



The Annual Audit Letter for East Staffordshire Borough Council

Year ended 31 March 2020

January 2021



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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 2020.

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 those charged with governance in our final Audit Findings Report dated 26 November 2020.

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 cost of services.
Financial Statements opinion	We gave an unqualified opinion on the Council's financial statements on 27 November 2020. We included an emphasis of matter paragraph in our report in respect of the uncertainty over valuations of the Council's land and buildings and the Council's share of the property assets of Staffordshire Local Government Pension Fund as a result of the Coronavirus pandemic. This does not affect our opinion that the statements give a true and fair view of the Council's financial position and its income and expenditure for the year.
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's 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's financial statements, we comply with International Standards on Auditing (UK) (ISAs) and other guidance issued by the NAO.

Executive Summary

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 27 November 2020.
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 27 November 2020.

Working with the Council

The Outbreak of COVID-19, the subsequent lockdown after March and the ongoing restrictions to enable people to work in a Covid safe manner, has had a significant effect on the Council, its staff and on the audit. Fortunately the Council was able to move quickly to safe remote working, rolling out IT equipment and solutions while not losing operational control.

We have worked with the Council staff, adapting our systems to support remote auditing and, whilst some aspects of the audit have been more time consuming than would normally be the case, we have been able to facilitate virtual audit verification of processes, transactions and balances.

We have been able to hold Teams meetings with officers and to attend virtual meetings of the Scrutiny, Audit and Value for Money Council Services Committee.

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
January 2021

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 group financial statements to be £990,000, which is 2% of the Council's gross cost of services. 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 of £100,000 for senior officer remuneration to reflect the additional sensitivity in this area.

We set a lower threshold of £47,500, above which we reported errors to the Scrutiny, Audit and Value for Money Council Services 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 Statement of Accounts to check it is consistent with our understanding of the Council and with the financial statements included in the Statement of Accounts 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>Covid-19</p> <p>The global outbreak of the Covid-19 virus pandemic led to unprecedented uncertainty for all organisations, it required urgent business continuity arrangements to be implemented. We expected this to impact on the production and audit of the financial statements for the year ended 31 March 2020, including and not limited to;</p> <ul style="list-style-type: none"> - Remote working arrangements and redeployment of staff to critical front line duties may impact on the quality and timing of the production of the financial statements, and the evidence we can obtain through physical observation - Volatility of financial and property markets will increase the uncertainty of assumptions applied by management to asset valuation and receivable recovery estimates, and the reliability of evidence we can obtain to corroborate management estimates - Financial uncertainty will require management to reconsider financial forecasts supporting their going concern assessment and whether material uncertainties for a period of at least 12 months from the anticipated date of approval of the audited financial statements have arisen; and - Disclosures within the financial statements will require significant revision to reflect the unprecedented situation and its impact on the preparation of the financial statements as at 31 March 2020 in accordance with IAS1, particularly in relation to material uncertainties. <p>We therefore identified the global outbreak of the Covid-19 virus as a significant risk of material misstatement.</p>	<p>As part of our audit work we:</p> <ul style="list-style-type: none"> • worked with management to understand the implications the response to the Covid-19 pandemic had on the organisation's ability to prepare the financial statements and update financial forecasts and assessed the implications for our materiality calculations. No changes were made to materiality percentages previously reported. The draft financial statements were provided on 29 June 2020; • liaised with other audit suppliers, regulators and government departments to co-ordinate practical cross-sector responses to issues as and when they arose. Examples include the material uncertainty disclosed by the Councils property valuation expert; • evaluated the adequacy of the disclosures in the financial statements that arose in light of the Covid-19 pandemic; • evaluated whether sufficient audit evidence could be obtained through remote technology; • evaluated whether sufficient audit evidence could be obtained to corroborate significant management estimates such as assets and pension fund net liability valuations ; • evaluated management's assumptions that underpin the revised financial forecasts and the impact on management's going concern assessment. 	<p>We are satisfied for the year ending 31 March 2020 the Council have worked effectively to respond to the challenges brought by Covid-19 and were able to produce financial statements in line with revised deadlines and take into account the impact of Covid-19 on their operations and their finances.</p> <p>The Council has appropriately disclosed the material uncertainties relating to the valuation of both its own land and buildings and property investments of the Local Government Pension Fund in their revised financial statements. Our audit report refers to these disclosures as an emphasis of matter.</p>

Audit of the Financial Statements

Significant Audit Risks

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Management override of 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. . The Council faces external scrutiny of its spending and this could potentially place management under undue pressure in terms of how they report performance.</p> <p>We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk, this was one of the most significant assessed risks of material misstatement.</p>	<p>As part of our audit work we:</p> <ul style="list-style-type: none"> 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 corroboration; gained an understanding of the accounting estimates and critical judgements applied made by management and considered their reasonableness with regard to corroborative evidence; and evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions 	<p>Our audit work did not identify any issues to report in respect of management override of controls.</p>
<p>Improper revenue recognition</p> <p>Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue.</p> <p>This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.</p>	<p>Having considered the risk factors set out in ISA240 and the nature of revenue streams at the Council, we determined that the risk of fraud arising from revenue recognition can be rebutted, because:</p> <ul style="list-style-type: none"> 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 East Staffordshire Borough Council, mean that all forms of fraud are seen as unacceptable. 	<p>For the reasons set out opposite and as reported in our Audit Plan, we did not consider this to be a significant risk. Whilst not a significant risk, we preformed audit procedures and testing of material revenue items. Our work did not identify any matters that would lead to a change in our risk assessment.</p>

Audit of the Financial Statements

Significant Audit Risks - continued

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 sufficiently regularly (minimum every five years) basis. This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved (£32 million) and the sensitivity of this estimate to changes in key assumptions. Additionally, management will need to ensure the carrying value in the Council financial statements is not materially different from the current value at the financial statements date, where a rolling programme is used.</p> <p>We therefore 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.</p>	<p>As part of our audit work we:</p> <ul style="list-style-type: none"> evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work evaluated the competence, capabilities and objectivity of the valuation expert corresponded with 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 of the Council's valuation report and the assumptions underpinning the valuation tested revaluations made during the year to see if they had been input correctly into the Council asset register evaluated 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. 	<p>The outbreak of Covid-19 caused uncertainty in property markets. As a result, the valuer declared a 'material valuation uncertainty' in the valuation report as at 31 March 2020. The Council disclosed the estimation uncertainty related to the year-end valuations of land and buildings within the notes to the financial statements.</p> <p>We consider the disclosure is sufficiently detailed to support understanding and, due to the fact that we consider the disclosure to be important to a reader's understanding of the financial statements, we have drawn particular attention to it in our audit report as an Emphasis of Matter.</p> <p>Based on completion of the procedures as set out and with consideration of the material uncertainty reported by the valuer, we gained assurance that the valuation of land and buildings is materially correct and that valuation movements were appropriately accounted for and disclosed.</p>

Audit of the Financial Statements

Significant Audit Risks - continued

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Valuation of the pension fund net 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>The pension fund net liability is considered a significant estimate due to the size of the numbers involved (£47 million in the Council's 2019/20 balance sheet) and the sensitivity of the estimate to changes in key assumptions.</p> <p>We therefore identified valuation of the Council's pension fund net liability as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>	<p>The Council's total net pension liability at 31 March 2020 is £47m (PY £60m) in relation to its participation in the Local Government Pension Scheme (LGPS).</p> <p>The Council engages an expert to provide an actuarial valuation of its assets and liabilities derived from these schemes. A full actuarial valuation is required periodically. The latest full actuarial valuation was completed in 2019. A roll forward approach is used in intervening periods, which utilises key assumptions such as life expectancy, discount rates, salary growth and investment returns. Given the significant value of the net pension fund liability, small changes in assumptions can result in significant valuation movements..</p> <p>As part of our audit work we:</p> <ul style="list-style-type: none"> • 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 valuations; • assessed the accuracy and completeness of the information provided by the Council to the actuaries to estimate the liabilities; • 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 actuaries; • undertook 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 • reviewed the inclusion of the McCloud remedy within the actuary report • requested assurances from the auditor of Staffordshire 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. 	<p>The auditor of Staffordshire Pension Fund notified us that the financial statements of the pension fund included a material uncertainty in respect of the valuation of property investments due to Covid-19. The Council's share of these assets is approximately £8m and therefore material to the financial statements. Management included reference to the material uncertainty within the notes to the financial statements The audit report references the material uncertainty within an emphasis of matter paragraph.</p> <p>Audit work performed identified that the net pension fund liability is overstated by £457k due to estimates relating to the return on assets being different to from actuals. Management did not adjust the financial statements for this non-material matter. As such the unadjusted difference was reported to Those Charged with Governance in the Audit Findings Report.</p> <p>Based on completion of the procedures as set out, other than the matters identified above, our work did not identify any significant issues and we gained assurance that the net pension liability is fairly stated.</p>

Audit of the Financial Statements

Audit opinion

We gave an unqualified opinion on the Council's financial statements on 27 November 2020.

Preparation of the financial statements

The Council presented us with draft financial statements in June in accordance with the agreed timescale, 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 Scrutiny, Audit and Value for Money Council Services Committee on 9 September 2020. An updated Audit Findings Report was issued on 26 November 2020.

Annual Governance Statement and Narrative Report

We are also required to review the Council's Annual Governance Statement and Narrative Report. It published them on its website alongside the draft Statement of Accounts in June.

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 in line with instructions provided by the NAO . We issued an assurance statement which confirmed the Council was below the audit threshold on 27 November 2020.

Certificate of closure of the audit

We certified that we have completed the audit of the financial statements of [name of Council] in accordance with the requirements of the Code of Audit Practice on 27 November 2020.

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 April 2020 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.

Following on from that assessment and during the course of our audit, we did not identify any significant risks

As part of our Audit Findings report agreed with the Council in September 2020, we note that no recommendations arose from our findings.

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 2020.

A. Reports issued and fees

We confirm below our final reports issued and fees charged for the audit.

Reports issued

Report	Date issued
Audit Plan	April 2020
Audit Findings Report	September 2020 November 2020 (updated)
Annual Audit Letter	January 2021

Fees

	Planned £	Actual fees £	2018/19 fees £
Statutory audit	45,115	51,115	42,115
Total fees	45,115	51,115	42,115

Audit fee variation

As outlined in our audit plan, the 2019-20 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.

Fee variations are subject to PSAA approval.

Area	Reason	Fee proposed £
Pensions – IAS 19	The Financial Reporting Council has highlighted that the quality of work by audit firms in respect of IAS 19 needs to improve across local government audits. Accordingly, we have increased the level of scope and coverage in respect of IAS 19 this year to reflect this. The Council also received two IAS 19 valuations during the year, requiring additional procedures to review. As part of this work, we also considered the impact of the proposed remedy in respect of the McCloud legal judgement.	3,750
PPE Valuation	As above, the Financial Reporting Council has highlighted that auditors need to improve the quality of work on PPE valuations across the sector. We have increased the volume and scope of our audit work to reflect this. Uncertainties around Covid-19 and the timing of the Council's valuation required further increases in the level of auditor challenge and scrutiny.	3,250
Raising the Bar	The FRC has highlighted that the quality of work by all audit firms needs to improve across local audit. This will require additional supervision and leadership, as well as additional challenge and scepticism in areas such as journals, estimates, financial resilience and information provided by the entity.	2,500
Covid-19	The increase in audit fee is due to the impact of Covid-19 on the financial statements audit. Remote working has taken additional time to explain the audit trail of transactions rather than discussing processes and procedures in person. In addition to the increased level of work and challenge undertaken in response to the Covid-19 pandemic and associated significant risk.	4,000
Total		13,500

A. Reports issued and fees continued

Fees for non-audit services

Service	Fees £
Audit related services	
- Certification of Housing Benefit Subsidy 2019-20	£12,500

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.



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