction. This is a requirement under the code and is referenced in accounting polices	• Management should undertake a systematic review of the council assets and update records accordingly to ensure that GIA and other relevant information is accurately recorded and shared with the external valuer. • Management should ensure that the new asset management system is fully operational for production of the 2023/24 accounts. Management should consider incorporating HRA records at an individual asset level within this system. **Management response** • The Council's Strategic Assets and Land team is in the process of procuring a new supplier to undertake a review and refresh of all measured surveys across the Council's portfolio as required. This will allow accurate and up to date measurement to be utilised when conducting valuations. These will be stored within the Council's asset management system (Civica formerly TechForge) to allow for issuing to both the valuer and for easy retrieval if required for review in future. This will be supported by ensuring any future changes to the property, that has an impact on its size, will be recorded and a new measured survey instructed and uploaded. This also forms one of the workstreams to be delivered as part of the Corporate Landlord operating model implementation and has been added to the Procurement Pipeline to be addressed in 2024/25. The council is currently in the process of introducing a new Asset Management system. The existing plan is for this to be introduced for the 2023/24 accounts and the intention is that the system will hold HRA dwelling records at an individual asset level.
● Significant deficiency	• Journal controls: we consider journals to be a key area where there is scope for management override of control. A key element of journals controls is authorisation. We expect that journals should be authorised as part of posting. Only month 13 journals are authorised before posting. Management mitigation is that there is retrospective review of schedules of journals posted.	Management should strengthen the current journals authorisation processes. **Management response** Best practice stipulates that all journals should be authorised prior to being posted into the ledger. Finance Officers are required to attach proof of approval to their journal working papers prior to posting journals into the finance system (Oracle (SBS)). There are not sufficient controls within SBS, however, to ensure that all journals are authorised prior to being posted, however the imminent implementation of Oracle Fusion will include a 'workflow' journal authorisation process whereby when a journal is uploaded into the system it is sent to another officer for review (and therefore either approval or rejection) before posting into the general ledger. Within Oracle Fusion it will not be possible to post a journal without it being approved by another officer.

Assessment

● Significant deficiency – risk of significant misstatement
● Deficiency – risk of inconsequential misstatement

2. Financial Statements - Internal Control

Assessment	Issue and risk	Recommendations
● Deficiency	Provision of data to the actuary in relation the children's Trust: there should be clear evidence to support the confirmations between the SCT and the actuary of matters such as added years, redundancy etc, however management were unable to provide evidence of such communications	As the SCT liability sits within the council accounts, then management should put arrangements in place to ensure that the information used by the actuary in relation to SCT is accurate **Management response** Noted and additional checks will be implemented for future financial statements.
● Deficiency	IT control deficiencies There was a IT outage impacting the Oracle/SBS system from 12/05/2022 to 23/05/2022. Payments to be made were recorded as backlog and input onto the system when it was back up. Only 6 payments were required to be paid as they were classed as urgent.	We have sufficiently considered the risk associated with the outage as part of our work, and there no further matters for management consideration. We are aware that there has been a further issue with the financial ledger during 2024/25. The ledger had a hardware fault which happened in early May. Management had a workaround which meant that payroll was run, payments made, and new suppliers could be set up. Management should prepare a brief paper setting out the issues and the compensating alternative controls that were operational during this outage period, setting out risks and how they have been mitigated. We will consider this more closely as part of the 2024/25 audit. **Management response** A further outage of Oracle (SBS) did occur, in May 2024. The Council was able to run a 'skeleton system' during the period of the outage, which meant that supplier payments were able to be processed and payroll processes were able to take place. Access to SBS was not available to the majority of staff across the Council, however core Finance and Payroll staff were able to access the system as usual to carry out high priority tasks. A briefing paper can be made available to Grant Thornton on the issue, in preparation for the 2024/25 audit.

Assessment

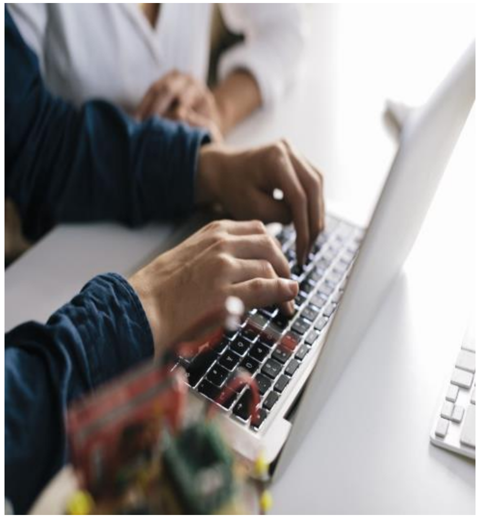
- ○ Significant deficiency – risk of significant misstatement
- ● Deficiency – risk of inconsequential misstatement

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 Assurance Committee. m 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
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 has been requested from the Council. No specific representations have been requested.
Confirmation requests from third parties	We requested from management permission to send confirmation requests to the Councils Banks, and the organisations holding Investments with the Council and also Council borrowings. All were received and no concerns were raised. **Loan receivable - Sandwell Leisure Trust** SLT in their response to our external confirmation letter confirming the amount lent to SMBC at 31st March 2022, also included details of a loan balance due to SMBC from SLT. The Council are not recognising a receivable for this outstanding amount of £1.288m. Management have provided a paper to support their accounting treatment no evidence was provided of a formal agreement in place for this arrangement. The Council should consider formalising this and put in place terms that cover the Council should the Trust withdraw from operating the Leisure Centres to ensure that the balance of monies can be recovered.

2. Financial Statements - other communication requirements



Issue	Commentary
Accounting practices	We have evaluated the appropriateness of the Council's accounting policies, accounting estimates and financial statement disclosures. Our review found no material omissions in the financial statements.
Audit evidence and explanations/ significant difficulties	The draft accounts for 2021/22 were received in December 2023, 21 months after the year end. This was in part due to the delay in finalisation of the 2020/21 audit, but also reflects the staffing issues at the council, including staff turnover and sickness. A new Oracle Fusion financial ledger is planned to go live in July 2024 and this is no doubt impacting on staff time. The production of the 2021/22 accounts was heavily reliant on the use of interim support, which is sensible in the circumstances, but meant that some of the corporate memory had been lost. The use of interims did challenge historic practices within finance around production of the accounts and capital accounting practices, in particular. Reliable capital accounting is hampered by out- dated asset register and records and this is to be addressed through the implementation of a new capital asset management system during 2024. Despite the delay in production of the accounts, the co-operation by the finance team has been very good and there is a clear commitment to improvement and raising the technical knowledge of the team. Whilst there were fewer substantive issues in the accounts than in previous years, and the time taken to address audit challenges was done much more quickly, there were a considerable number of misstatements within the accounts. Many of the errors related to the lack of quality control and review of the draft statements, due to the pressures as highlighted above. Twelve months after the 2023 year- end, the Council has yet to prepare a draft 2022/23 set of accounts and this will then impact on the production of the 2023/24 accounts. There is a clear need to continue to strengthen the substantive finance team if the Council is to get back to 'business as usual' in terms of its financial management arrangements. Whilst the audit has been less protracted than in previous years, the staff input into the audit has been considerable due to the quality issues referenced and thus we will be seeking a fee variation to cover the additional costs of our work.

2. Financial Statements - other communication requirements

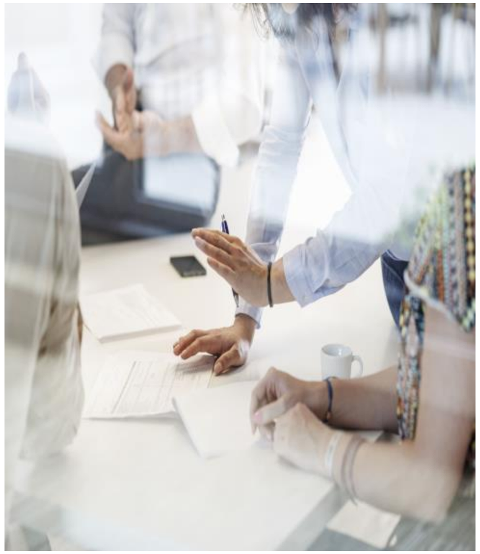
Our responsibility

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 significant weaknesses. We will be reporting that we have identified signficant weakness in arrangements within the report
Specified procedures for Whole of Government Accounts	We are required to carry out specified procedures (on behalf of the NAO) on the Whole of Government Accounts (WGA) consolidation pack under WGA group audit instructions. We have been notified hat the NAO no longer requires any confirmations in relation to the 2021/22 audit.
Certification of the closure of the audit	We intend to certify the closure of the 2021/22 audit of **Sandwell Council** in the audit report



3. Value for Money arrangements

Approach to Value for Money work for

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 completed our VFM work for 2021/22 in March 2023 and our detailed commentary is set out in the separate Auditor's Annual Report, which has previously been presented to the Audit Committee. We identified significant weakness in the Council's arrangements and so were not satisfied that the Council had made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

We note that the Council has made significant progress since we undertook our 2021/22 VfM work and as outlined in our most recent Governance Review (December 2023) and our 2022/23 Auditor's Annual Report (February 2024) we are satisfied that the Council has now made appropriate progress against the three statutory recommendations, and we are pleased to report that these have now been lifted.

We have highlighted below the results of our 2021/22 and 2022/23 audits. Our detailed findings can be found in our Auditors' Annual Report and in our Governance Reports.

Criteria	2022/23 Risk assessment	2022/23 Auditor judgement on arrangements		2021/22 Auditor judgement on arrangements		Direction of travel
Financial sustainability	No significant risks identified.	A	No significant weaknesses in arrangements identified but two improvement recommendations were made.	A	No significant weaknesses in arrangements identified but one improvement recommendation was made.	↔
Governance	Ongoing risk of significant weakness arising from prior year governance findings and Oracle Implementation.	A	Significant weaknesses in arrangements carried forward from prior years but improvements being made. One additional improvement recommendation has been raised.	R	Significant weaknesses in arrangements identified but improvements being made.	↑
Improving economy, efficiency and effectiveness	No significant risks identified.	A	Significant weaknesses in arrangements identified in relation to Housing, one further improvement recommendation made.	A	Significant weaknesses in arrangements identified but improvements being made. Two additional improvement recommendations made.	↑

4. Other statutory powers and duties

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

Issue	Commentary
Statutory recommendations	Under schedule 7 of the Local Audit and Accountability Act 2014, auditors can make written recommendations to the audited body which need to be considered by the body and responded to publicly. We issued three statutory recommendations in 2020/21. These statutory recommendations remained in place for 2021/22 but were removed in December 2023 due to the significant progress made by the Council.

5. 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)

5. 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 group. The following non-audit services were identified, as well as the threats to our independence and safeguards that have been applied to mitigate these threats.

Service	Fees £	Threats identified	Safeguards
Audit related			
Certification of Teachers Pension Return	£6,000	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £6,000 in comparison to the total fee for the audit of £289,958 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.
		Self review (because GT provides audit services)	To mitigate against the self review threat, the timing of certification work is done after the audit has completed, materiality of the amounts involved to our opinion and unlikelihood of material errors arising and the Council has informed management who will decide whether to amend returns for our findings and agree the accuracy of our reports on grants.
Certification of Housing Benefit Claim	£38,500	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £38,500 in comparison to the total fee for the audit of £289,958 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.
		Self review (because GT provides audit services)	To mitigate against the self review threat , the timing of certification work is done after the audit has completed, materiality of the amounts involved to our opinion and unlikelihood of material errors arising and the Council has informed management who will decide whether to amend returns for our findings and agree the accuracy of our reports on grants.

Appendices

A. Action plan – Audit of Financial Statements

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

Assessment	Issue and risk	Recommendations
	Timeliness of the financial statements: As at 30 June 2024, management has not prepared a draft set of accounts for either 2022/23 or 2023/24 financial year. There is an expectation that the draft 2022/23 accounts will be available in late July, and the audit to follow thereafter. Management does not have a properly resourced closedown plan for production of either set of accounts. Thorough consideration has not been given to how the finance team will support preparation for drafting the 2023/24 accounts whilst both supporting the 2022/23 audit and undertaking the routine management accounting tasks of the finance team. The Council is implementing a new financial ledger during the summer of 2024. The old ledger will need to be available for management to prepare the 2023/24 accounts and for them to be audited. The council will need to extend the licences on the 'old' financial ledger to enable this to happen.	The Audit Committee should be sighted on management's plans to get the council back on track for production of the draft 2024/25 financial statements by the statutory deadline of 31 May 2024. This should include preparation of a fully resourced closedown plan for both 2023/24 and 2024/25 accounts. Consideration should be given to extension of the necessary licences on the 'old' ledger to enable the finance team to have access to relevant information to prepare the accounts and have them audited. **Management response** The Finance team is happy to share its plan for production of the 2023/24 and 2024/25 Statements of Accounts with the Audit and Risk Assurance Committee. It should be noted, however, that the Council cannot control the length of time over which the subsequent audits take place, and delays and extensions to audit work have a resulting impact on the Council's timetable for production of the next set of accounts.
	Quality review of the accounts: there are a substantive number of amendments made to the accounts during the audit, some disclosures and some material amendments (e.g. creditors) Some of the quality review on the accounts was undertaken by management during the audit period (e.g. Investment properties reclassification)	Preparation of the accounts timetable should include sufficient time for the draft accounts to be subjected to an internal review prior to them being presented for audit. This quality review should include investigation of unusual year on year variances as this could be indicative of errors (see comments on creditors errors) We consider the delay in production of the accounts and the absence of quality review as control weakness in the accounts production process. **Management response** During the course of the audit, it became apparent that the quality of the draft Statement of Accounts for 2021/22 was suboptimal. Improved practices are now in place with more experienced and technically competent staff, and the Finance team is confident that these factors will lead to an improved draft Statement for 2022/23, however the Finance team will ensure that time for quality checks and internal review will be built into the accounts preparation timetable as recommended.

Controls

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

A. Action plan – Audit of Financial Statements

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

Assessment	Issue and risk	Recommendations
●	Authorisation of journals: month 13 journals are authorised by posting. No other in year journals are authorised prior to posting. Management has a mitigating control in that batches of invoices posted are provided periodically which are reviewed by the relevant supervisor.	We consider the absence of in year authorisation of journals to be a control weakness. When raise din previous years management has stated that the volume of journals , in part caused by the cumbersome process around recharges, means that it is not realistic to authorised all journals Management should review the extent of recharges. Management should consider introduce authorisation of recharges for given criteria such as value. **Management response** Best practice stipulates that all journals should be authorised prior to being posted into the ledger. Finance Officers are required to attach proof of approval to their journal working papers prior to posting journals into the finance system (Oracle (SBS)). There are not sufficient controls within SBS, however, to ensure that all journals are authorised prior to being posted, however the imminent implementation of Oracle Fusion will include a 'workflow' journal authorisation process whereby when a journal is uploaded into the system it is sent to another officer for review (and therefore either approval or rejection) before posting into the general ledger. Within Oracle Fusion it will not be possible to post a journal without it being approved by another officer.
●	Accounting for grants: material errors associated with accounting for grants continue to feature in the financial statements. (ref page x and page y) Errors were found in the treatment of agency grants and grants received in advance This resulted in material misstatement of the accounts	Particular attention should be given to the accounting for grants in the preparation of the 2022/23 financial statements. **Management response** Going forward all Receipts in Advance will be reviewed and any receipts in advance of agency grants will be included in the Agency Note

Controls

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

A. Action plan – Audit of Financial Statements (continued)

Assessment	Issue and risk	Recommendations
🟦	There is no ageing information to support the assessment of impairment of rent arrears. This is important management information for both management of arrears and to support judgements about collectability of debt. This has resulted in an unadjusted error in the accounts	Management should take steps to obtain an aged analysis of rent arrears. **Management response** Management has taken action to obtain an aged analysis of rent arrears. As the system is live cannot run reports with historical data. The Council have run reports for 22/23 and 23/24.
▨	Accounts note 4 - significant estimates includes a material uncertainty in relation to the valuation of high-rise property. Challenge of the valuer indicated that this was a general observation rather than anything specific to the council's housing stock.	Management should challenge the valuer on any future references to material valuation uncertainty and obtain at least some financial measure of the potential impact on the valuation and the accounts. **Management response** Where the valuer makes future references to material uncertainty they should be encouraged to quantify the potential impact on SMBC as appropriate.
▨	It is a requirement, and indicated in accounting policies, that management undertake an annual impairment review. Whilst the external valuer does comment on market movements to inform that exercise, we noted that management had not undertaken a review of all assets to take account of relevant local information – this included the commonwealth pool and the council house (in the prior year)	Management should document their annual impairment review of assets, to include assets under construction and those with signficant expenditure, to determine whether there are any indicators of impairment. **Management response** Finance and property would usually jointly undertake a review of assets to determine whether any impairment was required. Going forward the categorisation review will be reintroduced to identify assets that require revaluation or impairment, seeking information from Property, demolitions, and insurance teams, as necessary.
▨	Valuation of OLB: Whilst we understand that verbal communications took place between the valuer and the estates team, there was no evidence to support this such as emails. In particular, there was no evidence that the amount of capital expenditure on OLB assets had been communicated, and we consider that this is relevant information for accurate valuations and accounting for enhancement expenditure.	The council should keep records of communication with the valuer, including minutes of any verbal discussions, but in particular there should be evidence that capital expenditure on individual assets has been shared, as relevant information to inform valuations **Management response** Finance to provide Property with details of expenditure by asset for the valuers to consider when producing their valuations. Where verbal discussions take place with the valuer, confirmation of decisions reached etc will be documented, usually by e-mail, to confirm understanding.
▨	Agreeing the valuation assumptions on DRC assets – it was difficult to agree the floor areas used in some valuations due to the lack of available floor plans. As recommended in previous years, the asset management team should ensure that there is reliable GIA information to support all council assets – as the accuracy of this information is key to many valuations and thus to the overall accuracy of the PPE element of the financial statements. For some assets, the council is relying on the external valuer to interpret very high level plans with no detail on GIA. In most cases there was no evidence of what had been communicated to the valuer in relation to floor areas. We noted discrepancies in build dates between those used by the valuer and client information in several cases. Again, this is relevant for valuations	The asset management team should systematically review the underlying records to support the GIA of council assets. If necessary, the team should undertake new measurements to ensure asset records are up to date and are communicated to the external valuer as part of their review **Management response** The Council's Strategic Assets and Land team is in the process of procuring a new supplier to undertake a review and refresh of all measured surveys across the Council's portfolio as required. This will allow accurate and up to date measurement to be utilised when conducting valuations. These will be stored within the Council's asset management system (Civica formerly TechForge) to allow for issuing to both the valuer and for easy retrieval if required for review in future. This will be supported by ensuring any future changes to the property, that has an impact on its size, will be recorded and a new measured survey instructed and uploaded. This also forms one of the workstreams to be delivered as part of the Corporate Landlord operating model implementation and has been added to the Procurement Pipeline to be addressed in 2024/25.

A. Action plan – Audit of Financial Statements (continued)

Assessment	Issue and risk	Recommendations
🟦	Vehicles plant and machinery – note 10 includes £60m of fully depreciated assets	Management should undertake a housekeeping exercise on assets in use to both ensure that note 10 is fairly stated and that the opening position in the new asset register is accurate and does not contain assets that are obsolete or have been disposed of. **Management response** A review is planned as part of the production of the 2022/23 Statement of Accounts whereby non-current assets that have reached the end of their useful economic life and are either generic in nature and / or where their existence cannot be verified, will be derecognised from the face of the balance sheet.
🟦	The CIES contained more analysis of taxation and specific grants than is necessary, which should be included in a note to the accounts, so that the key information required by the Code is not obscured.	Management should consider simplifying the taxation and grants section of the CIES as part of the 2022/23 draft accounts, and include some of this in a note to the accounts. **Management response** The Council have simplified the taxation and grants section of the CIES within the 2022/23 draft accounts and included some of this in a note to the accounts.
▨	Pension guarantee: The assessment does not clearly set out the nature of the guarantee issued for each body i.e. what exactly are the Council guaranteeing and what would trigger a payment.	The Council's assessment is that the guarantees issued meet the definition of an insurance contract within the scope of IFRS 4, as opposed to a derivative financial liability under IFRS 9, however the Council should document this judgement in more detail with reference to the standards, and based on the nature of the arrangements between the parties involved **Management response** Management note Grant Thornton's comments and a thorough review of the arrangements will be prepared as recommended to be presented as part of the audit of the 2022/23 financial statements
▨	Termination benefits policy and procedures are not clearly defined in approved documents that could be supplied to audit.	The Council should formally document the process and procedures to be followed for terminations of officers of the council **Management response** The Council holds, and adheres to, a suite of policy documents in relation to officers leaving the Council, including the Planned Leavers Policy, the Procedure for Terminating Employment Contracts, the Voluntary Early Retirement and Voluntary Redundancy Policy, the Disciplinary Policy, the Performance Capability Policy and the Sickness Absence Management Policy
▨	Capital grants received in advance: limited evidence to support brought forward unused balances for some of our sample testing.	Where capital grants received in advances are brought forward unused year on year, management should review the basis of these balances and whether they remain appropriate to recognise within the accounts. **Management response** The Council is currently reviewing its RIA capital balances to ascertain the appropriateness of the accounting treatment.
▨	The annual leave accrual of £7.4m is reflected in the unusable reserve accumulated absences account. It is not possible to agree £2.6m of the non teaching staff accrual to source data - as it is based on a calculation made in 2012/13 for what the average annual leave accrual was in that year by grade - uplifted by pay rates and current staff numbers.	Management should rerun the exercise for 22/23 to provide assurance that the basis of the historic assessment is reasonable. **Management response** The Technical Finance team have reviewed the methodology for the non teaching staff accrual for the 2022/23 accrual. This data will be recorded on Fusion and will be easier to accurately extract than the current manual records in future years (2024/25 onwards).

B. Follow up of prior year recommendations

Assessment

✓ Action completed

X Not yet addressed

We identified the following issues in the audit of Sandwell Council's 2020/21 financial statements, which resulted in 7 recommendations being reported in our 2020/21 Audit Findings report.

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
✓	**Creditors and accruals** Much of the information and judgements to support accruals is determined by budget holders and instructions are issued by the central finance team on closedown procedures and timetable. In the main we established that accruals were being raised appropriately although the accuracy of these were not good with a tendency to over accrue – including accruing to budget and making estimates when actual invoices were available in April..	Significant matters were not identified in relation to the creditors and accruals in the 2021/22 accounts
x	**PFI** It is clear that there is not a good understanding within the council of PFI accounting. We also raised concerns in our governance report around the management of the SERCO contract.	No progress
x	**Debtors: aged debt analysis** The absence of reliable management information, in particular the age of debtors for rent arrears and benefits is a factor leading to uncertainty around the adequacy of impairment allowances. The absence of this information provides us with some concern around how debt is being managed as well as providing uncertainty on debtor balances within the financial statements.	Aged debt analysis if still lacking for benefits and housing rent arrears
x	Journals approval We have raised this as a control deficiency as Journals should be approved before posting. We understand that approval of **all** journals is challenging to due to the large number of journals posted and we understand management are looking at ways in which the number of journals could be reduced.	Not addressed

Assessment

✓ Action completed

X Not yet addressed

B. Follow up of prior year recommendations

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
✓	PPE: (1) The underlying property records to support the asset register were found not to be up to date or in a format that facilitated accurate floor area assessments. (2) Management is unclear whether the changes in assumptions to DRC assets applied to assets other than schools and leisure centres. (3) We noted that the Council's impairment review had not taken into account significant capital schemes that were incomplete at the year end (4) A number of adjustments and assumptions are made to both GF and HRA assets because valuations are not undertaken at the year end. (5) We noted that a highly material proportion of property assets were fully depreciated but remained in the asset register. Management has not undertaken an exercise to remove assets no longer in use. (6) The external auditors expert (GE) noted that it is unusual for assets to have consistent and relatively long asset lives (C40 years for schools) (7) Our expectation is that all assets valued at fair value should be revalued annually.	not addressed
x	PE (HRA valuations) The external valuer undertook a desk top exercise and is therefore reliant on the Council for much of the information used in the valuation. Valuations are undertaken in December and the Council adjusts the valuation for additions and disposals in the last quarter of the year. These were added to the year end valuation, but on further discussion with the client it was concluded that these did not add value to the assets and were impaired. We also noted that there had been a change in valuation above that expected through the application of indices. Management had not gained an understanding of the reason for this. The accounting for additions has not historically complied with the code as assets are not maintained at an individual asset level. This resulted in incorrect accounting for additions (through the revaluation reserve rather than the CIES)	Not addressed
✓	Pensions The staff of four academy schools (non teaching) transferred from SMBC element of the pension fund. This was treated as a significant event by the actuary and meant that there was a change in the discount rate applied, which then impacted on the valuation. This should be highlighted within the accounts The Council provides a guarantee for many of the staff who have transferred rom the Council in previous years. There are accounting considerations based on management assessment of risk and these are not as clearly articulated by management as they could be	Not an issue in 21/22

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 2022.

	Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000
1	Agency grants had been incorrectly accounted for – similar issue raised in 20/21			
	ST creditors		(25,832)	
	ST debtors		144	
	Bank overdraft		25,688	
2	Miss posting of Grants received in advance			
	ST creditors		(20,074)	
	Revenue Grants received in advance		20,074	
3	Accounting for S31 Grants		(12,532)	
	ST Creditors	12,532		12,532
	CIES – Taxation & non-specific grant income			
4	HRA prepayments netted off arrears			.
	ST debtors		2,034	
	ST creditors		(2,034)	
5	Aquatic centre impairment 20/21 & 21/22			
	PPE AUC re 20/21		(2,896)	
	PPE AUC re 21/22	4,408	(4,408)	2,896
	CIES impairment 20/21		2,896	4,408
	CIES impairment 21/22			
6	Net pension liability (understatement level 3 assets)		8,270	(8,270)
	Dr net pension liability	(8,270)		
	Cr pension remeasurements OCI			
	c/f to next page	**£8,670**	**_(11,566)**	**£11,566**

C. Audit Adjustments

Impact of adjusted misstatements (continued)

	Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000
	Impact b/f	£8,670	(£8,670)	£11,566
7	Providence Place misclassification as surplus – should be asset held for sale			
	PPE surplus assets		(9,674)	
	Asset held for sale		9,674	
8	Misclassification of SL&P assets		(937)	410
	PPE – OLB	410		527
	CIES children's services			
	Revaluation reserve		527	
8	Academy schools: passported academy grant and associated expenditure			
	CIES gross expenditure	(8,871)		(8871)
	CIES gross income	8,871		8871
9	Housing Revenue account - interest classification error			(2644)
	CIES- Gross expenditure	(2,644)		2644
	CIES-Interest payable	2,644		
10	Understatement of SL&P land		694	(694)
	PPE – OLB	(694)		
	CIES – other operating income			
11	Assets under construction misclassification		(2,591)	919
	PPE –AUC		1,672	
	PPE –OLB			
	CIES – borough economy	919		
	Overall impact (cont. overleaf)	£9,305	(£9,305)	£12,728

C. Audit Adjustments

Impact of adjusted misstatements 21/22 (continued)

	Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000
	Overall impact b/f	£9,305	(£9,305)	£12,728
12	Investment Property - reclassification			1,239
	Investment Property		(10,470)	
	PPE- surplus assets	1,239	8,126	
	PPE- OLB		1,105	
	CIES - NCos			
13	SL&P adjustment			16,156
	CIES – children's services	16,156		5,444
	CIES children's services	5,444		(61,676)
	CIES other operating expenditure	(61,676)		40,076
	Revaluation reserve		40,076	
	Overall impact	£29,571	£29,571	£13,967

The Council has chosen to make a prior period adjustment of £4.2m between the revaluation reserve and the CAA. Under IAS 8 there is no requirement for management to make prior period adjustments for non - material errors.

C. Audit Adjustments

Impact of unadjusted misstatements 2021/22

The table below provides details of adjustments identified during the 2020/21 audit which have not been made within the final set of financial statements. The Audit 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
1	WMPF Understatement level 3 assets			(2,200)	Estimated amount
	Dr Net pension liability		2,200		
	Cr pension remeasurements – OCI	(2,200)			
	see related items 4 adjusted				
2	Projected overstatement of ST Debtors & ST Creditors (item 54)		(1,349)		Estimated amount
	Cr ST Debtors		1,349		
	Dr ST Creditors				
3	Incorrect write off Revaluation Reserve balance		(3,123)		
	Cr Revaluation reserve		3,123		Not material
	Dr CAA				
4	HRA rents provision understated		(4,841)		Disagree with EA view
	Sundry debtors	4,841		4,841	
	CIES Cost of Services - Impairment Cost				
5	Extrapolated Council dwelling valuation error		3,499	(3,499)	estimated
	PPE - Council Dwellings	(3,499)			
	CIES - Revaluation increase				
6	Alfred Gunn House		(2,837)	2,837	Disagree with EA view
	PPE council dwellings	2,837			
	Impairment				
7	Assets not valued		6,530		estimated
	PPE OLB		(6,530)		
	Revaluation reserve				
8	Errors in OLB sample testing relating to differences in floor areas and build dates				estimateed
	Dr OLB		4,000	(4,000)	
	Cr revaluation reserve		(4,000)		
	Overall impact c/f	**(£1,979)**	**£1,979**	**(£1,979)**	

C. Audit Adjustments

Impact of prior year unadjusted misstatements

The table below considers the cumulative impact of prior year unadjusted errors.

	Detail	**Comprehensive Income and Expenditure Statement £'000**	**Statement of Financial Position £' 000**	**Impact on total net expenditure £'000**	**Reason for not adjusting**
1	depreciation on HRA understated – Cr NBV HRA assets Dr expenditure	406	(406)		
2	Understatement of MRR/HRA reserves Dr HRA MRA Cr HRA reserves		1,039 (1,039)		
3	Dudley canal trust Dr debtors Cr Loans		647 (647)		
4	Creditors – accruals overstated Dr Creditors Cr Expenditure	(2,980)	2,980		
5	Infrastructure – depreciation understated Cr Infrastructure assets Dr Expenditure	2,435	(2,435)		
6	Investment properties error unadjusted GF OLB Investment properties Community assets		1,094 (2,097) 1,003		
	2020/21 unadjusted	**(139)**	**139**	**(139)**	
	2021/22 unadjusted	**(1,979)**	**1,979**	**(1,979)**	
	Total c/f	(2,115)	2,115	(2,115)	

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.

Misclassification and disclosure changes

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

Disclosure omission	Auditor recommendations	Adjusted?
Narrative report - general fund balance	The narrative in the foreword is confusing because the General fund balance reference is only to the non - earmarked element of the GF balance but this is not clear from the wording. The note should make clear that earmarked funds are part of the general fund balances.	✓
CIES restatement	The cost of services is presented with different headings and the prior year restated due to a management restructure. Disclosures should explain the nature of the restatement. Column headers should include 'Restated' for all statements and notes impacted, A note should set out the reconciliation between amounts previously reported, and those reported in the current year comparatives. Although the net expenditure remains consistent between years, amendments have been made to gross expenditure and gross income in 2020/21 which is not in line with expectations, and the prior year EFA requires restatement to be on the same basis. (Code reference 3.4.2.32)	✓
CIES - Disposal of Academies	The CIES includes a line entry for 'Disposal of Academies; the line description should more accurately describe the nature of the transaction. The prior year comparative is quoted to 2 decimal places in error.	✓
Movement in Reserves Statement	The MIRS only includes a table showing the 21-22 movements. The prior year statement should also be included after the current year.	✓
Group MIRS	The Group MIRS does not include an analysis of amounts included within the adjustments line. (Code ref 3.4.2.56 and 3.4.2.57)	X
Cash Flow Statement	The signage for all cash flow 21/22 entries are incorrect and should be reversed to ensure consistency with the presentation in 20/21. There is no requirement to reproduce the Cash flow Statement again at note 25. This Note should only include tables supporting entries within the Cash Flow Statement.	✓

C. Audit Adjustments

Disclosure omission	Auditor recommendations	Adjusted ?
Group accounts	• The Group Balance Sheet is headed up as Group Cashflow in error • Group Note 1 refers to 2020/21 instead of 2021/22 • It is unclear why accounting policy number 2 has been included. There are no PPAs in 21/22 that are specific to just the Group accounts • Group Note 4 refers to 31 March 2021 instead of 2021/22 • The Group accounts should include a PPE movement disclosure note. There are lines within the group note that differ materially from the single entity and PY PPE movements table should also be added. • The Group notes include external audit fees. It is unclear why this note has been included as amounts are the same as the external audit cost note in the Council's accounts. The Council should consider removing this disclosure note. - The Group accounts should include disclosures explaining that SLaP was declared insolvent on 26 March 2022 and the beneficial interest in Land transferred to the Council on 31 March 2022 with Land and Buildings previously owned by SLaP now included in the council's single entity accounts. The disclosure should describe the accounting entries and the impact on the Group accounts. - We reviewed the Council's Group CIES consolidation work paper. We have noted that the formula to calculate the group CIES value at columns BV and BW does not incorporate all of the adjustment columns. In addition we have undertaken our own calculation of the expected gross exp and gross income amounts based on the details of inter-co transactions disclosed in the SCT audited 21-22 statement of accounts. This has identified that gross expenditure appears to be overstated by £13,140k and Gross income also overstated by a similar amount.	✓
SLaP - Disclosure omission	P117 of the draft accounts states that SL&P was declared insolvent on 26 March 2022 and beneficial interest in land transferred to the council on 31 March 2022 with land and buildings previously owned by SL&P included in the council's single entity accounts. Further disclosures required by the Code for the acquisition of a business appear to have been omitted from the accounts (e.g. name, date, amount acquired, tangible assets, cash etc (Code 9.1.4.32, 9.1.4.33 and 9.1.4.19). The accounts should also include an accounting policy for absorption accounting.	✓
Accounting policy disclosures Several matters were raised in relation to accounting policy disclosures as follows:	**Accounting policy xix.** Minimum Revenue Provision: The final paragraph is a duplication of text in the previous paragraph and should be removed.	✓
	Accounting Policy 1(ii) - Accruals of Income and Expenditure: that the Council operates a de-minimus level of £1,000 for the processing of revenue accruals. This is not consistent with the 21-22 closedown guidance issued, which states that the de-minimus was revised to £10k in 21/22. The accounting policy should be amended to reflect the revised de-minimus value.	✓
	Note1(xix) Component Accounting: We noted that the Component Breakdown % for HRA asset (Houses and Bungalows) and Flats has changed from previous year as evidenced from the council dwelling register. For example, Building structure share for HRA asset has increased from 51% to 55%. The % disclosed in the disclosure are not updated and they are same as PY.	X

C. Audit Adjustments

Disclosure omission	Auditor recommendations	Adjusted?
Critical judgements	none disclosed comply with IAS1 in that they do not describe the impact on the accounts. The funding where the council acts as agent and the grants receivable notes could be merged as they are discussing the same issue and could cross refer to note 5 where the financial impact is stated	x
Note 4 Impairment allowance Several matters were raised in relation to this disclosure	(i) Prepaid HRA rent accounts are netted off against HRA rent arrears within debtors, instead of properly being classified as creditors. Debtors and creditors are therefore both understated by £2,034k (ii) The total HRA Arrears allowance as per Client workings is 5,015 while as per the Note it is reported at only 4,483. Balance of £532k in respect of court cost included In the trade receivables which are part of HRA arrears and should be included with HRA impairment allowance. (iii) The notes are inconsistent as Note 9 reports purely HRA rent arrears, whereas the provision at Note 10 is against HRA rent arrears and other HRA related debt such as Leaseholders debt and Court fee debt amounting to £1,299,412.46. The disclosure note should be amended to make this clearer to the reader of the accounts.	✓
Note 8 & note 24	The opening balances are incorrectly adjusted by £7.5m via a 'Restated adjustment' entry in the 21/22 Statement of accounts. £7.5m is not an opening balances adjustment and should be amended in year to reflect a prior year error (as it is not material) There is an error at Note 8 in terms of the presentation of movements in the Capital grants unapplied account.	✓ ✓
Note 9 Earmarked Reserves Total earmarked reserves as reported in the note are not consistent with the MIRS.	The difference is £1,308k and this relates to the balance on the Major Repairs reserve listed at Note 9 of £1,308k which is included in error as this is not a general fund earmarked reserve. General fund excludes School balances which are part of the GF earmarked reserves reported in the MIRS.	✓

C. Audit Adjustments

Disclosure omission	Auditor recommendations	Adjusted?
Note 10 PPE Various amendments made to the disclosure as detailed	The current year movements table should be presented first, followed by the prior year. Within the 'Assets reclassified - Transfers In/Out' line at Note 10 PPE RTB disposals are shown as a transfer from Council Dwellings to surplus assets £15.323m which is incorrect. There are also transfers of £561 incorrectly included. PPE Classification uncertainty - 1 Providence Place: incorrectly included as a surplus asset – restated as an asset held for sale. £9.7m. Fixed Asset Register - Land duplication error: - Land at Moat Junior School has been included twice £1,275k. - Land for 3 school assets totalling £1,725k was included in the valuers report, but omitted from the asset register in error - Net Land value understatement £694k over a number of individual assets. There is a £10,137k and £2,897k difference between cost or valuation as on 01, April 21 due to Opening balance adjustment in VPE and AUC balances which is not presented in Note 10. The £10,137k primarily relates to fully depreciated assets included in the 20-21 asset register that have then been excluded from the 21-22 asset register (Vehicles & Plant (Leases) £1,291k and BT Investment Equipment £9,037k). Transposition differences between line-item Asset reclassified -Transfer in/(out) and Transfers to/from held for Sale/Investment Property for amount of £26,177k in Council Dwellings and £26,143k in AUC.	✓
Note 15 - Disclosure of Surplus assets revalued by year	Disclosure of surplus assets revalued in 21/22. £22,466k should be moved from 20/21 to 21/22. Note 15 refers to fair value of non-current assets but should be current value	✓
Note 17 Short Term Debtors	At the foot of the table impairment losses are shown as £35.528, and but should read £35.528m. The narrative should also disclose the prior year 20/21 value in brackets.	✓
Note 17; financial instruments 41 & 42	Short term debtors per Financial instrument Note and Note 17 does not agree. Provision relating to both financial and non financial debtors have been considered in General debtors which is incorrect, thus relating to provision for non Financial instruments should be excluded Payment in advances are included as financial asset which is incorrect as they are not financial instrument Fair value of Assets and Liabilities that are not measured at Fair Value (but for which Fair Value Disclosures are required) the fair value of Other Local Authority Debt is 8,822 while as per the supporting's provided it is 28,822. There is an error in the note wherein the fair value of 20m short term borrowings from other local authority is not included in the calculation. The balances in the financial instrument note have been updated from the prior year due to incorrect assumptions in PY values including some statutory debtor amounts in values (a brief note has been added at the start of note) but for easy understanding of the reader of the accounts the column where the amount is restated from 31st March 21 audited accounts should be updated and written restated.	✓

C. Audit Adjustments

Disclosure omission	Auditor recommendations	Adjusted?
Note 24: movement on unusable reserves	The table analysing movements on the CAA includes an entry of £10,150k described as 'Movements in the Donated Assets Account'. This description is inaccurate as the entry actually relates to adjusting amounts written out of the Revaluation reserve for the accumulated gains on assets sold/scrapped. This amount therefore should be reflected on the 'Adjusting amounts written out of the Revaluation reserve' line in the CAA movements table. **Analysis of Movements on the Revaluation reserve:** The movement analysis includes an entry of £8,029k described as 'Amounts written off to the Capital Adjustment Account'. A review of the underlying supporting work paper has identified that this includes £4,096k relating to the adjustment for excess of FV depreciation v Historical cost depreciation. This should properly be recorded on the 'Difference between fair value depreciation and historical cost depreciation' line within the Revaluation reserve movement table at Note 24, and removed from the 'Amounts written off to the Capital Adjustment Account' line.	✓ ✓
Note 28: expenditure by nature	CIES/Income and Expenditure by Nature Subsequent to the receipt of the draft financial statements, the Council have revised amounts reported in both the CIES and Note 28 Income and Exp by Nature. CIES • Finance (Inc SIU) gross spend increased by £359k and gross income increased by £358k • Law and Governance gross spend decreased by £63k and gross income decreased by £63k • Housing and Assets gross spend reduced by £34k • Borough Economy gross spend increased by £191k and gross income increased by £156k Note 28 Income and Exp by Nature • Employee Benefits expenses decreased by £9,335k • Other Services Expenses increased by £20,076k • Depreciation, Amort and Impairment decreased by £12,805k • Interest payments increased by £2,715k • Support Services Recharges decreased by £199k	✓
Note 29: agency	In initial draft of agency grants, expenditure amounts were interchanged with grants received and energy rebate grant of £19.188 million was omitted from the note. Headings to be corrected in note- expenditure heading to be shifted to revenue and revenue headings one to expenditure and energy rebate grant of £19.188 million to be added in note. The council has received £4.936 million of agency grant in name of improved better care fund which they transferred to the Sandwell and West Birmingham CCG, this Agency grant was not added in the Note 29-Agency grant note.	✓

C. Audit Adjustments

Disclosure omission	Auditor recommendations	Adjusted?
Note 31: senior officer remuneration:	Pension contributions for 2 employees were not incorporated into the note – amount not disclosed £455k There were several disclosure errors where disclosure was not in line with guidance: Names excluded for officers earning > £150k Annualised salary was not included Footnotes were incomplete We have identified an error in the disclosure of the salary for one of employees, Maria Price, in the new draft financials. Initially, her salary was categorized in the £75k to £80k band, but it has now been adjusted to the £80k to £85k band. This discrepancy arose due to a delayed regrade of her designation to SM2, and as a result, a backdated adjustment was made to her pay grade.	✓
Note 34 Dedicated Schools Grant	Within the table all years mentioned havent been updated from the prior year disclosure note and need to be moved forward by one year.	✓
Note 35: Grant income	Note did not agree to the underlying records £2.161m	✓
Note 36 - Related Parties	Councillors with interest in entities listed on Companies House did not disclose these interests: • Shireland Collegiate Academy Trust not declared • Black Country Consortium Limited not declared Related parties' disclosures should be updated, and councillors should be reminded of the need to keep disclosures up to date	✓
Note 38: capital commitments	The Wednesbury Health Centre , King Street legal commitment of £3,610m was disclosed as a legal commitment at 31 March 2022. We have noted that the contract was signed on 14 October 2022 hence it wasn't a capital commitment as at 31 March 2022.	✓
Note 39:leases/ events after the reporting period	Our testing identified an event that occurred after the balance sheet date involving the cancellation of lease rights for Kings Square land lease. This is considered a non-adjusting event as per 3.8.2.1(b) of the CIPFA Code (£7.440 m)	✓

C. Audit Adjustments

Disclosure omission	Auditor recommendations	Adjusted?
Note 40 - PFI -	• Within the movement on the carrying amount of PFI assets table there is an adjustment of £3,840k to add the land element of the Rowley Scheme. In prior years only the Buildings element of the Rowley Campus was included because the Land element £3.8m was not part of the PFI scheme and was already in the ownership of the Council. The Council should consider the appropriateness of the Land adjustment within this disclosure note. • Within the first paragraph future lifecycle spend for the Riverside PFI is disclosed as £21.683m. This is not consistent with the Council's underlying PFI model which reports £17.927m. • Within the movement on liabilities table all of the liability at 31st March 2022 is disclosed as Long Term. This is not consistent with the balance sheet and underlying PFI models which report ST liabilities of £3,048k	✓
Note 42 Termination Benefit	The cost of exit packages for employees disclosed in the note, which are not charged into CEIS. As per the guidance notes for practitioners, page no. 277, only exit packages of employees charged in CEIS should be disclosed in the termination benefit note. some employees, whose exit package costs were charged in the prior year CEIS, were disclosed in the current year Note. However, As per the guidance notes for practitioners, page no. 277, only current year exit package costs charge to CEIS should be disclosed in the note. Nevertheless, the council has separately updated prior year costs in the revised note. redundancies should be analysed between compulsory departure and other departures. The council hasn't updated this information in the old note, but in the revised note, it has been updated. We have noted that in the old note, councils have omitted to disclose employee termination benefits in the £250,000-£300,000 band.	X

C. Audit Adjustments

Disclosure omission	Auditor recommendations	Adjusted?
Note 43 Defined Benefit Pension schemes, Early Payment of Pension Contributions	The Council made an early up front pension contribution of £30.563m in May 2020, covering the three-year period 20/21 to 22/23: This fact should be disclosed within along with details of the accounting treatment and impact on the general fund. Defined benefit pension plans - Current disclosures do not include any information about the maturity profile of the defined benefit obligation (Code ref 6.4.3.45) Disclosures have not adequately analysed out the pension between teachers' scheme and LGPS. Information to do so has been obtained from the actuary Reversal of net charges made to the surplus/deficit on provision of services line entry should be by £6,657k relating to the understatement of pension fund assets in prior year (Lagged asset issue) Actual amount charged against the GF balance line entry should be amended from £34,932k to £45,124k to reflect the 21/22 element of the up front pension payment made in 20/21 which is £10,192k. Within the Reconciliation of fair value of Scheme Assets table at page 130, the prior year comparatives are not consistent with PY audited accounts for Return on assets and the closing balance Assumptions used by the Actuary have been disclosed in a table on page 131. We have compared these against those disclosed in the Actuary report (Page 05). The following exceptions were noted: - Longevity at 65 for current pensioners is disclosed as 21.2 for Men and 23.6 for Women, but should be 21.1 and 23.9 respectively - Longevity at 65 for future pensioners is disclosed as 22.9 for Men, but should be 22.0 - Rate of increase in Pensions is disclosed as 1.50% but should be 3.20% Lagged assets: We have been informed by the auditors of the West Midlands Pension Fund that there is a large but not material to the Fund understatement on Level 3 assets. This is to do with the timing of valuations vs accounts production dates and is not uncommon at pension funds. The share relating to Sandwell MBC is £10.47m as per split provided by the PF auditor (Total error £119m - Sandwell share 8.8%, Actual £8.27m and extrapolated £2.2m). Inquiries made with the Actuary have established that the IAS19 assets do not allow for the lagged valuations to ensure consistency with the assets at the formal valuation. The net pension liability recognised in the statement of accounts is therefore overstated by £10.47m.	partially
Note 43 Defined Benefit Pension Schemes	The final paragraph at the foot of Note 43 discloses changes in assumptions on conversion of Schools to Academies. The Council should review and amend this disclosure note to properly disclose the impact of the school conversions. Teachers Pension scheme have not been analysed out from the LGPS figures. The Council should obtain this information from the Actuary and amend the disclosure so that it is comparable with the prior year. (Note: same issue is present within the table at the top of page 129 analysing the movements in liability, and the scheme history table, and the narrative within the Teachers section which incorrectly states that the full amount of added years £3.889m relates to Teachers).	✓

C. Audit Adjustments

Disclosure omission	Auditor recommendations	Adjusted?
HRA note 1:	The 0 Bedroom flats and bungalows in 1 Bedroom category in 20/21, the disclosure for 20/21 data needs to be amended to report consistency across the years.	✓
HRA note 2: Major Repairs Reserve	The major repairs reserve is required to be credited with an amount equivalent to the full depreciation charges made during the year to the HRA. As disclosed at HRA Note 2 the total depreciation charge on HRA assets for 21/22 is £17,253k. Within the MIRS Note 8 the value of the transfer from the HRA to the MRR to reflect the depreciation charge is just £15,944k and is therefore understated by £1,309k. The following adjustments are required to correct this error. This impacts on several notes including MIRS, Note 8 and note 9.	✓
HRA note 3:	Vacant possession value should also be reported for 2021/22	✓

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	276,899	289,958
Sandwell Children's Trust	29,000	29,000
Total audit fees (excluding VAT)	£305,899	£318,958

Non-audit fees for other services	**Proposed fee**	**Final fee**
Audit Related Services :		
Housing subsidy claim	38,500	38,500
Teachers pension	6,000	6,000
Total non-audit fees (excluding VAT)	£44,500	£44,500

D. Fee – fee analysis

Audit fees	**Estimated fee per plan £**	**Final fee £**
Scale fee	164,136	164,136
Reduced materiality/Increased FRC challenge	6,250	6250
Use of expert (external valuer)	7,013	8402
Revised ISA's (540)	3,200	3200
Additional journals testing	4,000	4000
Infrastructure asset audit	5,000	5000
SL&P disaggregation	3,000	6000
Pension valuation	3,500	3500
Audit of PPE (See page 9, response to issues identified in the prior year)	4,800	17,940
Serco	2,000	2000
Sandwell Childrens trust – file reviews and consolidation	2,000	2000
Sandwell local accounts challenges ('other risks' page 11-13)	25,000	20,530
Value for Money audit (already delivered)	20,000	20,000
Governance Report follow up (December 2022)	27,000	27,000
Estimated fee /proposed fee	**276,899**	**289,958**

E. Management letter of representation

We have requested a letter of representation from management. The letter includes representations on the unadjusted misstatements as included in this audit findings report.

No specific representations have been sought.

F. Audit opinion

Our anticipated audit report opinion will be unmodified

Grant Thornton

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