

# East Staffordshire Borough Council Audit Plan

Year ending 31 March 2022

16 June 2022



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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit planning process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the Council or all weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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# Key matters

## Factors

### Council developments

Local Government funding continues to be stretched in the face of enduring cost pressures, particularly due to Covid-19, and increased demand from residents. The most recent Medium Term Financial Plan (February 2022) presents a balanced budget from 2022/23 to 2024/25, with budget pressures met by use of windfalls and reserves. The robustness of the Council's underlying financial position will be important in supporting its ability to balance finances and maintain service delivery.

The budget for 2021/22 was balanced with a predicted use of reserves of £1.1m, but as at Q3 of 2021/22, the Council forecast that the required use of reserves for the year would be significantly lower than initially budgeted, at £15k, largely due to Covid-19 pressures being lower than anticipated.

### Recovery from Covid-19 pandemic

Covid-19 has continued to have financial impacts on the Council during 2021/22, although the overall pressures arising from the pandemic have not been as significant as initially budgeted. The Council included a £1.3m provision for Covid-19 costs in the corporate budget for 2021/22, but forecast (at Q3 2021/22) that only £0.7m of the amount set aside would be required. In particular, the Council did not need to provide financial support to the outsourced leisure provider because of external funding and improved performance.

Operationally, the Council has again been involved in the distribution of grant packages funded by Government, supporting local businesses.

## Our response

- As a firm, we are absolutely committed to audit quality and financial reporting in the local government sector. Our proposed work and fee, as set further in our Audit Plan, has been shared with the Head of Service.
- We will consider your arrangements for managing and reporting your financial resources as part of our work in completing our Value for Money work.
- We will continue to provide you with sector updates via our Audit Committee updates.
- We have identified an increased incentive and opportunity for organisations in the public sector to manipulate their financial statements due to increasing financial pressures. We have identified a significant risk in regards to management override of controls – refer to page 7.

# Introduction and headlines

## Purpose

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

## Respective responsibilities

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

## Scope of our audit

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

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

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

## Significant risks

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

- Presumed risk of management override of controls
- Valuation of land and buildings
- Valuation of net pension fund liability

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

## Materiality

We have determined planning materiality to be £990k (PY £901k) for the Council, which equates to 2% of your prior year gross expenditure for the year. We are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. Clearly trivial has been set at £49.5k (PY £47.5k).

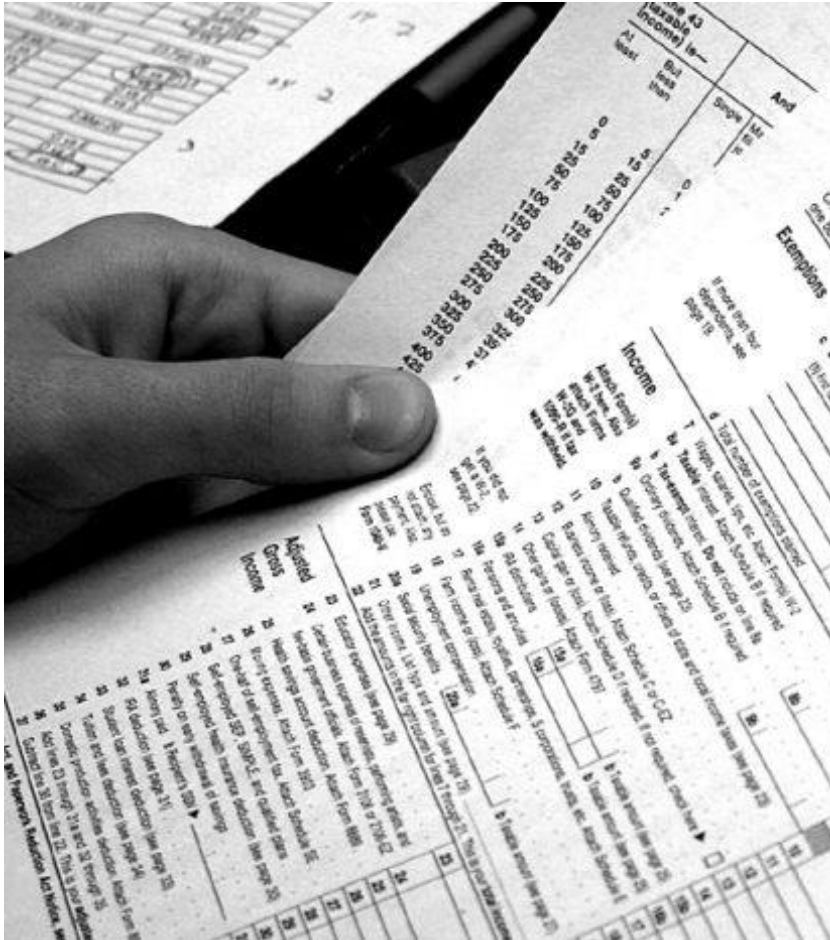
## Value for Money arrangements

Our risk assessment regarding your arrangements to secure value for money has identified the following risks of significant weakness:

- Governance – How the body monitors and assesses risk
- Governance – How the body ensures it makes properly informed decisions, supported by appropriate evidence and allowing for challenge and transparency

Please refer to page 17 for further details.

# Introduction and headlines cont.



## Audit logistics

Our planning work took place over February and March 2022 and our final visit will begin in July 2022. Our key deliverables are this Audit Plan, our Audit Findings Report and Auditor's Annual Report.

Our provisional fee for the audit will be £61,715 (PY: £59,115) for the Council, subject to the Council delivering a good set of financial statements and working papers.

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

# Significant risks identified

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

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
<p>Presumed risk of fraud in revenue recognition ISA (UK) 240</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 improper recognition.</p>	<p>Having considered the risk factors set out in ISA 240 and the nature of revenue streams at the Council, we have determined that the risk of fraud arising from improper revenue recognition can be rebutted, because:</p> <ul style="list-style-type: none"> <li>• there is little incentive to manipulate revenue recognition</li> <li>• opportunities to manipulate revenue recognition are very limited</li> <li>• the culture and ethical frameworks of local authorities, including the Council, mean that all forms of fraud are seen as unacceptable.</li> </ul> <p>Therefore, we have concluded that this is not an area of significant risk for the Council.</p> <p>We will continue to review and test, on a sample basis, material revenue transactions, ensuring that it remains appropriate to rebut the presumed risk fraud in revenue recognition.</p>
<p>Risk of fraud related to expenditure recognition PAF Practice Note 10</p>	<p>In line with the Public Audit Forum Practice Note 10, in the public sector, auditors must also consider the risk that material misstatements due to fraudulent financial reporting may arise from the manipulation of expenditure recognition (for instance by deferring expenditure to a later period).</p> <p>As most public bodies are net spending bodies, then the risk of material misstatement due to fraud related to expenditure recognition may in some cases be greater than the risk of material misstatements due to fraud related to revenue recognition.</p>	<p>Having considered the risk factors and the nature of expenditure streams at the Council, we have determined that the risk of fraud arising from improper expenditure recognition can be rebutted, because:</p> <ul style="list-style-type: none"> <li>• there is little incentive to manipulate expenditure recognition</li> <li>• opportunities to manipulate expenditure recognition are very limited</li> <li>• the culture and ethical frameworks of local authorities, including the Council, mean that all forms of fraud are seen as unacceptable.</li> </ul> <p>Therefore, we have concluded that this is not an area of significant risk for the Council.</p> <p>We will continue to review and test, on a sample basis, material expenditure transactions, ensuring that it remains appropriate to rebut the risk fraud in expenditure recognition.</p>

# Significant risks identified cont.

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
Management over-ride 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.	<p>We will:</p> <ul style="list-style-type: none"> <li>• evaluate the design and effectiveness of management controls over journals</li> <li>• analyse the journals listing and determine the criteria for selecting high risk unusual journals</li> <li>• test unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration</li> <li>• gain an understanding of the accounting estimates and critical judgments applied made by management and consider their reasonableness with regard to corroborative evidence</li> <li>• evaluate the rationale for any changes in accounting policies, estimates or significant unusual transactions</li> </ul>
Valuation of the pension fund net liability	<p>The Council's pension fund net liability represents a significant estimate (£58m in the Council's balance sheet as at 31 March 2021) in the financial statements.</p> <p>We do not believe there is a significant risk of material misstatement in the IAS 19 estimate due to the methods and models used in their calculation or due to the source data used in their calculation.</p> <p>However, we have concluded that there is a significant risk of material misstatement in the IAS 19 estimate due to the assumptions used in their calculation. The actuarial assumptions used are the responsibility of the entity but should be set on the advice given by the actuary. As noted above, as noted above, the appropriateness of the assumptions proposed by the actuary is covered by the TAS actuarial standards. However, the Council may choose to use different assumptions than those proposed by their actuary. A small change in the key assumptions (discount rate, inflation rate, salary increase and life expectancy) can have a significant impact on the estimated IAS 19 liability. In particular the discount and inflation rates, where our consulting actuary has indicated that a 0.1% change in these two assumptions would have approximately 2% effect on the liability.</p> <p>We have therefore concluded that there is a significant risk of material misstatement in the estimated pension fund net liability, due to the assumptions used in their calculation.</p>	<p>We will:</p> <ul style="list-style-type: none"> <li>• update 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 evaluate the design of the associated controls</li> <li>• evaluate the instructions issued by management to their management expert (the actuary) for this estimate and the scope of the actuary's work</li> <li>• assess the competence, capabilities, and objectivity of the actuary who carried out the Council's pension fund valuation</li> <li>• assess the accuracy and completeness of the information provided by the Council to the actuary to estimate the liability</li> <li>• test the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial report from the actuary</li> <li>• undertake procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consultancy actuary (as auditor's expert) and performing any additional procedures suggested within the report</li> <li>• obtain assurances from the auditor of Staffordshire Pension Fund as to the controls surrounding the validity and accuracy of membership data, contributions date, and benefits data sent to the actuary by the pension fund and the fund assets valuation in the pension fund financial statements.</li> </ul>

# Significant risks identified cont.

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
Valuation of land and buildings and investment properties	<p>The Council revalues its other land and buildings on a rolling five-yearly basis, and revalues its surplus and investment properties annually.</p> <p>These valuations represent a significant estimate by management in the financial statements due to the size of the values involved (£26m for land and buildings in the Council's balance sheet as at 31 March 2021, together with £1.5m of surplus assets and £11m of investment properties) and judgement required to estimate values. The valuation also depends on the completeness and accuracy of the source data (such as floor areas and rental income) and subjective inputs (such as obsolescence factors and rental yields). Additionally, management will need to ensure the carrying value in the financial statements of any assets not revalued in year is not materially different from the current value or fair value (for investment assets) at the financial statements date.</p> <p>We have therefore identified valuation of land and buildings, surplus assets and investment properties as a significant risk.</p>	<p>We will:</p> <ul style="list-style-type: none"> <li>• evaluate management's processes and assumptions for calculation of the estimate, the instructions issued to valuation experts and the scope of their work.</li> <li>• evaluate the competence, capabilities and objectivity of the valuation experts</li> <li>• discuss with the valuers the basis on which the valuation was carried out to ensure that the requirements of the Code are met</li> <li>• challenge the information and assumptions used by the valuers to assess completeness and consistency with our understanding</li> <li>• specifically review and challenge assumptions around asset values based on income generation, such as Council car parks</li> <li>• test revaluations made during the year to see if they had been input correctly into the Council's asset register.</li> </ul>



# Other risks identified

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
Design of controls over operating expenditure and trade creditors	<p>As part of our planning procedures, we documented the business processes relating to significant classes of transactions and balances. We also performed walkthrough procedures with the aim of confirming the design of the documented controls, for significant risk areas – revaluation of other land and buildings, surplus assets and investment properties, and the valuation of the pension fund net liability – and for operating expenditure / trade creditors.</p> <p>However, our walkthrough testing of the operating expenditure &amp; trade creditors process did not confirm the implementation of one expected control (the budget holder check of goods/services receipt prior to authorisation of invoice payment) and therefore we are unable to place reliance on the design effectiveness of this control.</p>	Since we cannot place reliance on the design of controls over operating expenditure / trade creditors, we will increase the extent of our substantive sample testing in order to obtain sufficient assurance over these transactions and balances.
Super-user access to Agresso	<p>During our planning procedures, we identified that a member of the finance team has super-user access to the Agresso financial system.</p> <p>This means that there is an increased opportunity for management override of controls.</p>	In addition to our risk-based sample testing of journals, we will perform a focused review of journals initiated by the Agresso super-user to determine whether these journals are appropriate and have been authorised appropriately.

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

# Accounting estimates and related disclosures

The Financial Reporting Council issued an updated ISA (UK) 540 (revised): *Auditing Accounting Estimates and Related Disclosures* which includes significant enhancements in respect of the audit risk assessment process for accounting estimates.

## Introduction

Under ISA (UK) 540 (Revised December 2018) auditors are required to understand and assess an entity's internal controls over accounting estimates, including:

- The nature and extent of oversight and governance over management's financial reporting process relevant to accounting estimates;
- How management identifies the need for and applies specialised skills or knowledge related to accounting estimates;
- How the entity's risk management process identifies and addresses risks relating to accounting estimates;
- The entity's information system as it relates to accounting estimates;
- The entity's control activities in relation to accounting estimates; and
- How management reviews the outcomes of previous accounting estimates.

As part of this process auditors also need to obtain an understanding of the role of those charged with governance, which is particularly important where the estimates have high estimation uncertainty, or require significant judgement.

Specifically do Audit Committee members:

- Understand the characteristics of the methods and models used to make the accounting estimates and the risks related to them;
- Oversee management's process for making accounting estimates, including the use of models, and the monitoring activities undertaken by management; and
- Evaluate how management made the accounting estimates?



# Accounting estimates and related disclosures

## Additional information that will be required

To ensure our compliance with this revised auditing standard, we will be requesting further information from management and those charged with governance during our audit for the year ended 31 March 2022.

Based on our knowledge of the Council we have identified the following material accounting estimates for which this is likely to apply:

- Valuations of land and buildings (including surplus assets) and investment properties
- Depreciation
- Year end provisions and accruals
- Credit loss and impairment allowances
- Valuation of the defined benefit pension fund net liabilities

## The Council's Information systems

In respect of the Council's information systems we are required to consider how management identifies the methods, assumptions and source data used for each material accounting estimate and the need for any changes to these. This includes how management selects, or designs, the methods, assumptions and data to be used and applies the methods used in the valuations.

When the models used include increased complexity or subjectivity, as is the case for many valuation models, auditors need to understand and assess the controls in place over the models and the data included therein. Where adequate controls are not in place we may need to report this as a significant control deficiency and this could affect the amount of detailed substantive testing required during the audit.

If management has changed the method for making an accounting estimate we will need to fully understand management's rationale for this change. Any unexpected changes are likely to raise the audit risk profile of this accounting estimate and may result in the need for additional audit procedures.

We are aware that the Council uses management experts in deriving some of its more complex estimates, e.g. asset valuations and pensions liabilities. However, it is important to note that the use of management experts does not diminish the responsibilities of management and those charged with governance to ensure that:

- All accounting estimates and related disclosures included in the financial statements have been prepared in accordance with the requirements of the financial reporting framework, and are materially accurate;
- There are adequate controls in place at the Council (and where applicable its service provider or management expert) over the models, assumptions and source data used in the preparation of accounting estimates.



### Estimation uncertainty

Under ISA (UK) 540 we are required to consider the following:

- How management understands the degree of estimation uncertainty related to each accounting estimate; and
- How management address this estimation uncertainty when selecting their point estimate.

For example, how management identified and considered alternative, methods, assumptions or source data that would be equally valid under the financial reporting framework, and why these alternatives were rejected in favour of the point estimate used.

The revised standard includes increased emphasis on the importance of the financial statement disclosures. Under ISA (UK) 540 (Revised December 2018), auditors are required to assess whether both the accounting estimates themselves and the related disclosures are reasonable.

Where there is a material uncertainty, that is where there is a significant risk of a material change to the estimated carrying value of an asset or liability within the next year, there needs to be additional disclosures. Note that not all material estimates will have a material uncertainty and it is also possible that an estimate that is not material could have a risk of material uncertainty.

Where there is material estimation uncertainty, we would expect the financial statement disclosures to detail:

- What the assumptions and uncertainties are;
- How sensitive the assets and liabilities are to those assumptions, and why;
- The expected resolution of the uncertainty and the range of reasonably possible outcomes for the next financial year; and
- An explanation of any changes made to past assumptions if the uncertainty is unresolved.

### Planning enquiries

As part of our planning risk assessment procedures we have made enquiries of management through our Informing the Audit Risk Assessment template. We communicated the responses from management with the Audit Committee at the meeting held in March 2022.

### Further information

Further details on the requirements of ISA (UK) 540 (Revised December 2018) can be found in the auditing standard on the Financial Reporting Council's website:

[https://www.frc.org.uk/getattachment/0fa69c03-49ec-49ae-a8c9-cc7a2b65382a/ISA-\(UK\)-540\\_Revised-December-2018\\_final.pdf](https://www.frc.org.uk/getattachment/0fa69c03-49ec-49ae-a8c9-cc7a2b65382a/ISA-(UK)-540_Revised-December-2018_final.pdf)

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# Other matters

## Other work

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

- We read your Narrative Report and Annual Governance Statement to check that they are consistent with the financial statements on which we give an opinion and our knowledge of the Council.
- We carry out work to satisfy ourselves that disclosures made in your Annual Governance Statement are in line with requirements set by CIPFA.
- We carry out work on your consolidation schedules for the Whole of Government Accounts process in accordance with NAO group audit instructions.
- We consider our other duties under legislation and the Code, as and when required, including:
  - giving electors the opportunity to raise questions about your 2021/22 financial statements, consider and decide upon any objections received in relation to the 2021/22 financial statements;
  - issuing a report in the public interest or written recommendations to the Council under section 24 of the Local Audit and Accountability Act 2014 (the Act).
  - application to the court for a declaration that an item of account is contrary to law under section 28 or a judicial review under section 31 of the Act
  - issuing an advisory notice under section 29 of the Act
- We certify completion of our audit.

## Other material balances and transactions

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

# Materiality

## The concept of materiality

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. Misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

## Materiality for planning purposes

We have determined financial statement materiality based on a proportion of the gross expenditure of the Council for the financial year. In the prior year we used the same benchmark. Materiality at the planning stage of our audit is £990k (PY £901k) for the Council, which equates to 2% of your gross service expenditure for the prior year. We design our procedures to detect errors in specific accounts at a lower level of precision which we have determined to be £7.5k for Senior Officer remuneration.

We reconsider planning materiality if, during the course of our audit engagement, we become aware of facts and circumstances that would have caused us to make a different determination of planning materiality.

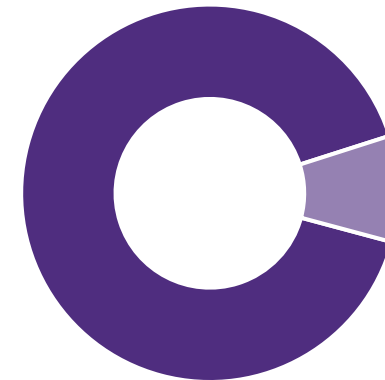
## Matters we will report to the Audit Committee

Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we will nevertheless report to the Audit Committee any unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work. Under ISA 260 (UK) 'Communication with those charged with governance', we are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. ISA 260 (UK) defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria. In the context of the Council, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £49.5k (PY £45.1k).

If management have corrected material misstatements identified during the course of the audit, we will consider whether those corrections should be communicated to the Audit Committee to assist it in fulfilling its governance responsibilities.

## Prior year gross service cost

£50m Council  
(PY: £45m)



- Prior year gross service costs
- Materiality

## Materiality

£990k  
Council financial statements materiality  
(PY: £901k)



£49.5k  
Misstatements reported to the Audit Committee  
(PY: £45.1k)

# IT audit strategy

In accordance with ISA (UK) 315, we are required to obtain an understanding of the information systems relevant to financial reporting to identify and assess the risks of material misstatement. As part of this we obtain an understanding of the controls operating over relevant Information Technology (IT) systems i.e., IT general controls (ITGCs). Our audit will include completing an assessment of the design of ITGCs related to security management; technology acquisition, development and maintenance; and technology infrastructure. Based on the level of assurance required for each IT system the assessment may focus on evaluating key risk areas ('streamlined assessment') or be more in depth ('detailed assessment').

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

IT system	Audit area	Planned level IT audit assessment
Unit 4 Agresso	Financial reporting	Streamlined ITGC assessment
Capita Academy	Council Tax, Business Rates, Benefits, Grants	Streamlined ITGC assessment
Frontier Chris21	Payroll	Streamlined ITGC assessment

# Value for Money arrangements

## Approach to Value for Money work for 2021/22

The National Audit Office (NAO) issued updated guidance for auditors in April 2020. The Code requires auditors to consider whether the body has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. When reporting on these arrangements, the Code requires auditors to structure their commentary on arrangements under three specified reporting criteria. These are as set out below:



### Improving economy, efficiency and effectiveness

Arrangements for improving the way the body delivers its services. This includes arrangements for understanding costs and delivering efficiencies and improving outcomes for service users.



### Financial Sustainability

Arrangements for ensuring the body can continue to deliver services. This includes planning resources to ensure adequate finances and maintain sustainable levels of spending over the medium term (3-5 years)



### Governance

Arrangements for ensuring that the body makes appropriate decisions in the right way. This includes arrangements for budget setting and management, risk management, and ensuring the body makes decisions based on appropriate information





# Risks of significant VFM weaknesses

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

## Risks of significant weakness

Those risks requiring audit consideration and procedures to address the likelihood that proper arrangements are not in place at the body to deliver value for money.



### Governance: How the body monitors and assesses risk

We have identified a risk of significant weakness in the Council's arrangements for monitoring and assessing risk.

In our 2020/21 Auditor's Annual Report, we included an improvement recommendation in relation to risk reporting. However, no changes have been made to the Council's arrangements. Furthermore, our analysis of the Corporate Risk Registers published for 2021/22 has highlighted additional factors which indicate that there is a risk of significant weakness in this area.

We will perform further procedures to confirm whether this is an area of significant weakness and where appropriate, make recommendations to address any weaknesses.



### Governance: How the body ensures it makes properly informed decisions, supported by appropriate evidence and allowing for challenge and transparency

We have identified a risk of significant weakness in the Council's arrangements for informed decision-making.

The outcome of the Corporate Peer Challenge process, which the Council undertook in late 2021, included a range of recommended actions to increase effectiveness of collaboration between officers and members, and to support appropriate scrutiny by members.

We will perform further procedures to confirm whether this is an area of significant weakness, including following up on the Council's response to the recommendations from the Corporate Peer Challenge report. Where appropriate, we will make recommendations to address any weaknesses identified.

## Potential types of recommendations

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



### Statutory recommendation

Written recommendations to the body under Section 24 (Schedule 7) of the Local Audit and Accountability Act 2014. A recommendation under schedule 7 requires the body to discuss and respond publicly to the report.



### Key recommendation

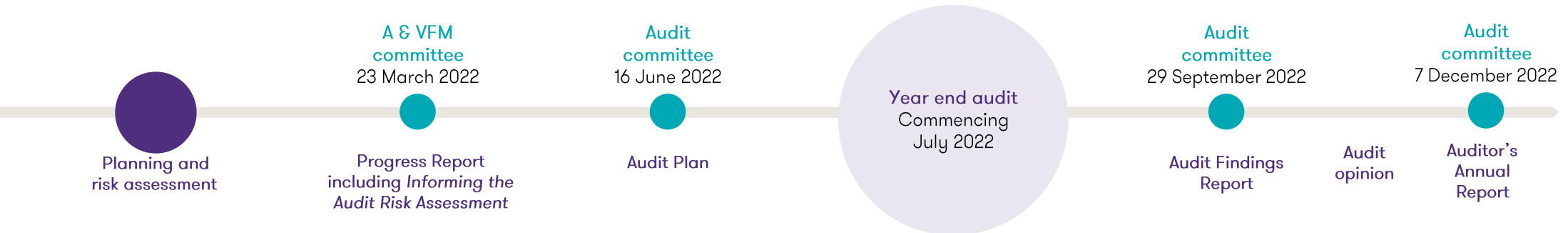
The Code of Audit Practice requires that where auditors identify significant weaknesses in arrangements to secure value for money they should make recommendations setting out the actions that should be taken by the body. We have defined these recommendations as 'key recommendations'.



### Improvement recommendation

These recommendations, if implemented should improve the arrangements in place at the body, but are not made as a result of identifying significant weaknesses in the body's arrangements

# Audit logistics and team



## Andrew Smith, Engagement Lead

Andrew will be the main point of contact for the Chair, s151 Officer and Committee members. He will share his wealth of knowledge and experience across the sector, providing challenge and sharing good practice. Andrew will ensure our audit is tailored specifically to you, and he is responsible for the overall quality of our audit. Andrew will sign your audit opinion.

## Sarah Jassal, Audit Manager

Sarah will work with the senior finance team, ensuring audit work is delivered and any accounting issues are addressed on a timely basis. She will attend the Audit Committee with Andrew and supervise Peter in leading the on-site team. Sarah will undertake reviews of the team's work and draft clear, concise and understandable reports.

## Peter Rought, Audit Incharge

Peter will be the day-to-day contact for the audit, organising any visits and liaising with Council staff. He will lead the on-site team and manage our query log ensuring that any significant issues and adjustments are highlighted to management as soon as possible.

## Audited body responsibilities

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

## Our requirements

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

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

# Audit fees

In 2017, PSAA awarded a contract of audit for East Staffordshire Borough Council to begin with effect from 2018/19. The fee agreed in the contract was £37,615. Since that time, there have been a number of developments, particularly in relation to revisions in the Code and ISAs, which are relevant for the 2021/22 audit.

Across all sectors and firms, the FRC has set out its expectation of improved financial reporting from organisations and the need for auditors to demonstrate increased scepticism and challenge and to undertake additional and more robust testing, as detailed on page 10 in relation to the updated ISA (UK) 540 (revised): Auditing Accounting Estimates and Related Disclosures.

As a firm, we are absolutely committed to meeting the expectations of the FRC with regard to audit quality and public sector financial reporting. Our proposed work and fee for 2021/22 is set out below and on the following page, and has been shared with the Head of Service.

	Actual Fee 2019/20	Actual Fee 2020/21	Provisional fee 2021/22
East Staffordshire Borough Council Audit	£51,115	£59,115	£61,715
<b>Total audit fees (excluding VAT)</b>	<b>£51,115</b>	<b>£59,115</b>	<b>£61,715</b>

## Assumptions

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

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

## Relevant professional standards

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

# Audit fees – detailed analysis

Scale fee published by PSAA	£37,615
Raising the bar/regulatory factors	£2,500
Additional work on Value for Money (VfM) under new NAO Code	£9,000
Increased audit requirements of revised ISAs (ISA240, 540 & 700)	£6,500
Enhanced audit procedures for PPE and pensions	£3,540
<b>Total audit fees for 2020/21 (excluding VAT)</b>	<b>£59,155</b>
Additional testing of operating expenditure and trade creditors (see page 9)	£3,600
Significant risk work on VfM – governance arrangements (see page 17)	£2,500
<b>Provisional audit fees for 2021/22 (excluding VAT)</b>	<b>£61,715</b>
Additional work in response to Agresso super-user administrator access (see page 9)	£TBC

# Independence and non-audit services

## Auditor independence

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

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Financial Reporting Council's Ethical Standard (Revised 2019) and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements. Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in May 2020 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

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

## Other services

The following other services provided by Grant Thornton were identified.

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

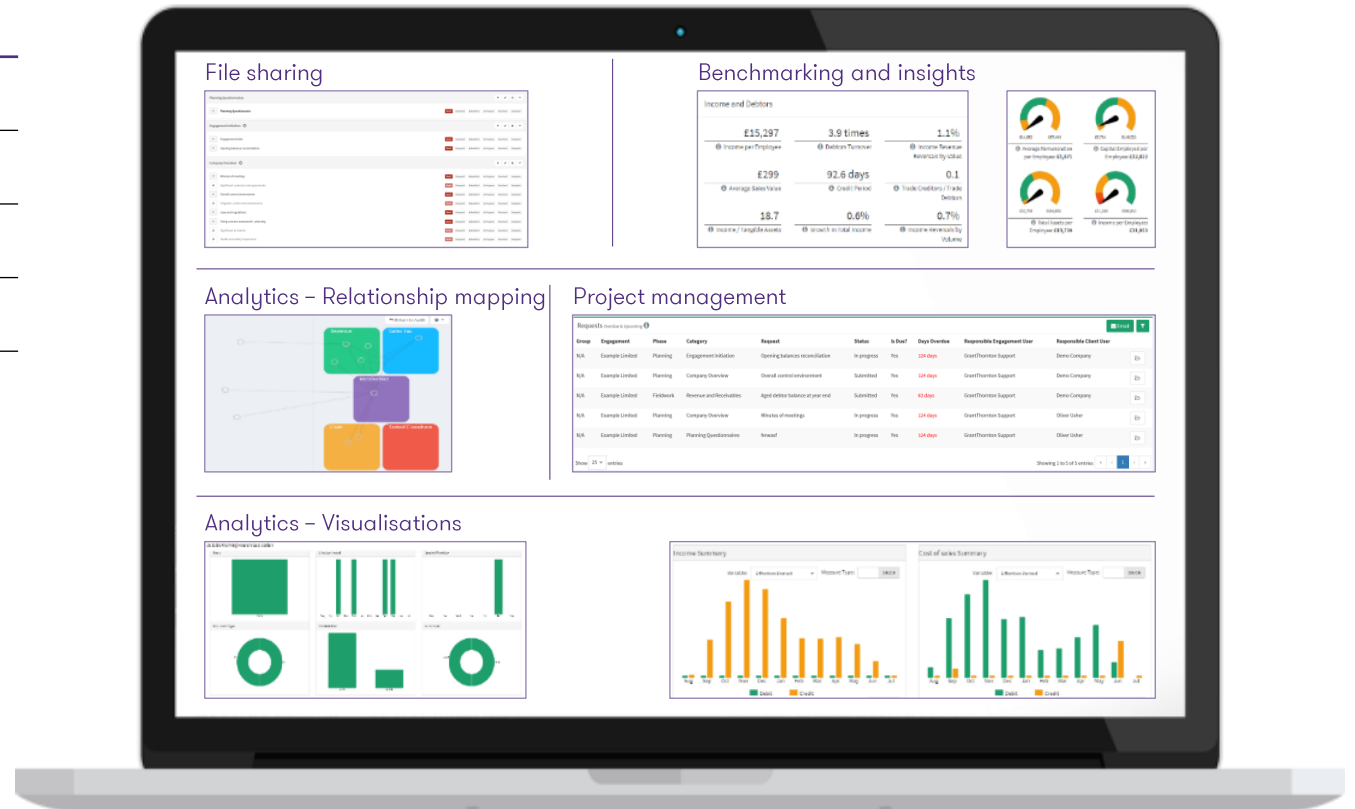
None of the services provided are subject to contingent fees.

Service	Fees £	Threats	Safeguards
Audit related			
Certification of Housing Benefit Subsidy Claim	18,000	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £18,000 in comparison to the total fee for the audit 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.

# Our digital audit experience

A key component of our overall audit experience is our comprehensive data analytics tool, which is supported by Inflo Software technology. This tool has a number of key functions within our audit process:

Function	Benefits for you
Data extraction	Providing us with your financial information is made easier
File sharing	An easy-to-use, ISO 27001 certified, purpose-built file sharing tool
Project management	Effective management and oversight of requests and responsibilities
Data analytics	Enhanced assurance from access to complete data populations



Grant Thornton's Analytics solution is supported by Inflo Software technology

# Our digital audit experience

A key component of our overall audit experience is our comprehensive data analytics tool, which is supported by Inflo Software technology. This tool has a number of key functions within our audit process:



## Data extraction

- Real-time access to data
- Easy step-by-step guides to support you upload your data



## File sharing

- Task-based ISO 27001 certified file sharing space, ensuring requests for each task are easy to follow
- Ability to communicate in the tool, ensuring all team members have visibility on discussions about your audit, reducing duplication of work



## Project management

- Facilitates oversight of requests
- Access to a live request list at all times



## Data analytics

- Relationship mapping, allowing understanding of whole cycles to be obtained quickly
- Visualisation of transactions, allowing easy identification of trends and anomalies

## How will analytics add value to your audit?

Analytics will add value to your audit in a number of ways. We see the key benefits of extensive use of data analytics within the audit process to be the following:

### Improved fraud procedures using powerful anomaly detection

Being able to analyse every accounting transaction across your business enhances our fraud procedures. We can immediately identify high risk transactions, focusing our work on these to provide greater assurance to you, and other stakeholders.

Examples of anomaly detection include analysis of user activity, which may highlight inappropriate access permissions, and reviewing seldom used accounts, which could identify efficiencies through reducing unnecessary codes and therefore unnecessary internal maintenance.

Another product of this is identification of issues that are not specific to individual postings, such as training requirements being identified for members of staff with high error rates, or who are relying on use of suspense accounts.

### More time for you to perform the day job

Providing all this additional value does not require additional input from you or your team. In fact, less of your time is required to prepare information for the audit and to provide supporting information to us.

Complete extracts from your general ledger will be obtained from the data provided to us and requests will therefore be reduced.

We provide transparent project management, allowing us to seamlessly collaborate with each other to complete the audit on time and around other commitments.

We will both have access to a dashboard which provides a real-time overview of audit progress, down to individual information items we need from each other. Tasks can easily be allocated across your team to ensure roles and responsibilities are well defined.

Using filters, you and your team will quickly be able to identify actions required, meaning any delays can be flagged earlier in the process. Accessible through any browser, the audit status is always available on any device providing you with the information to work flexibly around your other commitments.

# Appendix



# Significant improvements from the Financial Reporting Council's (FRC) quality inspection

On 29 October, the FRC published its annual report setting out the findings of its review of the work of local auditors. The report summarises the results of the FRC's inspections of twenty audit files for the last financial year. A link to the report is here: [FRC AQR Major Local Audits October 2021](#)

Grant Thornton are one of seven firms which currently delivers local audit work. Of our 330 local government and NHS audits, 87 are currently defined as 'major audits' which fall within the scope of the AQR. This year, the FRC looked at nine of our audits.

## Our file review results

The FRC reviewed nine of our audits this year. It graded six files (67%) as 'Good' and requiring no more than limited improvements. No files were graded as requiring significant improvement, representing an impressive year-on-year improvement. The FRC described the improvement in our audit quality as an 'encouraging response by the firm to the quality findings reported in the prior year.' Our Value for Money work continues to be delivered to a high standard, with all of the files reviewed requiring no more than limited improvement. We welcome the FRC findings and conclusions which demonstrate the impressive improvement we have made in audit quality over the past year.

The FRC also identified a number of good practices including effective challenge of management's valuer, use of an auditor's expert to assist with the audit of a highly specialised property valuation, and the extent and timing of involvement by the audit partner on the VFM conclusion.

Our results over the past three years are shown in the table below:

Grade	Number 2018/19	Number 2019/20	Number 2020/21
Good with limited improvements (Grade 1 or 2)	1	1	6
Improvements required (Grade 3)	2	5	3
Significant improvements required (Grade 4)	1	0	0
<b>Total</b>	<b>4</b>	<b>6</b>	<b>9</b>

## Our continued commitment to Audit quality and continuous improvement

Our work over the past year has been undertaken during the backdrop of COVID, when the public sector has faced the huge challenge of providing essential services and helping safeguard the public during the pandemic. Our NHS bodies in particular have been at the forefront of the public health crisis. As auditors we have had to show compassion to NHS staff deeply affected by the crisis, whilst staying focused on the principles of good governance and financial management, things which are more important than ever. We are very proud of the way we have worked effectively with audited bodies, demonstrating empathy in our work whilst still upholding the highest audit quality.

# Significant improvements from the Financial Reporting Council's (FRC) quality inspection (cont.)

Over the coming year we will make further investments in audit quality including strengthening our quality and technical support functions, and increasing the level of training, support and guidance for our audit teams. We will address the specific improvement recommendations raised by the FRC, including:

- Enhanced training for local auditors on key assumptions within property valuations, and how to demonstrate an increased level of challenge
- Formalising our arrangements for the consideration of complex technical issues by Partner Panels.

As part of our enhanced Value for Money programme, we will focus on identifying the scope for better use of public money, as well as highlighting weaknesses in governance or financial stewardship where we see them.

## Conclusion

Local audit plays a critical role in the way public sector audits and society interact, and it depends on the trust and confidence of all those who rely on it. As a firm we're proud to be doing our part to promote good governance, effective stewardship and appropriate use of public funds.



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