



The Annual Audit Letter For East Staffordshire Borough Council

Year ended 31 March 2019

August 2019



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Executive Summary

Purpose

Our Annual Audit Letter (Letter) summarises the key findings arising from the work that we have carried out at East Staffordshire Borough Council (the Council) for the year ended 31 March 2019.

This Letter is intended to provide a commentary on the results of our work to the Council and external stakeholders, and to highlight issues that we wish to draw to the attention of the public. In preparing this Letter, we have followed the National Audit Office (NAO)'s Code of Audit Practice and Auditor Guidance Note (AGN) 07 – 'Auditor Reporting'. We reported the detailed findings from our audit work to the Council's Audit & Value for Money Scrutiny committee as those charged with governance in our Audit Findings Report on 23 July 2019.

Our work

Materiality	We determined materiality for the audit of the Council's financial statements to be £990,000, which is approximately 2% of the Council's gross revenue expenditure.
Financial Statements opinion	We gave an unqualified opinion on the Council's financial statements on 29 July 2019.
Whole of Government Accounts (WGA)	We completed work on the Council's consolidation return following guidance issued by the NAO.
Use of statutory powers	We did not identify any matters which required us to exercise our additional statutory powers.

Respective responsibilities

We have carried out our audit in accordance with the NAO's Code of Audit Practice, which reflects the requirements of the Local Audit and Accountability Act 2014 (the Act). Our key responsibilities are to:

- give an opinion on the Council financial statements (section two)
- assess the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources (the value for money conclusion) (section three).

In our audit of the Council financial statements, we comply with International Standards on Auditing (UK) (ISAs) and other guidance issued by the NAO.

Executive Summary

Our work continued

Value for Money arrangements	We were satisfied that the Council put in place proper arrangements to ensure economy, efficiency and effectiveness in its use of resources. We reflected this in our audit report to the Council on 23 July 2019.
Certification of Grants	We also carry out work to certify the Council's Housing Benefit subsidy claim on behalf of the Department for Work and Pensions. Our work on this claim is not yet complete and will be finalised by 30 November 2019. We will report the results of this work to the Audit & Value for Money Scrutiny committee separately.
Certificate	We certified that we have completed the audit of the financial statements of East Staffordshire Borough Council in accordance with the requirements of the Code of Audit Practice on 23 July 2019.

Working with the Council

During the year we have delivered a number of successful outcomes with you:

- An efficient audit – we delivered an efficient audit with you in July, delivering the financial statements 5 days before the deadline, releasing your finance team for other work.
- Understanding your operational health – through the value for money conclusion we provided you with assurance on your operational effectiveness.

- Sharing our insight – we provided regular audit committee updates covering best practice. We also shared our thought leadership reports
- Providing training – we provided your teams with training on financial statements and annual reporting.

We would like to record our appreciation for the assistance and co-operation provided to us during our audit by the Council's staff.

Grant Thornton UK LLP
August 2019

Audit of the Financial Statements

Our audit approach

Materiality

In our audit of the Council's financial statements, we use the concept of materiality to determine the nature, timing and extent of our work, and in evaluating the results of our work. We define materiality as the size of the misstatement in the financial statements that would lead a reasonably knowledgeable person to change or influence their economic decisions.

We determined materiality for the audit of the Council's financial statements to be £990,000, which is approximately 2% of the Council's gross revenue expenditure. We used this benchmark as, in our view, users of the Council's financial statements are most interested in where the Council has spent its revenue in the year.

We also set a lower level of specific materiality for senior officer remuneration. This was set at £100,000 to reflect the sensitive nature of, and public interest in, these disclosures.

We set a lower threshold of £50,000, above which we reported errors to the Audit & Value for Money Scrutiny Committee in our Audit Findings Report.

The scope of our audit

Our audit involves obtaining sufficient evidence about the amounts and disclosures in the financial statements to give reasonable assurance that they are free from material misstatement, whether caused by fraud or error. This includes assessing whether:

- the accounting policies are appropriate, have been consistently applied and adequately disclosed;
- the significant accounting estimates made by management are reasonable; and
- the overall presentation of the financial statements gives a true and fair view.

We also read the remainder of the financial statements and the narrative report, annual governance statement and pension fund financial statements to check it is consistent with our understanding of the Council and with the financial statements included in the Annual Report on which we gave our opinion.

We carry out our audit in accordance with ISAs (UK) and the NAO Code of Audit Practice. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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

We identified key risks and set out overleaf the work we performed in response to these risks and the results of this work.

Audit of the Financial Statements

Significant Audit Risks

These are the significant risks which had the greatest impact on our overall strategy and where we focused more of our work.

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Valuation of land and buildings</p> <p>The Council revalues its land and buildings on a rolling five-yearly basis. This valuation represents a significant estimate by management in the financial estimates due to the size of the numbers involved (£35m) and the sensitivity of this estimate to changes in key assumptions.</p> <p>Additionally, management will need to ensure the carrying value in the Council 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.</p>	<p>As part of our audit work we have:</p> <ul style="list-style-type: none"> • reviewed management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work; • considered the competence, expertise and objectivity of any management experts used; • reviewed the basis on which the valuation is carried out and challenged the key assumptions; • reviewed and challenged the information used by the valuer to ensure it is robust and consistent with our understanding; • Tested revaluations made during the year to ensure they are input correctly into the Council's asset register and financial statements; and • Evaluated the assumptions made by management for those asset not revalued during the year and how management has satisfied themselves that these are not materially different to current value. 	<p>Our audit work has not identified any issues in respect of valuation of land and buildings.</p>
<p>Management override of internal controls</p> <p>Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities.</p>	<p>As part of our audit work we completed;</p> <ul style="list-style-type: none"> • gained an understanding of, management's controls over journals, the accounting estimates, critical judgements applied and decisions made by management and considered their reasonableness; • obtained a full listing of journal entries, identified and tested unusual and significant journal entries recorded during the year and after the draft accounts stage for appropriateness and corroboration; and • evaluated the rationale for any changes in accounting policies or significant unusual transactions. 	<p>Our audit work has not identified any issues in respect of management override of controls</p>

Audit of the Financial Statements

Significant Audit Risks - continued

These are the risks which had the greatest impact on our overall strategy and where we focused more of our work.

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Valuation of net pension liability</p> <p>The Council's pension fund net liability, as reflected in its balance sheet as the net defined benefit liability, represents a significant estimate in the financial statements.</p>	<p>As part of our audit work we have:</p> <ul style="list-style-type: none"> identified the controls put in place by management to ensure that the pension fund liability is not materially misstated. We assessed whether these controls were implemented as expected and whether they are sufficient to mitigate the risk of material misstatement; evaluated the competence, expertise, objectivity and scope of work of the actuary who carried out your pension fund valuation; gained an understanding of the basis on which the valuation is carried out, including assessing the accuracy and completeness of the information provided by the Council to the actuary to estimate the liability; checked the consistency of the pension fund asset and liability and disclosures in notes to the financial statements with the actuarial report from your actuary; undertaken procedures to confirm the reasonableness of the actuarial assumptions made, by reviewing the report of our consulting actuary (auditor's expert) and performing additional procedures suggested within their report. <p>Our work has identified an understatement (£603,000) in the net defined pension liability resulting from a sector wide issue in relation to the McCloud judgment and GMP, which became apparent at a national level after the submission date of the Council's draft accounts. The Council did not adjust for this misstatement.</p> <p>We also identified other errors understating the Council's pension liability. This principally related to an error in the estimated rate of return on assets employed by the Council's actuary to arrive at its final IAS 19 figures. There was also an issue with the data supplied to the actuary in respect of the transfer of people to the new leisure services provider, SLM. The Council was able to update these estimates for actual figures resulting in a net increase in the pension liability of £876,000. The Council have adjusted for these errors.</p>	<p>Subject to the issues adjacent our audit work has not identified any material issues in respect of the valuation of the Council's pension fund net liability.</p>

Audit of the Financial Statements

Audit opinion

We gave an unqualified opinion on the Council's financial statements on 29 July 2019.

Preparation of the financial statements

The Council presented us with draft financial statements in accordance with the national deadline, and provided a good set of working papers to support them. The finance team responded promptly and efficiently to our queries during the course of the audit.

Issues arising from the audit of the financial statements

We reported the key issues from our audit to the Council's Audit Value for Money Scrutiny Committee on 23 July 2019.

Annual Governance Statement and Narrative Report

We are required to review the Council's Annual Governance Statement and Narrative Report. It published them on its website (within the Statement of Accounts) in line with the national deadlines.

Both documents were prepared in line with the CIPFA Code and relevant supporting guidance. We confirmed that both documents were consistent with the financial statements prepared by the Council and with our knowledge of the Council.

Whole of Government Accounts (WGA)

We carried out work on the Council's Data Collection Tool in line with instructions provided by the NAO . We issued an assurance statement which confirmed the Council was below the audit threshold.

Other statutory powers

We also have additional powers and duties under the Act, including powers to issue a public interest report, make written recommendations, apply to the Court for a declaration that an item of account is contrary to law, and to give electors the opportunity to raise questions about the Council's accounts and to raise objections received in relation to the accounts.

Certificate of closure of the audit

We certified that we have completed the audit of the financial statements of East Staffordshire Council in accordance with the requirements of the Code of Audit Practice on 29 July 2019.

Value for Money conclusion

Background

We carried out our review in accordance with the NAO Code of Audit Practice, following the guidance issued by the NAO in November 2017 which specified the criterion for auditors to evaluate:

In all significant respects, the audited body takes properly informed decisions and deploys resources to achieve planned and sustainable outcomes for taxpayers and local people.

Key findings

Our first step in carrying out our work was to perform a risk assessment and identify the risks where we concentrated our work.

The risks we identified and the work we performed are set out overleaf.

We reported our findings to the Council as part of our Audit Findings Report in July 2019. There were no recommendations for the Council to follow up as a result of our audit work.

Overall Value for Money conclusion

We are satisfied that in all significant respects the Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2019. .

Value for Money conclusion

Value for Money Risks

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Outsourcing of leisure services to SLM Ltd</p> <ul style="list-style-type: none"> Following a procurement and Council approval process, the preferred contractor, Sports and Leisure Management (SLM) Ltd., was appointed in December 2018, to deliver the management outsourcing of the Council's Leisure Centres and Sports Development Team. A significant risk was identified that inadequate arrangements would be put in place to monitor delivery of leisure services, in line with the agreed contracts. 	<p>In response to this risk we focussed on two key areas, as follows;</p> <ul style="list-style-type: none"> Review the remit and role of the Contracts & Strategic Leisure; Assess the arrangements in place at the Council for monitoring delivery of the outsourced leisure services; Discussions were held with management, during which topics such as the Council's performance monitoring process, the status of the establishment of the contracts team, arrangements in place to achieve best value (particularly where capital projects were being undertaken as part of the agreement), responses to concerns from service users and assurance around the tender process itself. Following the discussion, supporting evidence was obtained and scrutinised. This included (but is not limited to) the draft terms and conditions (with a particular focus on the schedules outlining performance management mechanisms), documentary evidence of the Council team's performance of site visits, financial appraisals relating to the proposal and internal audit reports in relation to the tender process itself. 	<p>Based on the procedures outlined within this report we are satisfied that the Council has in place sufficient arrangements to achieve appropriate value for money within the outsourcing process.</p>

A. Reports issued and fees

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

Reports issued

Report	Date issued
Audit Plan	5 February 2019
Audit Findings Report	23 July 2019
Annual Audit Letter	August 2019

Fees

	Planned £	Actual fees £	2016/17 fees £
Statutory audit	37,615	42,115	48,551
Total fees	37,615	42,115	48,851

Audit fee variation

As outlined in our audit plan, the 2018-19 scale fee published by PSAA of £37,615 assumes that the scope of the audit does not significantly change. There are a number of areas where the scope of the audit has changed, which has led to additional work. These are set out in the following table. Please note, proposed fee variations are subject to PSAA approval.

Area	Reason	Fee proposed
Assessing the impact of the McCloud ruling	Assessing the impact of the McCloud ruling. The government's transitional arrangements for pensions were ruled discriminatory by the Court of Appeal last December. The Supreme Court refused the Government's application for permission to appeal this ruling. Additional work relating to pension guarantees and the accounting arrangements following the transfer of staff to the new leisure services provider	£1,500
Outsourcing arrangements	Additional work relating to pension guarantees and the accounting arrangements following the transfer of staff to the new leisure services provider.	£1,500
Pensions – IAS 19 and PPE	IAS 19 and PPE. The Financial Reporting Council (FRC) has highlighted that the depth of work by audit firms in respect of IAS 19 and PPE needs to be strengthened across local government audits. Accordingly we have increased the level of scope and coverage in respect of these areas.	£1,500
Total		£4,500

A. Reports issued and fees continued

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

Fees for non-audit services

Service	Fees £
Audit related services -Certification of Housing benefit subsidy grant	12,500
Non-Audit related services - None	Nil

Non- audit services

- For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council. The table above summarises all non-audit services which were identified.
- We have considered whether non-audit services might be perceived as a threat to our independence as the Council's auditor and have ensured that appropriate safeguards are put in place.

The above non-audit services are consistent with the Council's policy on the allotment of non-audit work to your auditor

Our commitment to our local government clients

- Senior level investment
- Local presence enhancing our responsiveness, agility and flexibility.
- High quality audit delivery
- Collaborative working across the public sector
- Wider connections across the public sector economy, including with health and other local government bodies
- Investment in Health and Wellbeing, Social Value and the Vibrant Economy
- Sharing of best practice and our thought leadership.
- Invitations to training events locally and regionally – bespoke training for emerging issues
- Further investment in data analytics and informatics to keep our knowledge of the areas up to date and to assist in designing a fully tailored audit approach

Our relationship with our clients– why are we best placed?

- We work closely with our clients to ensure that we understand their financial challenges, performance and future strategy.
- We deliver robust, pragmatic and timely financial statements and Value for Money audits
- We have an open, two way dialogue with clients that support improvements in arrangements and the audit process
- Feedback meetings tell us that our clients are pleased with the service we deliver. We are not complacent and will continue to improve further
- Our locally based, experienced teams have a commitment to both our clients and the wider public sector
- We are a Firm that specialises in Local Government, Health and Social Care, and Cross Sector working, with over 25 Key Audit Partners, the most public sector specialist Engagement Leads of any firm
- We have strong relationships with CIPFA, SOLCAE, the Society of Treasurers, the Association of Directors of Adult Social Care and others.

New opportunities and challenges for your community

The Local Government economy

Local authorities face unprecedented challenges including:

- Financial Sustainability – addressing funding gaps and balancing needs against resources
- Service Sustainability – Adult Social Care funding gaps and pressure on Education, Housing, Transport
- Transformation – new models of delivery, greater emphasis on partnerships, more focus on economic development
- Technology – cyber security and risk management

At a wider level, the political environment remains complex:

- The government continues its negotiation with the EU over Brexit, and future arrangements remain uncertain.
- We will consider your arrangements for managing and reporting your financial resources as part of our work in reaching our Value for Money conclusion.
- We will keep you informed of changes to the financial reporting requirements for 2018/19 through on-going discussions and invitations to our technical update workshops.

Delivering real value through:

- Early advice on technical accounting issues, providing certainty of accounting treatments, future financial planning implications and resulting in draft statements that are 'right first time'
- Knowledge and expertise in all matters local government, including local objections and challenge, where we have an unrivalled depth of expertise.
- Early engagement on issues, especially on ADMs, housing delivery changes, Children services and Adult Social Care restructuring, partnership working with the NHS, inter authority agreements, governance and financial reporting
- Implementation of our recommendations have resulted in demonstrable improvements in your underlying arrangements, for example accounting for unique assets, financial management, reporting and governance, and tax implications for the Cornwall Council companies
- Robust but pragmatic challenge – seeking early liaison on issues, and having the difficult conversations early to ensure a 'no surprises' approach – always doing the right thing
- Providing regional training and networking opportunities for your teams on technical accounting issues and developments and changes to Annual Reporting requirements
- An efficient audit approach, providing tangible benefits, such as releasing finance staff earlier and prompt resolution of issues.

Grant Thornton in Local Government

Our client base and delivery



- We are the largest supplier of external audit services to local government
- We audit over 150 local government clients
- We signed 95% of our local government opinions in 2017/18 by 31 July
- In our latest independent client service review, we consistently score 9/10 or above. Clients value our strong interaction, our local knowledge and wealth of expertise.

Our connections



- We are well connected to MHCLG, the NAO and key local government networks
- We work with CIPFA, Think Tanks and legal firms to develop workshops and good practice
- We have a strong presence across all parts of local government including blue light services
- We provide thought leadership, seminars and training to support our clients and to provide solutions

Our people



- We have over 25 engagement leads accredited by ICAEW, and over 250 public sector specialists
- We provide technical and personal development training
- We employ over 80 Public Sector trainee accountants

Our quality



- Our audit approach complies with the NAO's Code of Audit Practice, and International Standards on Auditing
- We are fully compliant with ethical standards
- Your audit team has passed all quality inspections including QAD and AQR

Our technical support



- We have specialist leads for Public Sector Audit quality and technical
- We provide national technical guidance on emerging auditing, financial reporting and ethical areas
- Specialist audit software is used to deliver maximum efficiencies



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