Sandwell Metropolitan Borough Council

External Audit Plan

Year ending 31 March 2024

9 September 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.

Key matters

National context

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

The national economic context continues to present challenges to the local government sector. There are increasing cost pressures nationally, such as a growing population and increasing demand for local government services, especially in adult and children's social care. Combined with inflationary pressures, pay demands and energy price rises, the environment in which local authorities operate is highly challenging. Local Government funding continues to be stretched and there have been considerable reductions in the grants received by local authorities from government.

Recently, we have seen the additional strain on some councils from equal pay claims, and there has been a concerning rise in the number of councils issuing s.114 notices. These are issued when a council's Chief Financial Officer does not believe the council can meet its expenditure commitments from its income. Additionally, the levels of indebtedness at many councils is now highly concerning, and we have seen commissioners being sent in to oversee reforms at a number of entities.

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

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

Audit Reporting Delays

Against a backdrop of ongoing audit reporting delays, in October 2023 PSAA found that only five local government accounts had been signed by the September deadline. In June 2023 the Public Accounts Committee (PAC) also produced a report setting out their concerns over these audit reporting delays. We issued our report About time? In March 2023 which explored the reasons for delayed publication of audited local authority accounts.

In our view, to enable a timely sign off of the financial statements, it is critical that draft local authority accounts are prepared to a high standard and are supported by strong working papers. The Council does not have a good track record of doing this.

Backstop

The Government has recently announced that the back stop for the 2023/24 audit will be 28 February 2025 for the 2023/24 accounts. This is not yet enshrined in law, but this deadline is the basis of our planning discussions with you. At the time of drafting, the Council has yet to prepare draft accounts for the 2023/24 financial year and there is no closedown plan which sets out the expected date for issue of the draft accounts. This plan is drafted on the expectation that we will receive draft accounts by 1 October 2024, supported by a complete set of working papers. We are currently discussing with management the scope of the audit, in view of the compressed timetable for completion of audit work.

Key matters - continued

Our Responses

- As a firm, we are absolutely committed to audit quality and financial reporting in the local government sector. Our proposed work and fee, as set out in this Audit Plan has been agreed with the Director of Resources and reflects the PSAA contract. This may be revisited, depending on the final scope of our audit. We wrote to the Chair of the Audit Committee on 5 September, setting out the impact of the proposed backstop on the accounts and the discussions held with management.
- To ensure close work with our local audited bodies and an efficient audit process, our preference as a firm is work on site with you and your officers. Please confirm in writing if this is acceptable to you, and that your officers will make themselves available to our audit team. This is also in compliance with our delivery commitments in our contract with PSAA.
- We offer a private meeting with the Chief Executive twice a year, and with the Executive Director of Resources quarterly as part of our commitment to keep you fully informed on the progress of the audit.
- At an appropriate point within the audit, we would also like to meet informally with the Chair of your Audit Committee, to brief them on the status and progress of the audit work to date.
- We will consider your arrangements for managing and reporting your financial resources as part of our audit in completing our Value for Money work.
- Our Value for Money work will also consider your arrangements relating to governance and improving economy, efficiency and effectiveness.
- We will continue to provide you and your Audit Committee with sector updates providing our insight on issues from a range of sources and other sector commentators via our Audit Committee updates.
- We hold annual financial reporting workshops for our audited bodies to access the latest technical guidance and interpretations, to discuss issues with our experts and to facilitate networking links with other audited bodies to support consistent and accurate financial reporting across the sector.
- With the ongoing financial pressures being faced by local authorities, in planning this audit we have considered the financial viability of the Council. We are satisfied that the going concern basis remains the correct basis behind the preparation of the accounts. We will keep this under review throughout the duration of our appointment as auditors of the Council.
- There is an increased incentive and opportunity for organisations in the public sector to manipulate their financial statements due to ongoing financial pressures. We are required to identify a significant risk with regard to management override of controls.

Introduction and headlines

Purpose

This document provides an overview of the planned scope and timing of the statutory audit of Sandwell Metropolitan Borough Council ('the Council') for those charged with governance.

Respective responsibilities

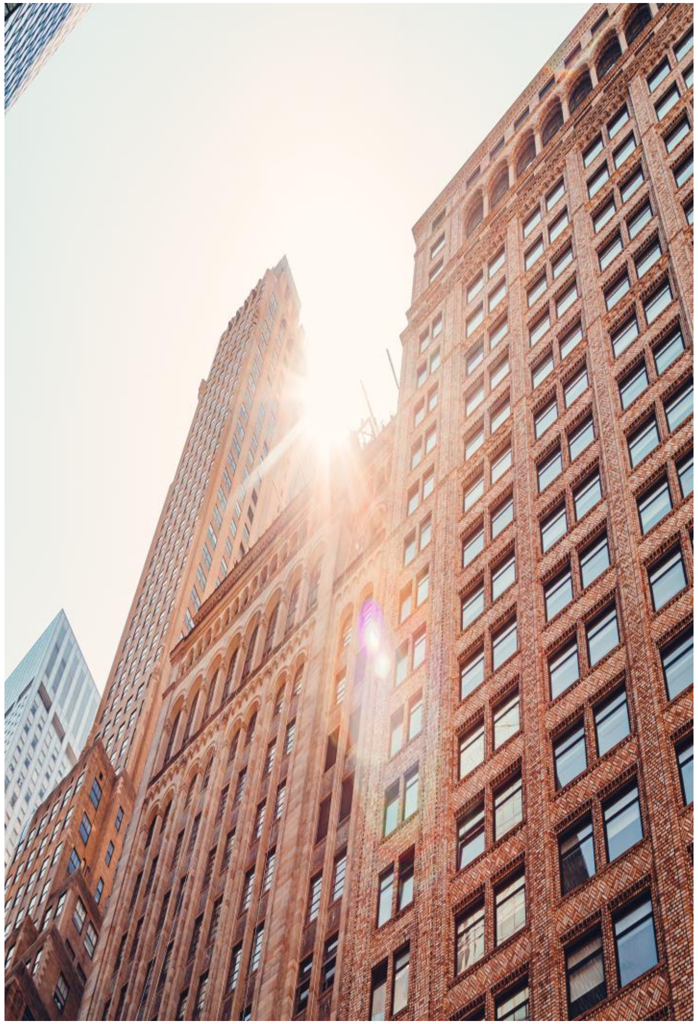
The National Audit Office ('the NAO') has issued a document entitled Code of Audit Practice ('the Code'). This summarises where the responsibilities of auditors begin and end and what is expected from the audited body. Our respective responsibilities are also set out in the agreed in the Terms of Appointment and Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA), the body responsible for appointing us as auditor of Sandwell Metropolitan Borough Council. We draw your attention to these documents.

Scope of our audit

The scope of our audit is set in accordance with the Code and International Standards on Auditing (ISAs) (UK). We are responsible for forming and expressing an opinion on the Council and group's financial statements that have been prepared by management with the oversight of those charged with governance ; and we consider whether there are sufficient arrangements in place at the Council and group for securing economy, efficiency and effectiveness in your use of resources. Value for money relates to ensuring that resources are used efficiently in order to maximise the outcomes that can be achieved.

The audit of the financial statements does not relieve management or the those charged with governance of your responsibilities. It is the responsibility of the Council to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Council is fulfilling these responsibilities.

Our audit approach is based on a thorough understanding of the Council's business and is risk based.



Introduction and headlines

Significant risks

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

- Management over-ride of controls
- Valuation of land and buildings and council housing
- Valuation of investment properties
- Valuation of the pension fund net liability
- Presumed risk of fraudulent income and expenditure recognition (rebutted)

We will communicate significant findings on these areas as well as any other significant matters arising from the audit to you in our Audit Findings (ISA 260) Report.

Materiality

We have determined planning materiality to be £12.8m for the Council, and £13.5m for the group.

We are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. As part of our risk assessment, we have considered the impact of unadjusted prior period errors. Clearly trivial has been set at £640k (PY £640 k).

Materiality is assessed based on operating expenditure and we have used the most up to date available accounts for this assessment which is 2021/22 audited accounts. As this is relatively old information, we may update the materiality on receipt of the 2022/23 accounts and we will formally revisit materiality once more when we receive the 2023/24 draft accounts.

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

Value for Money arrangements

Our Value for Money work is nearing completion, and our interim report will go to the next Audit and Assurance Committee.

At planning, we identified significant risk of weakness in:

- Financial sustainability: due to overspends in Q1 2023/24 along with the scale of the 2024/25 budget gap.
- Governance: ongoing risk of significant weakness arising from prior year governance findings and Oracle implementation.
- Improving economy, efficiency and effectiveness: due to best value issues with Children's Services and Housing.

We will follow up prior year recommendations as part of our work.

Audit logistics

Our interim visit has taken place and our final visit is currently planned to begin 15 November 2024. Our key deliverables are this Audit Plan, our Audit Findings Report and Auditor's Annual Report.

Our proposed fee for the audit will be £597,972 (PY: plan £275,000) for the Council, subject to the Council delivering a good set of financial statements and working papers.

The 'backstop' will apply by 28 February 2025. This is likely to impact on our audit. We will discuss with management the impact on the audit fee accordingly.

We have complied with the Financial Reporting Council's Ethical Standard (revised 2019) and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.

Significant risks identified

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

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
Management over-ride of controls	Council	Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management override of controls is present in all entities. The Council is expected to deliver services within budget. This could potentially place management under undue pressure in terms of how they report performance. We, therefore, identified management override of control, in particular journals, management estimates, and transactions, outside the course of business as a significant risk.	We will: • evaluate the design effectiveness of management controls over journals • analyse the journals listing and determine the criteria for selecting high risk unusual journals • test unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration • gain an understanding of the accounting estimates and critical judgements applied made by management and consider their reasonableness with regard to corroborative evidence • evaluate the rationale for any changes in accounting policies, estimates or significant unusual transactions

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

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

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

Significant risks identified - continued

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
Valuation of the pension fund net liability	Council	The Authority pension fund net liability, as reflected in its balance sheet as the net defined benefit liability, represents a significant estimate in the financial statements. The pension fund net liability is considered a significant estimate due to the size of the numbers involved and the sensitivity of the estimate to changes in key assumptions. The methods applied in the calculation of the 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.	We will: • update our understanding of the processes and controls put in place by management to ensure that the Authority's pension fund net liability is not materially misstated and evaluate the design of the associated controls • evaluate the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work • assess the competence, capabilities and objectivity of the actuary who carried out the Authority's pension fund valuation • assess the accuracy and completeness of the information provided by the Authority to the actuary to estimate the liability • test the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial report from the actuary • undertake procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performing any additional procedures suggested within the report • obtain assurances from the auditor of West Midlands Pension Fund as to the controls surrounding the validity and accuracy of membership data; contributions data and benefits data sent to the actuary by the pension fund and the fund assets valuation in the pension fund financial statements. Evaluate any issues reported by the pension fund auditor.

Significant risks identified - continued

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
The revenue cycle includes fraudulent transactions (rebutted)	Council	Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue. Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the Authority, 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. Therefore, we do not consider this to be a significant risk for Sandwell Metropolitan Borough Council.	Notwithstanding that we have rebutted this risk, we will still undertake a significant level of work on the Council and Group's revenue streams, as they are material. We will: <u>Accounting policies and systems</u> • evaluate the Council's accounting policies for recognition of income and expenditure for its various income streams and compliance with the CIPFA Code • update our understanding of the Council's business processes associated with accounting for income <u>Fees, charges and other service income</u> Agree, on a sample basis, income and year end receivables from other income to invoices and cash payment or other supporting evidence. <u>Taxation and non-specific grant income</u> • Income for national non-domestic rates and council tax is predictable and therefore we will conduct substantive analytical procedures • For other grants we will sample test items back to supporting information and subsequent receipt, considering accounting treatment where appropriate. We will also design tests to address the risk that income has been understated, by not being recognised in the current financial year.
Fraudulent expenditure recognition (rebutted)	Council	In line with the Public Audit Forum Practice Note 10, in the public sector, auditors must also consider the risk that material misstatements due to fraudulent financial reporting may arise from the manipulation of expenditure recognition (for instance by deferring expenditure to a later period). We have rebutted this risk for Sandwell Metropolitan Borough Council because: • expenditure is primarily related to employee costs • lack of incentive to manipulate financial results, coupled with an overall strong control environment. We therefore do not consider this to be a significant risk for Sandwell Metropolitan Borough Council.	We consider that the risk relating to expenditure recognition would relate primarily to period-end journals and accruals which are considered as part of the standard audit tests below and our testing in relation to the significant risk of Management Override of Controls. We will continue to review material expenditure transactions as part of our audit ensuring that it remains appropriate to rebut the risk of expenditure recognition for Sandwell Metropolitan Borough Council. Notwithstanding that we have rebutted this risk, we will still undertake a significant level of work on the Council's expenditure streams, as they are material. We will: • update our understanding of the Council's business processes associated with accounting for expenditure • perform testing over post year end transactions to assess completeness of expenditure recognition. • test a sample of operating expenses to gain assurance in respect of the accuracy and occurrence of expenditure recorded during the financial year.

Significant risks identified - continued

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
Valuation of other land and buildings	Council	The Authority revalue its land and buildings as a minimum on a rolling five-yearly basis with interim reviews. If the value of an asset class is projected to materially change during the period since the last valuation, then further valuations are instructed. This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved and the sensitivity of this estimate to changes in key assumptions. Additionally, management will need to ensure the carrying value in the Authority and group financial statements is not materially different from the current value or the fair value (for surplus assets) at the financial statements date, where a rolling programme is used. We therefore identified valuation of other land and buildings, particularly revaluations and impairments, as a significant risk, which was one of the most significant assessed risks of material misstatement.	We will: • evaluate management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work • evaluate the competence, capabilities and objectivity of the valuation expert • write to the valuer to confirm the basis on which the valuation is carried out to ensure that the requirements of the CIPFA Code are met • challenge the information and assumptions used by the valuer to assess completeness and consistency with our understanding • engage our own valuer to assess the instructions to the Council's valuer, the Council valuer's report and the methodology and assumptions that underpin the valuation; • test revaluations made during the year to see if they have been input correctly into the Authority's asset register • evaluate the assumptions made by management for those assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value at year end
Valuation of Investment Properties	Council	The Council is required to revalue its investment property annually. This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved and the sensitivity of this estimate to changes in key assumptions. We have therefore identified valuation of investment properties, as a significant risk, which was one of the most significant assessed risks of material misstatement.	We will: • evaluate management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work; • evaluate the competence, capabilities and objectivity of the valuation expert • write to the valuer to confirm the basis on which the valuation is carried out to ensure that the requirements of the CIPFA Code are met • challenge the information and assumptions used by the valuer to assess completeness and consistency with our understanding • engage our own valuer to assess the instructions to the Council's valuer, the Council valuer's report and the methodology and assumptions that underpin the valuation • test revaluations made during the year to see if they had been input correctly into the Council's balance sheet • ensure that any RICS guidance in relation to material uncertainty around property valuations has been considered by the valuer and is appropriately reflected in the financial statements.

Significant risks identified - continued

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
Valuation of council dwellings	Council	The Authority is required to revalue council dwellings annually. The Authority uses the "Beacon Approach" where representative properties are revalued, rather than each individual property. A social discount factor is then applied to reflect the fact that the properties cannot be sold on the open market. This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved and the sensitivity of this estimate to changes in key assumptions. We therefore identified valuation of council dwellings, particularly revaluations and impairments, as significant risk.	We will: • evaluate management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work • evaluate the competence, capabilities and objectivity of the valuation expert • write to the valuer to confirm the basis on which the valuation is carried out to ensure that the requirements of the CIPFA Code are met • challenge the information and assumptions used by the valuer to assess completeness and consistency with our understanding • consider and evaluate the reasonableness of the Beacon properties, to which other properties were allocated, and the appropriateness of variances thereto • engage our own valuer to assess the instructions to the Council's valuer, the Council valuer's report and the methodology and assumptions that underpin the valuation; • test revaluations made during the year to see if they have been input correctly into the Authority's asset register

Other risks identified

We will communicate significant findings on these areas as well as any other significant matters arising from the audit to you in our Audit Findings Report.

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
Financial statements level risk	Council/ group	Historical issues with turnover of staff within the finance function, late accounts and quality of the financial statements	We consider that there is increased risk of error in the financial statements compared to other local authorities, based on our experience of audit at Sandwell over the last few years. We will address this risk through materiality, specifically setting a lower performance materiality which will increase the number of items selected for testing.
Completeness, existence and accuracy of cash and cash equivalents	Council	The receipt and payment of cash represents a significant class of transactions occurring throughout the year, culminating in the year-end balance for cash and cash equivalents reported on the statement of financial position. Due to the significance of cash transactions to the Council, we identified the completeness, existence and accuracy of cash and cash equivalents as a risk requiring special audit consideration.	We will: • agree all period end bank balances to the general ledger and cash book; • agree cash and cash equivalents to the the bank reconciliation; • agree all material reconciling items to sufficient and appropriate corroborative audit evidence; • write to the bank and obtain a bank balance confirmation; • agree the aggregate cash balance to the relevant financial statement disclosures.
Senior officer remuneration	Council	With a lower materiality applied owing to the sensitivities around these disclosures, there is heightened risk that a material misstatement may occur.	We will: • gain an understanding of the process used for recording Senior Officer Remuneration and evaluate the procedures; • agree, on a sample basis, entries in the remuneration report to payroll evidence and pension disclosures.
Completeness of non-pay operating expenses and payables	Council	Non-pay expenses on goods and services represent a significant percentage of the Council's operating expenses. Management uses judgement to estimate accruals of costs yet to be invoiced. There is a high instance of these estimated accruals at the year-end. We therefore identified completeness of non-pay operating expenses and payables as a risk requiring audit consideration.	We will • evaluate the Council's accounting policy for recognition of non-pay expenditure for appropriateness; • gain an understanding of the Council's system for accounting for non-pay expenditure and evaluate the design of the associated controls; • test a sample of balances included within trade and other payables; • test a sample of payments immediately prior to and after the year end to ensure that appropriate cut-off has been applied, and therefore that the expenditure has been recognised in the correct period.

Other matters

Other work

In addition to our responsibilities under the Code of Practice, we have a number of other audit responsibilities, as follows:

- We read your Narrative Report and Annual Governance Statement and any other information published alongside your financial statements to check that they are consistent with the financial statements on which we give an opinion and our knowledge of the Council.
- We carry out work to satisfy ourselves that disclosures made in your Annual Governance Statement are in line with requirements set by CIPFA.
- We carry out work on your consolidation schedules for the Whole of Government Accounts process in accordance with NAO group audit instructions.
- We consider our other duties under legislation and the Code, as and when required, including:
  - giving electors the opportunity to raise questions about your financial statements, consider and decide upon any objections received in relation to the financial statements;
  - issuing a report in the public interest or written recommendations to the Council under section 24 of the Local Audit and Accountability Act 2014 (the Act);
  - application to the court for a declaration that an item of account is contrary to law under section 28 or a judicial review under section 31 of the Act;
  - issuing an advisory notice under section 29 of the Act.
- We certify completion of our audit.

Other material balances and transactions

Under International Standards on Auditing, 'irrespective of the assessed risks of material misstatement, the auditor shall design and perform substantive procedures for each material class of transactions, account balance and disclosure'. All other material balances and transaction streams will therefore be audited. However, the procedures will not be as extensive as the procedures adopted for the risks identified in this report.

Group audit scope and risk assessment

In accordance with ISA (UK) 600, as group auditor we are required to obtain sufficient appropriate audit evidence regarding the financial information of the components and the consolidation process to express an opinion on whether the group financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework.

Key changes within the group:

We are not anticipating any material changes within the group structure. We regard the Children's Trust (SCT) as a material but not signficant component. As a signficant proportion of the transactions of the Children's Trust are with the Council, and are consolidated out when preparing the group accounts, this has impacted on our planned audit approach. Our approach will be limited to undertaking a high-level analytical review and review the Audit Findings Report from the SCT auditors.

The Council has interests in other companies; however, management has judged that the Council does not have control or they are not sufficiently material to be included within the group accounts.

Group audit scope and risk assessment

Component	Individually Significant?	Level of response required under ISA (UK) 600	Risks identified	Planned audit approach
Sandwell MBC	Yes		• Management override of controls • Valuation of land and buildings • Valuation of the pension fund net liability	Full scope audit performed by Grant Thornton UK LLP
Sandwell Children's Trust	No		• None	Whilst the Children's Trust is material and thus it is appropriate to prepare group accounts, we do not regard it as a signficant component. Our audit procedures will be limited to analytical review at the group level and review of the accounts and audit findings report of the component.

Audit scope

- Audit of the financial information of the component using component materiality
- Audit of one more classes of transactions, account balances or disclosures relating to significant risks of material misstatement of the group financial statements
- Review of component's financial information
- Specified audit procedures relating to risks of material misstatement of the group financial statements
- Analytical procedures at group level

Our approach to materiality

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

Description	Planned audit procedures
Determination We have determined financial statement materiality based on a proportion of the gross expenditure of the Council for the financial year. Materiality at the planning stage of our audit is £12.8m, which equates to 1.35% of your gross expenditure per the 2021/22 accounts. Group materiality has been determined as £13.5m. We will revisit materiality on receipts of the draft accounts.	We determine planning materiality in order to: • establish what level of misstatement could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements; • assist in establishing the scope of our audit engagement and audit tests; • determine sample sizes and • assist in evaluating the effect of known and likely misstatements in the financial statements.
Other factors An item does not necessarily have to be large to be considered to have a material effect on the financial statements.	An item may be considered to be material by nature where it may affect instances when greater precision is required. We have identified senior officer remuneration as a balance where we will apply a lower materiality level, as these are considered sensitive disclosures. We have set a planning materiality of £0.020m.

Our approach to materiality

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

Description	Planned audit procedures
Reassessment of materiality Our assessment of materiality is kept under review throughout the audit process.	We reconsider planning materiality if, during the course of our audit engagement, we become aware of facts and circumstances that would have caused us to make a different determination of planning materiality.
Other communications relating to materiality we will report to the Audit Committee Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Audit Committee any unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work. Under ISA 260 (UK) 'Communication with those charged with governance', we are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. ISA 260 (UK) defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria.	We report to the Audit Committee any unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work. In the context of the Council, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £0.640m (PY £0.640 m). If management have corrected material misstatements identified during the course of the audit, we will consider whether those corrections should be communicated to the Audit Committee to assist it in fulfilling its governance responsibilities.

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.

	Group (including the Children's Trust) (£)	SMBC (£)	
Materiality for the financial statements	13,500,000	12,800,000	This benchmark is determined as a percentage of the Council's single entity gross revenue expenditure in the prior year (£951m) using 1.35% as a baseline.
Performance Materiality	8,100,000	7,650,000	We have identified senior officer remuneration as a balance where we will apply a lower materiality level, as these are considered sensitive disclosures. We have set a materiality of £0.020m.
Trivial Matters	675,000	640,000	

IT audit strategy

In accordance with ISA (UK) 315 Revised, we are required to obtain an understanding of the relevant IT and technical infrastructure and details of the processes that operate within the IT environment. We are also required to consider the information captured to identify any audit relevant risks and design appropriate audit procedures in response. As part of this we obtain an understanding of the controls operating over relevant Information Technology (IT) systems i.e., IT general controls (ITGCs). Our audit will include completing an assessment of the design and implementation of relevant ITGCs. We say more about ISA 315 Revised on slide 21.

The following IT systems have been judged to be in scope for our audit and based on the planned financial statement audit approach we will perform the indicated level of assessment:

IT system	Audit area	Planned level IT audit assessment
Oracle SBS	Financial reporting	• Detailed understanding of the IT general controls covering the design and implementation effectiveness. We will complete the following tasks as part of the IT Audit: • Evaluate changes to the design and implementation effectiveness for security management; change management and technology infrastructure controls • Perform high level walkthroughs, inspected supporting documentation and analysis of configurable controls in the above areas

Value for Money arrangements

Approach to Value for Money work for the period ended 31 March 2024.

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

Improving economy, efficiency and effectiveness

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

Financial Sustainability

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

Governance

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

Our Value for Money work is nearing completion, and our interim report will go to the next Audit and Assurance Committee.

At planning we identified significant risk of weakness in:

- Financial stationarity: due to overspends in Q1 2023/24 along with the 2024/25 budget gap.
- Governance: ongoing risk of significant weakness arising from prior year governance findings and the Oracle implementation.
- Improving economy, efficiency and effectiveness: due to best value issues within Children's Services and Housing.

We will follow up prior year recommendations as part of our work

Risks of significant VFM weaknesses

As part of our planning work, we considered whether there were any risks of significant weakness in the body's arrangements for securing economy, efficiency and effectiveness in its use of resources that we needed to perform further procedures on. The risks we have identified are detailed in the first table below, along with the further procedures we will perform. We may need to make recommendations following the completion of our work. The potential different types of recommendations we could make are set out in the second table below.

Potential types of recommendations

A range of different recommendations could be made following the completion of work on risks of significant weakness, 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.

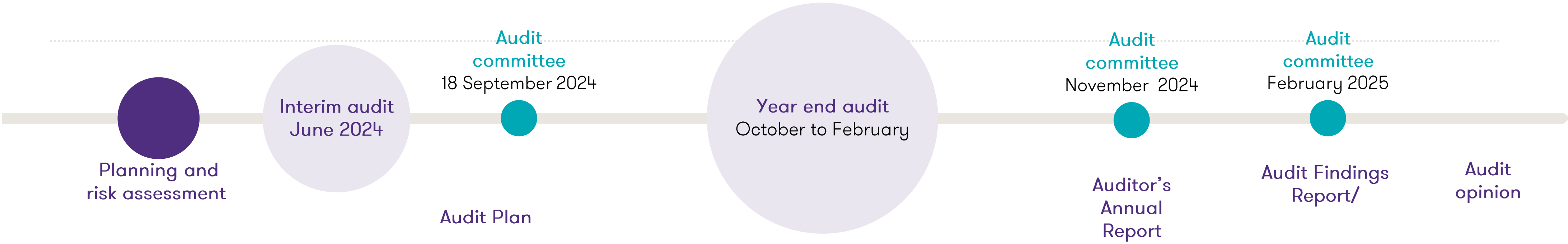
Key recommendation

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.

Audit logistics and team



Andrew Smith, Key Audit Partner

Andrew's role will be to lead our relationship with you. He will take overall responsibility for the delivery of a high quality audit, meeting the highest professional standards and adding value to the Council.

Zoe Thomas, Senior Audit Manager

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

Matthew J Berrisford, Assistant Manager

Matthew's role is to assist in planning, managing and delivering the audit fieldwork, ensuring the audit is delivered effectively and efficiently, and is also involved in supervising and co-ordinating the audit team.

Audited Entity responsibilities

Where audited bodies do not deliver to the timetable agreed, we need to ensure that this does not impact on audit quality or absorb a disproportionate amount of time, thereby disadvantaging other audited bodies. Where the elapsed time to complete an audit exceeds that agreed due to an entity not meeting its obligations we will not be able to maintain a team on site. Similarly, where additional resources are needed to complete the audit due to an entity not meeting their obligations we are not able to guarantee the delivery of the audit to the agreed timescales. In addition, delayed audits will incur additional audit fees.

Our requirements

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

- ensure that you produce draft financial statements of good quality by the deadline you have agreed with us, including all notes, the Annual Report and the Annual Governance Statement
- ensure that good quality working papers are available at the start of the audit, in accordance with the working paper requirements schedule that we have shared with you
- ensure that the agreed data reports are available to us at the start of the audit and are reconciled to the values in the accounts, in order to facilitate our selection of samples for testing
- ensure that all appropriate staff are available on site throughout (or as otherwise agreed) the planned period of the audit
- respond promptly and adequately to audit queries.

Audit fees and updated Auditing Standards

Audit fees are set by PSAA as part of their national procurement exercise. In 2018, Public Sector Audit Appointments (PSAA) awarded a contract of audit for Sandwell Metropolitan Borough Council to begin with effect from 2018/19. The fee agreed in the contract was £275,000. Since that time, there have been several developments, particularly in relation to the revised Code and ISA's which are relevant for the 2023/24 audit.

The scale fee set out in the PSAA contract for the 2023/24 audit is £357,326.

This contract sets out four contractual stage payments for this fee, with payment based on delivery of specified audit milestones:

- Production of the final auditor's annual report for the previous Audit Year (exception for new clients in 2023/24 only)
- Production of the draft audit planning report to Audited Body
- 50% of planned hours of an audit have been completed
- 75% of planned hours of an audit have been completed

Any variation to the scale fee will be determined by PSAA in accordance with their procedures as set out here https://www.psaa.co.uk/appointing-auditors-and-fees/fee-variations-overview/'

Assumptions

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

- prepare a good quality set of accounts, supported by comprehensive and well-presented working papers which are ready at the start of the audit
- provide appropriate analysis, support and evidence to support all critical judgements and significant judgements made during the course of preparing the financial statements
- provide early notice of proposed complex or unusual transactions which could have a material impact on the financial statements
- maintain adequate business processes and IT controls, supported by an appropriate IT infrastructure and control environment.

Updated Auditing Standards

The FRC has issued updated Auditing Standards in respect of Quality Management (ISQM 1 and ISQM 2). It has also issued an updated Standard on quality management for an audit of financial statements (ISA 220). We confirm we will comply with these standards.

Audit fees

	Proposed fee 2023/24
Sandwell Metropolitan Borough Council PSAA scale fee	£597,972
ISA 315	£12,550
Appointment of auditor's valuation expert (pass through cost)	£10,000*
Planned audit fees (excluding VAT)	**£620,522****

*final fee to be confirmed with our External Audit Valuation expert once their work is complete.

** fee will be reviewed in the light of backstop implications

Relevant professional standards

In preparing our fees, we have had regard to all relevant professional standards, including paragraphs 4.1 and 4.2 of the FRC's Ethical Standard (revised 2019) which stipulate that the Engagement Lead (Key Audit Partner) must set a fee sufficient to enable the resourcing of the audit with partners and staff with appropriate time and skill to deliver an audit to the required professional and Ethical standards.

IFRS 16 ‘Leases’ and related disclosures

IFRS 16 will need to be implemented by local authorities from 1 April 2024. This Standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and replaces IAS17. The objective is to ensure that lessees and lessors provide relevant information in a manner that faithfully represents those transactions. This information gives a basis for users of financial statements to assess the effect that leases have on the financial position, financial performance and cash flows of an entity. As this is a shadow year for the implementation of IFRS 16, we will need to consider the work being undertaken by the Council to ensure a smooth adoption of the new standard.

Introduction

IFRS 16 updates the definition of a lease to:

“a contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration.”

In the public sector the definition of a lease is expanded to include arrangements with nil consideration.

IFRS 16 requires all leases to be accounted for 'on balance sheet‘ by the lessee (subject to the exemptions below), a major departure from the requirements of IAS 17 in respect of operating leases.

IFRS 16 requires a lessee to recognise assets and liabilities for leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. There is a single accounting model for all leases (similar to that of finance leases under IAS 17), with the following exceptions:

- leases of low value assets
- short-term leases (less than 12 months).

Lessor accounting is substantially unchanged leading to asymmetry of approach for some leases (operating) although if an NHS body is the intermediary and subletting there is a change in that the judgement between operating and finance lease is made with reference to the right of use asset rather than the underlying asset

Council’s systems and processes

We believe that most local authorities will need to reflect the effect of IFRS 16 changes in the following areas:

- accounting policies and disclosures
- application of judgment and estimation
- related internal controls that will require updating, if not overhauling, to reflect changes in accounting policies and processes
- systems to capture the process and maintain new lease data and for ongoing maintenance

Further information

Further details on the requirements of IFRS16 can be found in the HM Treasury Financial Reporting Manual. This is available on the following link.

IFRS 16 Application Guidance December 2020.docx (publishing.service.gov.uk)

Independence and non-audit services

Auditor independence

Ethical Standards and ISA (UK) 260 require us to give you timely disclosure of all significant facts and matters that may bear upon the integrity, objectivity and independence of the firm or covered persons. relating to our independence. We encourage you to contact us to discuss these or any other independence issues with us. We will also discuss with you if we make additional significant judgements surrounding independence matters.

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.. Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in May 2020 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

We confirm that we have implemented policies and procedures to meet the requirements of the Ethical Standard. For the purposes of our audit, we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council.

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Other services

The following other services provided by Grant Thornton were identified

The amounts detailed are fees agreed to-date for audit related and non-audit related services to be undertaken by Grant Thornton UK LLP in the current financial year. These services are consistent with the Council's policy on the allotment of non-audit work to your auditors. Any changes and full details of all fees charged for audit related and non-audit related services by Grant Thornton UK LLP and by Grant Thornton International Limited network member Firms will be included in our Audit Findings report at the conclusion of the audit.

None of the services provided are subject to contingent fees.

<table>
<tr><th>Service</th><th>Fees £</th><th>Threats</th><th>Safeguards</th></tr>
<tr><td colspan="4">Audit related</td></tr>
<tr><td>Housing Benefit subsidy certification 2023/24</td><td>82,800</td><td rowspan="3">For these audit-related services, we consider that the following perceived threats may apply:
• Self Interest (because these are recurring fees)
• Self Review
• Management</td><td rowspan="3">The level of recurring fees taken on their own is not significant in comparison to the confirmed scale fee for the audit and in particular relative to Grant Thornton UK LLP's turnover overall. Further, each is a fixed fee and there is no contingent element to any of them. These factors all mitigate the perceived self-interest threat to an acceptable level.

Our team has no involvement in the preparation of the form which is certified, and do not expect material misstatements in the financial statement to arise from the performance of the certification work. Although related income and expenditure is included within the financial statements, the work required in respect of certification is separate from the work required to the audit of the financial statements, and is performed after the audit of the financial statements has been completed.

The scope of work does not include making decisions on behalf of management or recommending or suggesting a particular course of action for management to follow. Our team perform these engagements in line with set instructions and reporting frameworks. Any amendments made as a result of our work are the responsibility of informed management.</td></tr>
<tr><td>Teachers Pensions 2023/24</td><td>20,000</td></tr>
<tr><td>Childrens Trust Audit (tbc)</td><td>39,500</td></tr>
<tr><td colspan="4">There were no non-audit related services</td></tr>
</table>

Communication of audit matters with those charged with governance

Our communication plan	Audit Plan	Audit Findings
Respective responsibilities of auditor and management/those charged with governance	•	
Overview of the planned scope and timing of the audit, form, timing and expected general content of communications including significant risks and Key Audit Matters	•	
Confirmation of independence and objectivity of the firm, the engagement team members and all other indirectly covered persons	•	•
A statement that we have complied with relevant ethical requirements regarding independence. Relationships and other matters which might be thought to bear on independence. Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged. Details of safeguards applied to threats to independence	•	•
Significant matters in relation to going concern	•	•
Matters in relation to the group audit, including: Scope of work on components, involvement of group auditors in component audits, concerns over quality of component auditors' work, limitations of scope on the group audit, fraud or suspected fraud	•	•
Views about the qualitative aspects of the Group's accounting and financial reporting practices including accounting policies, accounting estimates and financial statement disclosures		n/a

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

This document, the Audit Plan, outlines our audit strategy and plan to deliver the audit, while the Audit Findings will be issued prior to approval of the financial statements and will present key issues, findings and other matters arising from the audit, together with an explanation as to how these have been resolved.

We will communicate any adverse or unexpected findings affecting the audit on a timely basis, either informally or via an audit progress memorandum.

Escalation policy

The Department for Levelling Up, Housing and Communities are proposing to introduce an audit backstop date on a rolling basis to encourage timelier completion of local government audits in the future.

As your statutory auditor, we understand the importance of appropriately resourcing audits with qualified staff to ensure high quality standards that meet regulatory expectations and national deadlines. It is the Authority's responsibility to produce true and fair accounts in accordance with the CIPFA Code by the 31 May 2024 and respond to audit information requests and queries in a timely manner.

To help ensure that accounts audits can be completed on time in the future, we have introduced an escalation policy. This policy outlines the steps we will take to address any delays in draft accounts or responding to queries and information requests. If there are any delays, the following steps should be followed:

Step 1 - Initial Communication with Finance Director (within one working day of statutory deadline for draft accounts or agreed deadline for working papers)

We will have a conversation with the Finance Director(s) to identify reasons for the delay and review the Authority's plans to address it. We will set clear expectations for improvement.

Step 2 - Further Reminder (within two weeks of deadline)

If the initial conversation does not lead to improvement, we will send a reminder explaining outstanding queries and information requests, the deadline for responding, and the consequences of not responding by the deadline.

Step 3 - Escalation to Chief Executive (within one month of deadline)

If the delay persists, we will escalate the issue to the Chief Executive, including a detailed summary of the situation, steps taken to address the delay, and agreed deadline for responding..

Step 4 - Escalation to the Audit Committee (at next available Audit Committee meeting or in writing to Audit Committee Chair within 6 weeks of deadline)

If senior management is unable to resolve the delay, we will escalate the issue to the audit committee, including a detailed summary of the situation, steps taken to address the delay, and recommendations for next steps.

Step 5 – Consider use of wider powers (within two months of deadline)

If the delay persists despite all efforts, we will consider using wider powers, e.g. issuing a statutory recommendation. This decision will be made only after all other options have been exhausted. We will consult with an internal risk panel to ensure appropriateness.

By following these steps, we aim to ensure that delays in responding to queries and information requests are addressed in a timely and effective manner, and that we are able to provide timely assurance to key stakeholders including the public on the Authority's financial statements.

Grant Thornton