The Audit Findings
For East Staffordshire Borough Council

Year ended 31 March 2019

23 July 2019

Contents

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Headlines

This table summarises the key findings and other matters arising from the statutory audit of East Staffordshire Borough Council ('the Council') and the preparation of the Council's financial statements for the year ended 31 March 2019 for those charged with governance.

Financial Statements	Under International Standards of Audit (UK) (ISAs) and the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion, the Council's financial statements: • give a true and fair view of the financial position of the Council and its income and expenditure for the year; and • have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting and prepared in accordance with the Local Audit and Accountability Act 2014. We are also required to report whether other information published together with the audited financial statements (including the Annual Governance Statement (AGS) and Narrative Report), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.	Our audit work was completed during June and July. Our findings are summarised on pages 5 to 15. We have identified a number of adjustments to the financial statements that have resulted in a £0.876m adjustment to the Council's Comprehensive Income and Expenditure Statement. Audit adjustments are detailed in Appendix A. The adjustments have not impacted on the useable reserves available to the Council. Our work is substantially complete and there are no matters of which we are aware that would require modification of our audit opinion (attached as a separate agenda item) or material changes to the financial statements, subject to the following outstanding matters; - completion of our work on pensions and property - receipt of management representation letter {attached as a separate agenda item} - review of the final set of financial statements - receipt of pension fund assurance from the auditor's of the administering authority. We have concluded that the other information to be published with the financial statements is consistent with our knowledge of your organisation and the financial statements we have audited. Our anticipated audit report opinion will be unqualified.
Value for Money arrangements	Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report if, in our opinion, the Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources ('the value for money (VFM) conclusion').	We have completed our risk based review of the Council's value for money arrangements. We have concluded that East Staffordshire Borough Council has proper arrangements to secure economy, efficiency and effectiveness in its use of resources. We therefore anticipate issuing an unqualified value for money conclusion. Our findings are summarised on pages 18 to 20.
Statutory duties	The Local Audit and Accountability Act 2014 ('the Act') also requires us to: • report to you if we have applied any of the additional powers and duties ascribed to us under the Act; and • To certify the closure of the audit.	We have not exercised any of our additional statutory powers or duties. We have completed the majority of work under the Code and expect to be able to certify the completion of the audit when we give our audit opinion.

Acknowledgements

We would like to take this opportunity to record our appreciation for the assistance provided by the finance team and other staff during our audit.

Summary

Overview of the scope of our audit

This Audit Findings Report presents the observations arising from the audit that are significant to the responsibility of those charged with governance to oversee the financial reporting process, as required by International Standard on Auditing (UK) 260 and the Code of Audit Practice ('the Code'). Its contents will be discussed with management and the Audit & Governance VFM Scrutiny Committee.

As auditor we are responsible for performing the audit, in accordance with International Standards on Auditing (UK) and the Code, which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities for the preparation of the financial statements.

Audit approach

Our audit approach was based on a thorough understanding of the Council's business and is risk based, and in particular included:

- An evaluation of the Council's internal controls environment, including its IT systems and controls;
- Substantive testing on significant transactions and material account balances, including the procedures outlined in this report in relation to the key audit risks

We have not had to alter or change our audit plan, as communicated to you on 13th February 2019.

Conclusion

We have substantially completed our audit of your financial statements and subject to outstanding queries being resolved, we anticipate issuing an unqualified audit opinion following the Audit & Value for Money Scrutiny Committee meeting on 23 July 2019, as detailed in our audit report. These outstanding items include:

- completion of our work on pensions and property
- receipt of management representation letter;
- review of the final set of financial statements; and
- obtaining assurances from the auditor of Staffordshire County Council Pension Fund as to the controls surrounding the validity and accuracy of data sent to the actuary by the pension fund and the fund assets valuation in the pension fund financial statements.

Our approach to materiality

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

Materiality calculations remain the same as reported in our audit plan. We detail in the table below our determination of materiality for East Staffordshire Borough Council.

	Council Amount (£)
Materiality for the financial statements	0.990m
Performance materiality	0.743m
Trivial matters	0.050m

Significant findings – audit risks

	Risks identified in our Audit Plan	Commentary
1	**The revenue cycle includes fraudulent transactions (rebutted)** Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue. This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition	**Auditor commentary** Having considered the risk factors set out in ISA 240 and the nature of the revenue streams at the Council, we have determined that the risk of fraud arising from revenue recognition can be rebutted and this is unchanged from the assessment reported in the audit plan. **Work performed** We have: • evaluated the Council's accounting policy for recognition of revenues for appropriateness; • performed substantive testing on material revenue streams; and • Reviewed unusual significant transactions. **Key findings** Our audit work has not identified any issues in respect of improper revenue recognition.
2	**Management override of controls** Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities.	**Auditor commentary** We identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk. **Work performed** We have undertaken the following work in relation to this risk: • 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. **Key findings** Our audit work has not identified any issues in respect of management override of controls

Significant findings – audit risks

	Risks identified in our Audit Plan	Commentary
3	**Valuation of land and buildings (Rolling valuation)** 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. 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.	**Auditor commentary** We identified valuation of land and buildings, particularly revaluations and impairments, as a significant risk, which was one of the most significant assessed risks of material misstatement and a key audit matter. We have undertaken the following work in relation to this risk: • 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. Our audit work has not identified any issues in respect of valuation of land and buildings.
4	**Valuation of pension fund net liability** 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. 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.	**Auditor commentary** We 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 and a key audit matter. We have undertaken the following work in relation to this risk: • 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;

Significant findings – audit risks

	Risks identified in our Audit Plan	Commentary
4	**Valuation of pension fund net liability continued**	**Auditor commentary** • 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. Our work has identified a misstatement (£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. To summarise, with regard to the McCloud case, in June 2019, the government was denied leave to appeal a ruling with regard to age discrimination in transitional arrangements in relation to defined benefit pension schemes. This ruling strengthened the firm's view that a liability should be recognised on the Statement of Financial Position. With regard to GMP, the findings of a national review in June 2019 suggested that pensions liabilities were further understated. The impact of these, and details of our work performed in this area are set out in greater detail on pages 13 and 14. The Council has determined that it does not wish to adjust for these misstatements. We also identified errors understating the Council's pension liability relating principally to 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. At the time of the audit 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. Our findings are detailed on page 8. Subject to the issues above and obtaining assurances from the auditor of Staffordshire County Council Pension Fund (regarding 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) our audit work has not identified any material issues in respect of the valuation of the Council's pension fund net liability.

Significant findings - other issues

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

	Issue	Commentary	Auditor view
1	**Accounting for the Leisure/Cultural Services management outsourcing** • The Council appointed Sports and Leisure Management Ltd (SLM) to deliver the management of its Leisure Centres and Sports Development Team. • On 01 February 2019, all leisure centre staff (approximately 18% of the Council's payroll), including their associated net pension liability were TUPE transferred from the Council to SLM Ltd and the Council entered into a number of agreements with the company. • These agreements can give rise to a number of material accounting transactions in the financial statements, including the associated pensions transfer, for which the economic substance of the transactions needs to be considered.	• We have reviewed the key agreements in place to support the contractual arrangements; • We have critically assessed the underlying substance of the transactions to determine whether the basis of the Council's accounting treatment is appropriate and accords with the Code, International Financial Reporting Standards (IFRSs) and other relevant accounting guidance; • We have tested the consistency of the IAS 19 valuation with the actuarial report from the actuary; and • We have considered the impact on the Council and the accounting arrangements for any pension guarantee issued as part of the outsourcing agreement.	• We are satisfied that the Council has appropriately treated accounting transactions (such as adjustments to the pensions liability and associated pensions guarantees) relating to the outsourcing of services to SLM. • The actuarial valuation was based on the number of people employed by leisure services in 2016. Following discussions with audit, the Council requested that the actuary recalculate the pension liability based on the revised number of changes to the actuarial valuation. These are listed on pages 22 and 23.

Significant findings – key judgements and estimates

Accounting area	Summary of management's policy	Audit Comments	Assessment
Provisions for NNDR appeals - £3m	The Council are responsible for repaying a proportion of successful rateable value appeals. East Staffordshire BC's calculation is based upon the latest information about outstanding rates appeals provided by the Valuation Office Agency (VOA) and previous success rates. Whilst earlier outstanding appeals have fallen, appeals arising from the recent 2017 rating list and new ATM appeals brought into the provision this year, has increased the provision by £0.86m in 2018/19.	We have: • reviewed the appropriateness of the underlying information used to determine the estimate • reviewed the impact of any changes to valuation method • checked the consistency of estimate against industry practice • agreed the reasonableness of the increase in estimate • reviewed the adequacy of disclosure of estimate in the financial statements.	●

Assessment

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

Significant findings – key judgements and estimates

	Summary of management's policy	Audit Comments	Assessment
Property, Plant & Equipment - Revaluations- £0.624m net movement	Property, Plant & Equipment comprises £3m of surplus assets, which are required to be valued at fair value at year end. Other land and buildings (£27.4m) are not specialised in nature and are required to be valued at existing use in value (EUV) at year end. The Council has engaged Salloway Property Consultants to complete the valuation of its surplus assets and Rushton Hickman to complete the valuation of other properties as at 31 March 19 on a five yearly cyclical basis. 64% of total assets were revalued during 2018/19. The valuation of properties valued by the valuer has resulted in a net increase of £0.3m. Management have considered the year end value of non-valued properties and the potential valuation change in the assets revalued at 31 March 19 through update and confirmed assurance from their valuer. Management's assessment of assets not revalued has identified no material change to the properties. The total year end valuation of Other land and buildings was £27.460m, a net increase of £0.3m from 2017/18 (£27.132m)	We have • undertaken an assessment of management's experts • reviewed the completeness and accuracy of the underlying information used to determine the estimate • reviewed the impact of any changes to valuation method • checked the consistency of estimate against near neighbours • agreed the reasonableness of the increase/decrease in estimate • reviewed the adequacy of disclosure of estimate in the financial statements	● (green)

Assessment

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

Significant findings – key judgements and estimates

	Summary of management's policy	Audit Comments	Assessment
Net pension liability – £60.312m	The Council's [total] net pension liability at 31 March 2019 is £60.312m (PY £51.873m) comprising the Staffordshire PF Local Government and unfunded defined benefit pension scheme obligations. The Council uses Hyman Robertson to provide actuarial valuations of the Council's assets and liabilities derived from this scheme. A full actuarial valuation is required every three years. The latest full actuarial valuation was completed in 2016. 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. There has been a £10.893m net actuarial gain/loss during 2018/19, arising from changes in financial assumptions.	See below	● (green)

We have

- Undertaken an assessment of management's expert
- Reviewed and assessed the actuary's roll forward approach taken,
- Used an auditors expert (PWC) to assess the actuary and assumptions made by the actuary

Assumption	Actuary Value	PwC range	Assessment
Discount rate	2.4%	2.4% – 2.5%	●
Pension increase rate	2.5%	2.5% - 2.4%	●
Salary growth	2.9%	Employer specific	●
Life expectancy – Males currently aged 45 / 65	24.1 / 22.1	23.7 – 24.4 / 21.5 – 22.8	●
Life expectancy – Females currently aged 45 / 65	26.4 / 24.4	25 – 26.6 / 23.2 – 24.8	●

Reviewed

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

Assessment

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

Significant findings – key judgements and estimates

	Summary of management's policy	Audit Comments	Assessment
Level 2/3 investment properties	The Council have investment properties that are valued on the balance sheet as at 31 March 2019 at £10.922m. The Council has engaged Rushton Hickman to complete the valuation of its investment properties. The Council's portfolio of investment property has been assessed as either level 2 or level 3 for valuation purposes. Level 2 investment properties, valued at a fair value of £2.597m have been measured using a market based approach which takes into account market conditions, recent sale prices and other relevant information for similar assets in the local area. Level 3 investment properties, valued at a fair value of £8.325m have been measured using an income approach taking account available factors such as rent, duration of lease, occupancy and local market conditions. There has been no change in the valuation techniques used during the year for investment property. The value of the investment properties have increased by £0.247m in 2018/19 due to revaluation changes.	We have: • assessed the competence, capability and objectivity of management's expert. • reviewed the appropriateness of the underlying information used to determine the estimate. • checked the reasonableness of increase/decrease in estimates • ensured the adequacy of disclosure of estimates in the financial statements back to the valuer's reports.	●

Assessment

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

Significant findings – key judgements and estimates

Summary of management's policy	Audit Comments
Net pension liability – Impact of McCloud Judgement and Guaranteed Minimum Pension (GMP) **McCloud ruling re age discrimination** In January 2017, the Employment Tribunal ruled that transitional provisions in the New Judicial Pension Scheme (NJPS) were unlawfully age discriminatory because they were not objectively justified. The Tribunal found that a group of claimant judges had been subject to age discrimination when they were transferred to the NJPS established in April 2015 while under transitional provisions older colleagues were able to remain in the existing Judicial Pension Scheme (JPS). The JPS is a final salary scheme whereas the NJPS is a career average revalued earnings scheme. Firefighters had brought a similar age discrimination case and the Employment Tribunal ruled that similar transitional provisions were a proportionate means of achieving a legitimate aim and so did not give rise to unlawful age discrimination. Firefighters appealed the ruling and in December 2018 the Court of Appeal looked at both the judges and firefighters' cases and ruled that there was age discrimination in the judges and firefighters pension schemes where there was transitional protections given to scheme members. This in turn applies to the Local Government Pension Scheme. Where the transitional provisions are unlawful then those members who are found to have been discriminated against will need to be offered appropriate remedies to ensure they are placed in an equivalent position to the protected members. The Government applied to the Supreme Court for permission to appeal and on 27 June 2019 it was announced this was denied. The Council had not included a disclosure relating to these matters on the basis that, in their view, because the government was seeking permission to appeal the Court of Appeal decision, which would not be known until July, and therefore a present obligation did not exist.	The firm's view is that the McCloud judgement gives rise to a past service cost and liability within the scope of IAS 19 as the ruling created a new obligation. IAS 19.61 states 'An entity shall account not only for its legal obligation under the formal terms of a defined benefit plan, but also for any constructive obligation that arises from the entity's informal practices.' Our view is based on the fact there is a legal obligation. As set out in IAS 37.10, 'A legal obligation is an obligation that derives from:……….(c) other operation of law' i.e. the Court of Appeal ruling. The IAS 37 criteria was considered to determine if a liability exists i.e. is there a present obligation as a result of a past event, is it probable than an outflow of resources will be required to settle the obligation and can a reliable estimate be made. Where there is a liability, it would be accounted for under IAS 19 due to the IAS 37 scope exclusion in respect of employee benefits (IAS 37.5d). On the 12th June 2019 we wrote to all our local government clients setting out our views and recommending that bodies ask their actuaries to re-run the IAS19 reports with the actuary reflecting the best estimate for restitution and providing sensitivity analysis for key assumptions. On the 8th July 2019, the Council received further information from its Actuary, Hymans, with regard to the impact of the McCloud judgement. This reported: "'The (Staffordshire Pension) Fund's actuary has adjusted GAD's estimate to better reflect the Fund's local assumptions … The revised estimate as it applies to East Staffordshire Borough Council is that total liabilities (i.e. the increase in active members' liabilities expressed in terms of the employer's total membership) could be 0.2% higher as at 31 March 2019, an increase of approximately £277,000" **Conclusion** The additional report has been subject to additional audit procedures around the assumptions and methodology used. On that basis, we are satisfied that the estimated understatement of the liability, individually and in conjunction with other identified unadjusted misstatements, is below materiality. The Council has chosen not to adjust for this error. We note that the Council's disclosures were updated to reflect the outcome of the McCloud decision and the understatement has been included in our schedule of unadjusted misstatements.

Significant findings – key judgements and estimates

Summary of management's policy	Audit Comments	Assessment
Net pension liability – Impact of McCloud Judgement and Guaranteed Minimum Pension (GMP) **Guaranteed Minimum Pension (GMP)** On 26 October 2017 the High Court delivered its decision in a case involving Lloyds Bank, concerning the equalisation of Guaranteed Minimum Pensions (GMPs). The High Court ruled that GMPs must be equalised between men and women and that past underpayments must be corrected. Bodies will be impacted by the High Court decision where they have a defined benefit pension scheme and were contracted out of the State Second Pension in the period from 17 May 1990 to 5 April 1997. For affected bodies, the impact will be to amend the defined benefit pension obligation. In March 2016 the Government announced an "interim solution" for members in public service schemes who reach State Pension Age (SPA) between 6 April 2016 and 5 December 2018. In January 2018 they decided to extend this solution for a further two years to April 2021.	The PwC review of actuarial firms, prepared for the National Audit Office, identified that actuaries have taken differing approaches to the change in the defined benefit pension obligations that results from Guaranteed Minimum Pension equalisation. The 2018/19 PwC report highlights that paying the additional increases through the LGPS increases the costs of the benefits and hence the liabilities for employers, and that this liability should be included in the accounts. The PwC report highlighted that auditors would need to consider the impact of this based on their individual materiality levels. We therefore requested that the Council approach their actuary, Hymans, with a view to obtaining updated information in relation to the scale of this understatement. On 8th July 2019, the Council received a report from Hymans which reported the following: "(Hymans have) carried out calculations in order to estimate the impact that the GMP indexation changes will have on the liabilities of East Staffordshire Borough Council for financial reporting purposes … The estimate as it applies to East Staffordshire Borough Council is that total liabilities could be 0.2% higher as at 31 March 2019, an increase of approximately £326,000." **Conclusion** The additional report has been subject to additional audit procedures around the assumptions and methodology used. On that basis, we are satisfied that the estimated understatement of the liability, individually and in conjunction with other identified unadjusted misstatements, is below materiality. The Council has chosen not to adjust for this error. We note that the Council's disclosures have been updated accordingly and the understatement has been included in our schedule of unadjusted misstatements.	●

Assessment

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

Significant findings - Going concern

Our responsibility

As auditors, we are required to "obtain sufficient appropriate audit evidence about the appropriateness of management's use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the entity's ability to continue as a going concern" (ISA (UK) 570).

Going concern commentary

Management's assessment process

Management have responded to the questions we set out on going concern in our "Informing the Risk Assessment" document as well as provided their assessment which confirms:

- There are no events of which they are aware which would indicate a material uncertainty on the Council's ability to continue as a going concern. This extends but is not limited to at least twelve months from the Balance Sheet date.
- The Authority monitor cash flow on a daily basis. We have obtained a detailed cash flow forecast for a period of 12 months following the balance sheet date. Forecasts do not indicate a material uncertainty around going concern.
- Adjusting for the LGPS liability (which is absorbed by the pension reserve under a statutory override) the Council has a strong balance sheet with cash and cash equivalents and short term investments in excess of £25m.

Auditor commentary

The going concern assumption is a fundamental principle in preparing financial statements. Under this principle, the Council is deemed to be a going concern for the foreseeable future. The statutory duties undertaken by the Authority and the method in which funding is raised and provided by central Government are set to continue.
There is no intention to cease trading or seek protection from creditors.

The Council has a Medium Term Financial Strategy (MTFS) which is regularly reviewed with the medium term financial outlook updated to reflect the forecast financial position of the Council going forward

In addition based on our own review of the Authority, we are aware that the Authority has set an "approved budget" for 2019/20 and has a longer term financial plan. The going concern assessment includes a cash flow forecast. The cashflow forecast (which has been subject to audit procedures such as arithmetical checks and sensitivity analyses) does not indicate any signs of significant financial difficulty that would cause concern.

As such we consider that the assessment undertaken by the Authority on going concern is a reasonable and valid one and there are no indications of material uncertainty.

Work performed

- Detailed review of draft financial statements and forecasts;
- Audit procedures performed on forecasting documents as outlined above.

Auditor commentary

- We did not identify a material uncertainty around going concern.
- We are satisfied that the level of disclosure around the going concern assertion is sufficient within the Council's financial statements.

Concluding comments

Auditor commentary

- We anticipate issuing an unqualified audit opinion.

Other communication requirements

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

	Issue	Commentary
1	**Matters in relation to fraud**	• We have previously discussed the risk of fraud with the Audit Committee. We have not been made aware of any other incidents in the period and no other issues have been identified during the course of our audit procedures.
2	**Matters in relation to related parties**	• We are not aware of any related parties or related party transactions which have not been disclosed.
3	**Matters in relation to laws and regulations**	• You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work.
4	**Written representations**	• A letter of representation has been requested from the Council, which is appended.
5	**Confirmation requests from third parties**	• We requested from management permission to send confirmation requests to the Council's bank and short term investment managers. As at the report date, we await return of confirmations from a small number of these.
6	**Disclosures**	• Our review noted disclosure omissions springing from the sector wide issues around the impact of the McCloud decision and GMP on LGPS liabilities. This is discussed in greater detail earlier in the report (pp 13 – 14).
7	**Audit evidence and explanations/significant difficulties**	• All information and explanations requested from management was provided.

Other responsibilities under the Code

	Issue	Commentary
1	**Other information**	• We are required to give an opinion on whether the other information published together with the audited financial statements (including the Annual Governance Statement, Narrative Report and Pension Fund Financial Statements, is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. No inconsistencies have been identified/Inconsistencies have been identified but have been adequately rectified by management. We plan to issue an unqualified opinion in this respect (opinion attached as a separate agenda item).
2	**Matters on which we report by exception**	We are required to report on a number of matters by exception in a numbers of areas: • If the Annual Governance Statement does not meet the disclosure requirements set out in the CIPFA/SOLACE guidance or is misleading or inconsistent with the other information of which we are aware from our audit • If we have applied any of our statutory powers or duties We have nothing to report on these matters.
3	**Specified procedures for Whole of Government Accounts**	We are required to carry out specified procedures (on behalf of the NAO) on the Whole of Government Accounts (WGA) consolidation pack under WGA group audit instructions. However, the Council is below the threshold (as set out in the Group Instructions) and therefore no further work is required.
4	**Certification of the closure of the audit**	We intend to certify the closure of the 2018/19 audit of **East Staffordshire Borough Council** in the audit opinion.

Value for Money

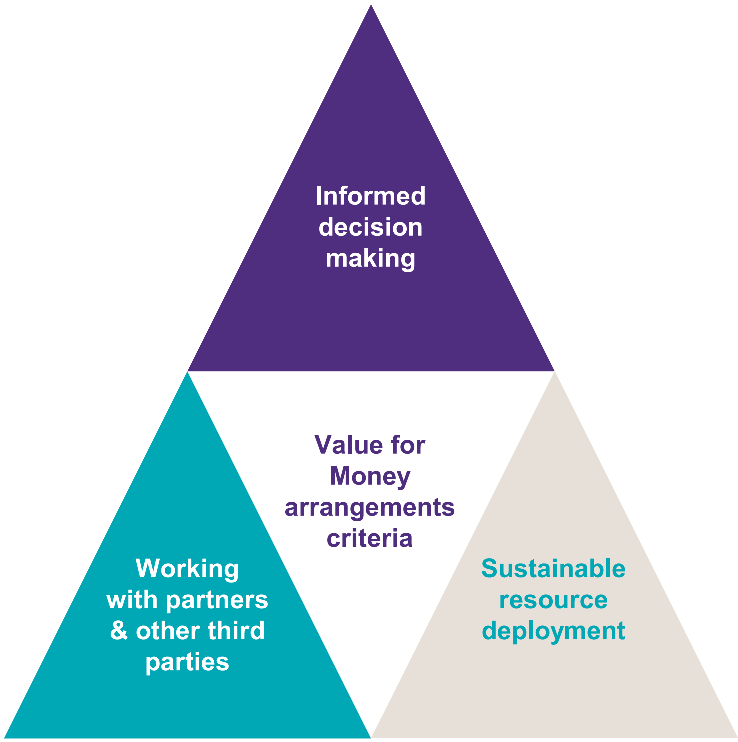
Background to our VFM approach

We are required to satisfy ourselves that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the Value for Money (VFM) conclusion.

We are required to carry out sufficient work to satisfy ourselves that proper arrangements are in place at the Council. In carrying out this work, we are required to follow the NAO's Auditor Guidance Note 3 (AGN 03) issued in November 2017. AGN 03 identifies one single 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."

This is supported by three sub-criteria, as set out below:



Risk assessment

We carried out an initial risk assessment in February 2019 and identified a significant risk, around the outsourcing of provision of leisure services to an outside contractor, Sports and leisure Management (SLM) Ltd., in respect of specific areas of proper arrangements using the guidance contained in AGN03. We communicated this risks to you in our Audit Plan dated February 2019.

We have continued our review of relevant documents up to the date of giving our report, and have not identified any further significant risks where we need to perform further work.

Value for Money

Our work

AGN 03 requires us to disclose our views on significant qualitative aspects of the Council's arrangements for delivering economy, efficiency and effectiveness.

We have focused our work on the significant risks that we identified in the Council's arrangements. In arriving at our conclusion, our main considerations were:

- Whether the Council had successfully establish a sufficiently robust Contracts & Strategic leisure Team with an appropriate remit;
- Whether the Council had sufficient, appropriate arrangements in place to monitor delivery of outsourced leisure services, in line with the agreed contracts.

We have set out more detail on the risks we identified, the results of the work we performed, and the conclusions we drew from this work on page 20.

Overall conclusion

Based on the work we performed to address the significant risks, we are satisfied that the Council had proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

The text of our report, which confirms this, is attached as a separate agenda item.

Recommendations for improvement

We discussed findings arising from our work with management and note no specific recommendations for improvement. Given the relative infancy of the arrangements though, we anticipate revisiting our work in 19/20 financial year to ensure that the arrangements as set out during our review are operating effectively.

Significant difficulties in undertaking our work

We did not identify any significant difficulties in undertaking our work on your arrangements which we wish to draw to your attention.

Significant matters discussed with management

There were no matters where no other evidence was available or matters of such significance to our conclusion or that we required written representation from management or those charged with governance.

Key findings

We set out below our key findings against the significant risks we identified through our initial risk assessment and further risks identified through our ongoing review of documents.

	Significant risk	Findings	Conclusion

1	**Outsourcing of leisure services to SLM Ltd.**
	• Following a recruitment 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.
		• In response to this risk we focussed on two key areas, as follows;
		  • 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.
			Auditor view
			• 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.

Independence and ethics

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Financial Reporting Council's Ethical Standard and confirm that we, as a firm, and each covered person, are independent and are able to express an objective opinion on the financial statements

We confirm that we have implemented policies and procedures to meet the requirements of the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.

Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in December 2017 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

Details of fees charged are detailed in Appendix D

Audit and Non-audit services

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council. The following non-audit services were identified, as well as the threats to our independence and safeguards that have been applied to mitigate these threats.

	Fees £	Threats identified	Safeguards
Audit related			
Certification of Housing capital receipts grant	12,500	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £12,500 in comparison to the total fee for the audit of £37,615 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.
Non-audit related			
None noted			

These services are consistent with the Council's policy on the allotment of non-audit work to your auditors. All services have been approved by the Audit Committee. None of the services provided are subject to contingent fees.

Audit Adjustments

We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management.

Impact of adjusted misstatements

All adjusted misstatements are set out in detail below along with the impact on the key statements and the reported net expenditure for the year ending 31 March 2019.

	Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000
Actuarial Valuations As discussed on page 7, our work identified adjustments to the Council's net pension liability as at 31 March 2019. Work on the assumptions used by the actuary identified that the actual rate of return on the pension fund's assets for the year differed from that assumed by the actuary. In addition, initial data submitted to the actuary did not fully account for the transfer of people to the new leisure services provider, SLM. The Council instructed their actuary to reperform their valuation as a result of this work, with the revised valuation including liabilities for the transfer to SLM and a lower gross asset position due to a reduction in the assumed return on the Council's share of the pension fund assets. The following adjustment has therefore been made to the financial statements:			
Dr	Return on Plan Assets (re-measurement of the net defined benefit liability)	919	
Cr	Pension Liability – Gross Pension Assets		(919)
Dr	Defined benefit obligation Effect of settlements in relation to Leisure Outsourcing		43
Cr	Cost of Services – Leisure Effect of settlements in relation to Leisure Outsourcing	(43)	
	Overall impact	876	876

Audit Adjustments

Misclassification and disclosure changes

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

Disclosure omission	Detail	Auditor recommendations	Adjusted?
Various	A small number of minor changes have been made to disclosure notes and accounting policies throughout the financial statements to improve accuracy, clarity and understandability.		✓

Audit Adjustments

Impact of unadjusted misstatements

The table below provides details of adjustments identified during the 2018/19 audit which have not been made within the final set of financial statements. The Audit & Value for Money Scrutiny Committee is required to approve management's proposed treatment of all items recorded within the table below:

	Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000	Reason for not adjusting
1	Estimated impact of the increase on the pension liabilities for the implications of McCloud ruling that are expected to apply to the LGPS	277	277		• The adjustment is not material to the financial statements
2	Estimated impact for the increase on the pension liabilities for the impact of GMP indexation changes	326	326		• The adjustment is not material to the financial statements
	Overall impact	603	603	603	

Audit Adjustments

Impact of prior year unadjusted misstatements

The table below provides details of adjustments identified during the prior year audit which had not been made within the final set of 2017/18 financial statements.

	Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000	Reason for not adjusting
1	The Council have included a provision in their financial statements against appeals being made by NHS Trusts for mandatory NNDR relief. This provision has increased in 2018/19 to £322k from £274k. A legal challenge is being made by a group of 20 trusts against 49 local authorities. In the prior year, understanding was that the defending authorities had a strong case, and so it felt more appropriate to include a contingent liability relating to the potential claim, rather than a provision. The case is now further progressed through the high court and hence the continuing provision is now deemed more prudent.	(322)	322		Given the ongoing litigation and extent of the claim, management believe it is prudent to make a provision in this regard.
2	Subsequent to the end of the 2017/18 financial year, the Council received notification that a number of business rates appeals had settled. As the circumstances resulting in this settlement existed at year-end, this should have been treated as an adjusting post balance sheet The required amendment as follows has now been made in 2018/19 DR NNDR income recognised from the Collection Fund CR Provision against appeal	361	(361)		The adjustment has subsequently been made in 2018/19 and has no continuing impact.
	Overall impact	87	(87)		

Fees

We confirm below our final fees charged for the audit and provision of non audit service.

Audit Fees

	Proposed fee	Final fee	2017/18 Fee
Council Audit	£37,615	£42,115	£48,851
Total audit fees (excluding VAT)	**£37,615**	**£42,115**	**£48,851**

The fees reconcile to the financial statements as follows:

- Fees per financial statements; £37,615
- We are proposing additional fees of £4,500 in respect of:
  - 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
  - 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.
- Total fees per the above: £42,115

Non Audit Fees

Fees for other services	Fees £'000
Audit related services: • Certification of Housing benefit subsidy grant	£12,500
	£12,500

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