Preliminary Audit Findings for East Staffordshire Borough Council

Year ended 31 March 2023

8 February 2024

Contents

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

This Audit Findings 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. Its contents have been discussed with management and the Audit Committee.

Andrew Smith

Andrew Smith

For Grant Thornton UK LLP

8 February 2024

1. 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 2023 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 remotely between August 2023 and February 2024.

Our findings are summarised on pages 6 to 22. Apart from disclosure adjustments, we have not found any other changes that need to be made to the financial statements. Unadjusted audit adjustments and disclosure issues can be found in Appendix C.

We have also raised three recommendations for management as a result of our audit work. These are set out in Appendix B.

Our work is substantially complete and there are no matters of which we are aware that would require modification of our audit opinion (see item a) or material changes to the financial statements, subject to the following outstanding matters;

- receipt of required IAS 19 assurances from the auditor (EY) of the Staffordshire Pension Fund;
- Completion of testing and resolution of a small number of outstanding queries relating to PPE and investment properties, journals, fees and charges, operating expenditure, creditors, developer deposits and related parties;
- final engagement lead review of the audit file and resolution of any quality review points;
- receipt of the signed management representation letter (see item b); and
- review of the signed final set of financial statements.

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.

Subject to the satisfaction completion of the areas set out above, our anticipated financial statements audit report opinion will be unmodified.

We have been able to satisfy ourselves that the Council has made proper arrangements in securing economy, efficiency and effectiveness in its use of resources.

1. Headlines

Value for Money (VFM) arrangements	
Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to consider whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. Auditors are required to report in more detail on the Council's overall arrangements, as well as key recommendations on any significant weaknesses in arrangements identified during the audit. Auditors are required to report their commentary on the Council's arrangements under the following specified criteria: • Improving economy, efficiency and effectiveness; • Financial sustainability; and • Governance	We have completed our VFM work, which is summarised on page 24, and our detailed commentary is set out in the separate Auditor's Annual Report, which is presented alongside this report. We are satisfied that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.
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.
Significant matters	We did not encounter any significant difficulties or identify any significant matters arising during our audit.

1. Headlines

National context – audit backlog

Nationally, there have been significant delays in the completion of audit work and the issuing of audit opinions across the local government sector. Only 12% of local government bodies had received audit opinions in time to publish their 2021/22 accounts by the extended deadline of 30 November. There has not been a significant improvement over this last year, and the situation remains challenging. We at Grant Thornton have a strong desire and a firm commitment to complete as many audits as soon as possible and to address the backlog of unsigned opinions.

Over the course of the last year, Grant Thornton has been working constructively with DLUHC, the FRC and the other audit firms to identify ways of rectifying the challenges which have been faced by our sector, and we recognise the difficulties these backlogs have caused authorities across the country. We have also published a report setting out our consideration of the issues behind the delays and our thoughts on how these could be mitigated. Please see About time? (grantthornton.co.uk)

We would like to thank everyone at the Council for their support in working with us to progress the audit, in light of the delays to the start of the audit due to the prior year audit not being complete and the changes in the finance team at the Council over the course of the audit.

National context – level of borrowing

All Councils are operating in an increasingly challenging national context. With inflationary pressures placing increasing demands on Council budgets, there are concerns as Councils look to alternative ways to generate income. We have seen an increasing number of councils look to ways of utilising investment property portfolios as sources of recurrent income. Whilst there have been some successful ventures and some prudently funded by councils' existing resources, we have also seen some councils take excessive risks by borrowing sums well in excess of their revenue budgets to finance these investment schemes.

The impact of these huge debts on Councils, the risk of potential bad debt write offs and the implications of the poor governance behind some of these decisions are all issues which now have to be considered by auditors across local authority audits. The Council's borrowing levels have historically been low, with capital receipts and capital grants used to fund new assets. The Council's investment property portfolio is well established and has not been funded by borrowing.

2. Financial Statements

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 have been discussed with management and the Audit 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; and
- Substantive testing on significant transactions and material account balances, including the procedures outlined in this report in relation to the key audit risks

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 (refer to item a) following the Audit Committee meeting on 8 February 2024. These outstanding items include:

- receipt of required IAS 19 assurances from the auditor (EY) of the Staffordshire Pension Fund. EY have informed us that they are aiming to provide us with the required information by 23 February 2024. However, since the deadline has been extended multiple times, we have escalated the issue to EY's most senior Public Sector Audit partner as well as PSAA.
- completion of testing and resolution of a small number of outstanding queries relating to PPE and investment properties, journals, fees and charges, operating expenditure, creditors, developer deposits and related parties;
- final engagement lead review of the audit file and resolution of any quality review points;
- receipt of the signed management representation letter (see item b); and
- review of the signed and final set of financial statements.

Acknowledgements

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

2. 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 levels remain the same as reported in our audit plan date on 6 June 2023.

We set out in this table our determination of materiality for the Council.

	Amount (£)	Qualitative factors considered
Materiality for the financial statements	1,400,000	Financial performance of the Authority focused on the cost of service provision
Performance materiality	1,050,000	Quality of working papers and Authority response to audit processes in prior years
Trivial matters	70,000	The amount below which matters would be considered trivial to the readers of the accounts
Materiality for senior officer disclosures	9,500	Materiality has been reduced for remuneration disclosures due to their sensitive nature and public interest

2. Financial Statements: Significant risks

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.

This section provides commentary on the significant audit risks communicated in the Audit Plan.

Risks identified in our Audit Plan	Commentary
Presumed risk of fraud in revenue recognition ISA (UK) 240 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 improper recognition.	In our audit plan, we assessed that the risk of misstatement due to fraud relating to improper recognition of revenue. We have reconsidered our assessment in light of our audit findings, and concluded that there is no change to our assessment of this risk.
Risk of fraud related to expenditure recognition PAF Practice Note 10 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). 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.	In our audit plan, we assessed that the risk of misstatement due to fraud relating to improper recognition of expenditure. We have reconsidered our assessment in light of our audit findings, and concluded that there is no change to our assessment of this risk.

2. Financial Statements: Significant risks

Risks identified in our Audit Plan	Commentary
Management override of controls	We have: • evaluated the design effectiveness of management controls over journals • analysed the journals listing and determined the criteria for selecting high risk unusual journals • tested unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration • gained an understanding of the accounting estimates and critical judgments applied made by management and considered their reasonableness with regard to corroborative evidence • evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions We have not yet completed our testing procedures, but to date we have not identified any changes in accounting policies or estimation processes. To date, we have not identified any issues in respect of management override of controls.

2. Financial Statements - Significant risks

Risks identified in our Audit Plan	Commentary
Valuation of the pension fund net liability **£5.8m at 31 March 2023 (£42.3m at 31 March 2022)** The Council's pension fund net liability, as reflected in its balance sheet as the net pension liability, represents a significant estimate in the financial statements. The pension fund net liability is considered a significant estimate due to the size of the numbers involved and the sensitivity of the estimate to changes in key assumptions. The methods applied in the calculation of the IAS 19 estimates are routine and commonly applied by all actuarial firms in line with the requirements set out in the Code of practice for local government accounting (the applicable financial reporting framework). We have therefore concluded that there is not a significant risk of material misstatement in the IAS 19 estimate due to the methods and models used in their calculation. The source data used by the actuaries to produce the IAS 19 estimates is provided by administering authorities and employers. We do not consider this to be a significant risk as this is easily verifiable. The actuarial assumptions used are the responsibility of the entity but should be set on the advice given by the actuary. A small change in the key assumptions (discount rate, inflation rate, salary increase and life expectancy) can have a significant impact on the estimated IAS 19 liability. In particular the discount and inflation rates, where our consulting actuary has indicated that a 0.1% change in either of these two assumptions would have approximately 2% effect on the liability. We have therefore concluded that there is a significant risk of material misstatement in the IAS 19 estimate due to the assumptions used in their calculation. With regard to these assumptions we have therefore identified valuation of the Council's pension fund net liability as a significant risk.	We have: • updated our understanding of the processes and controls put in place by management to ensure that the Council's pension fund net liabilities are not materially misstated, and evaluate the design of the associated controls; • evaluated the instructions issued by management to their management expert (the actuary) for this estimate and the scope of the actuary's work; • assessed the competence, capabilities, and objectivity of the actuary who carried out the Council's pension fund valuations; • assessed the accuracy and completeness of the information provided by the Council to the actuary to estimate the liabilities; • tested the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial report from the actuary; and • undertaken 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. Page 12 provides a detailed assessment of the estimation process for the valuation of the pension fund net liability. We have been unable to finalise our work in this area as we are awaiting receipt of required assurances from the auditor of Staffordshire Pension Fund as to the controls surrounding the validity and accuracy of membership data, contributions data, and benefits data sent to the actuary by the pension fund and the fund assets valuation in the pension fund financial statements. Subject to the receipt of these assurances, our work has not identified any issues in the valuation of the pension fund net liability.

2. Financial Statements: Significant risks

Risks identified in our Audit Plan	Commentary
Valuation of land and buildings and investment properties Land & Buildings: £51.7m at 31 March 2023 (£44.9m at 31 March 2022) Investment Properties: £13.4m at 31 March 2023 (£11.0m at 31 March 2022) The Council usually revalues its other land and buildings on a rolling five-yearly basis, but due to the appointment of a new valuer, all other land and building assets were revalued for 2022/23. The Council revalues its surplus and investment properties annually. These valuations represent a significant estimate by management in the financial statements due to the size of the values involved 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. We have therefore identified valuation of land and buildings, surplus assets and investment properties as a significant risk.	We have: • evaluated management's processes and assumptions for calculation of the estimates, the instructions issued to valuation experts and the scope of their work; • evaluated the competence, capabilities and objectivity of the valuation experts; • discussed with the external valuers, the basis on which the valuations were carried out to ensure that the requirements of the Code are met; • challenged the information and assumptions used by the valuer to assess completeness and consistency with our understanding; • specifically reviewed and challenged assumptions around asset values based on income generation, such as Council car parks; • specifically reviewed and challenged assumptions around asset values based on rental yields, such as investment properties; • specifically reviewed and challenged assumptions made in estimating potential changes in value of assets not subject to revaluation in year; • evaluated the categorisation of assets classified as surplus; and • tested revaluations made during the year to see if they had been input correctly into the Council's asset register. Pages 13-14 provide a detailed assessment of the estimation process for the valuation of land and buildings and investment properties. Subject to the finalisation of outstanding queries , our audit work has not identified any issues in respect of valuation of land and buildings or investment properties.

2. Financial Statements: key judgements and estimates

<table>
<tr><th>Significant judgement or estimate</th><th>Summary of management's approach</th><th>Audit Comments</th><th>Assessment</th></tr>
<tr>
<td>Net pension liability – £5.8m</td>
<td>The Council's net pension liability at 31 March 2023 is £42.3m (PY £42.3m), comprising the Staffordshire Pension Fund within the Local Government Pension Scheme and unfunded defined benefit pension scheme obligations.

The Council uses Hymans 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 2022.

Management have disclosed the estimation uncertainty relating to the valuation of net pension fund liabilities within the financial statements. The key uncertainties concern the impact of assumptions underpinning the estimate, such as discount rate, salary increase rate, changes to retirement dates, mortality rates and expected returns on pension assets.

There has been a £36.5m net actuarial gain during 2022/23.</td>
<td>We have:
• assessed management's expert for competence, capability and objectivity
• assessed the actuary's approach taken, to confirm reasonableness of approach
• used PwC as an auditor's expert to assess the actuary and assumptions made by the actuary

<table>
<tr><th>Assumption</th><th>Actuary Value</th><th>PwC range</th><th>Assessment</th></tr>
<tr><td>Discount rate</td><td>4.75%</td><td>4.75%</td><td>●</td></tr>
<tr><td>Pension increase rate</td><td>3%</td><td>2.95% - 3%</td><td>●</td></tr>
<tr><td>Salary growth</td><td>3.5%</td><td>3% - 4%</td><td>●</td></tr>
<tr><td>Life expectancy – Males currently aged 45/65</td><td>21.8 years / 21.2 years</td><td rowspan="2">No range given; PwC did not raise any areas of concern</td><td>●</td></tr>
<tr><td>Life expectancy – Females currently aged 45/65</td><td>25.8 years/ 242 years</td><td>●</td></tr>
</table>

• tested the completeness and accuracy of the underlying information used to determine the estimate;
• considered any changes to valuation method and their impact;
• Assessed the reasonableness of the Council's share of LGPS pension assets;
• assessed the reasonableness of the movements of the estimated liabilities based on all available evidence; and
• considered the adequacy of disclosure of estimate in the financial statements.

As noted on page 10, our work on pension liabilities is ongoing, pending receipt of assurances from the auditor of Staffordshire Pension Fund in relation to the triennial valuation of the pension scheme.

The work performed to date does not indicate any lack of robustness in management's process for producing this estimate.</td>
<td>TBC</td>
</tr>
</table>

2. Financial Statements: key judgements and estimates

This section provides commentary on key estimates and judgements in line with the enhanced requirements for auditors.

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Land and Building valuations – £51.7m	Other land and buildings comprises specialised assets such as leisure centres and civic buildings, which are required to be valued at depreciated replacement cost (DRC) at year end, reflecting the cost of a modern equivalent asset necessary to deliver the same service provision. The remainder of other land and buildings, such as car parks, are not specialised in nature and are required to be valued at existing use in value (EUV) at year end. The Council engaged Wilks Head & Eve LLP to complete the valuation of properties as at 31 March 2023, and 100% of the Council's assets were revalued during 2022/23. The total year end valuation of land and buildings is £51.7m, a net increase of £6.8m from 2021/22 (£44.9m). Management have disclosed the estimation uncertainty relating to the valuation of land and buildings within the financial statements.	We have: • evaluated management's processes and assumptions for calculation of the estimates, the instructions issued to valuation experts and the scope of their work; • evaluated the competence, capabilities and objectivity of the valuation experts; • discussed with the valuers the basis on which the valuation was carried out to ensure that the requirements of the Code are met; • tested the completeness and accuracy of the underlying information used to determine the estimate; • assessed the appropriateness of any alternative site assumptions; • challenged the information and assumptions used by the valuers to assess completeness and consistency with our understanding and against the data from the Montagu Evans market report; • specifically reviewed and challenged assumptions around asset values based on income generation, such as Council car parks; • considered the impact of any changes to valuation method; • considered the overall reasonableness of the increase in estimated values; • reviewed the adequacy of disclosure of estimates in the financial statements; and • tested revaluations made during the year to see if they had been input correctly into the Council's asset register. Subject to the finalisation of outstanding queries , our audit work has not identified any issues in respect of valuation of land and buildings.	TBC

2. Financial Statements: key judgements and estimates

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Investment Property Valuation - £13.4m	The Council has engaged Wilks Head & Eve LLP and Salloway Consultants to complete the valuation of properties as at 31 March 2023. All assets were revalued during 2022/23. Management have disclosed the estimation uncertainty relating to the valuation of investment properties within the financial statements. The key uncertainties concern the impact of changes in unobservable inputs such as rents, vacancy levels and discounts on the valuation of investment properties. The total year end valuation of investment property was £13.4m, a net increase of £2.4m from 2021/22 (£11.0m).	We have: • evaluated management's processes and assumptions for calculation of the estimate, the instructions issued to valuation experts and the scope of their work. • evaluated the competence, capabilities and objectivity of the valuation experts • discussed with the valuers the basis on which the valuation was carried out to ensure that the requirements of the Code are met • challenged the information and assumptions used by the valuers to assess completeness and consistency with our understanding • challenged assumptions made concerning rental yields and market comparatives; • tested the completeness, accuracy and appropriateness of the underlying information used to determine the estimates; • considered the overall reasonableness of the increase in estimated values • tested revaluations made during the year to see if they had been input correctly into the Council's asset register; and • considered the adequacy of disclosure of the estimate in the financial statements. Subject to the finalisation of outstanding queries , our audit work has not identified any issues in respect of valuation of land and buildings.	TBC

2. Financial Statements: key judgements and estimates

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Provisions for NNDR appeals - £1.5m	The Council is responsible for repaying a proportion of successful rateable value appeals. Management's calculation is based upon the latest information about outstanding rates appeals provided by the Valuation Office Agency (VOA) and previous success rates. Due to a reduction in outstanding appeals, the provision has decreased by £0.4m in 2022/23.	We have: • Assessed the appropriateness of the underlying information used to determine the estimate • Considered the consistency of estimate against peers/industry practice • Considered the reasonableness of the decrease in the estimate • Assessed the adequacy of disclosure of estimate in the financial statements Our audit work has not identified any issues in respect of estimation of the provision for NNDR appeals.	We consider management's process is appropriate and key assumptions are neither optimistic or cautious

2. Financial Statements: key judgements and estimates

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Grants Income Recognition and Presentation- £44.1m	The Council received grant funding in 2021/22 amounting to £44.1m in total. For grant streams amounting to £6.7m, the Council's judgement is that it is acting as an agent on behalf of central government and these grants have not been recognised as income but are disclosed in the financial statements. The related cash and creditor balances have been recognised in the balance sheet. For grant streams amounting to £37.2m, the Council has determined that it is acting as a principal and therefore these have been credited to the Comprehensive Income and Expenditure Statement. In addition, the Council has received a number of grants, contributions and donations that have yet to be recognised as income as they have conditions attached to them that may require the monies or property to be returned to the giver. The balance of these grants received in advance was £5.2m as at 31 March 2023.	We have: • Assessed whether the Council is acting as the principal or agent which would determine whether the Council recognises the grant as income • Tested the completeness and accuracy of the underlying information used to determine whether there are conditions outstanding (as distinct from restrictions) that would determine whether the grant be recognised as a receipt in advance or income • Assessed the impact for grants received, whether the grant is specific or non-specific grant (or whether it is a capital grant) – which impacts on where the grant is presented in the CIES. • Considered the adequacy of disclosure of judgement in the financial statements Our audit work has not identified any issues in respect of estimation of the recognition and presentation of grant income.	We consider management's process is appropriate and key assumptions are neither optimistic or cautious

2. Financial Statements: key judgements and estimates

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Minimum Revenue Provision - £0.8m	The Council is responsible on an annual basis for determining the amount charged for the repayment of debt known as its Minimum Revenue Provision (MRP). The basis for the charge is set out in regulations and statutory guidance. The year end MRP charge was £0.8m, a net increase of £0.3m from 2021/22.	We have: • considered whether the MRP has been calculated in line with the statutory guidance • assessed whether the Council's policy on MRP complies with statutory guidance. • assessed whether any changes to the Council's policy on MRP have been discussed and agreed with those charged with governance and have been approved by full council • considered the overall reasonableness of the increase/decrease in MRP charge Government have consulted on changes to the regulations that underpin MRP, to clarify that capital receipts may not be used in place of a prudent MRP and that MRP should be applied to all unfinanced capital expenditure and that certain assets should not be omitted. The consultation highlighted that the intention is not to change policy, but to clearly set out in legislation, the practices that authorities should already be following. A subsequent survey indicated amended proposals to provide additional flexibilities for certain capital loans. Government has not yet issued a full response to the consultation. We are satisfied that management's process for producing this estimate is robust.	We consider management's process is appropriate and key assumptions are neither optimistic or cautious

2. Financial Statements: Information Technology

This section provides an overview of results from our assessment of Information Technology (IT) environment and controls which included identifying risks from the use of IT related to business process controls relevant to the financial audit. This includes an overall IT General Control (ITGC) rating per IT system and details of the ratings assigned to individual control areas.

IT application	Level of assessment performed	Overall ITGC rating	ITGC control area rating			Additional procedures carried out to address risks arising from our findings
			Security management	Technology acquisition, development and maintenance	Technology infrastructure	
Agresso	ITGC assessment (design and implementation effectiveness only)	●	●	●	●	We identified that one member of the finance team was a super user in the financial reporting system. We performed specific procedures within our journals testing to address the resulting additional risk of fraud or error. We have included a recommendation for improved segregation of duties between finance and administrator functions see page 29.

Assessment

- ● Significant deficiencies identified in IT controls relevant to the audit of financial statements
- ● Non-significant deficiencies identified in IT controls relevant to the audit of financial statements/significant deficiencies identified but with sufficient mitigation of relevant risk
- ● IT controls relevant to the audit of financial statements judged to be effective at the level of testing in scope
- ● Not in scope for testing

2. Financial Statements: 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
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.
Matters in relation to related parties	We are not aware of any related parties or related party transactions which have not been disclosed. However, we have identified an issue where a member had not submitted their declaration of interests. We have included a control recommendation in this regard – see page 29.
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.
Written representations	A letter of representation has been requested from the Council, which is included in the Audit Committee papers Specific representations have been requested from management in respect of the significant assumptions used in making accounting estimates for valuation of land and buildings and investment properties, and the valuation of the pension fund net liability.
Confirmation requests from third parties	We requested from management permission to send bank and investment confirmation requests. This permission was granted, and the requests were sent. All requests were returned with positive confirmation.
Accounting practices	We have evaluated the appropriateness of the Council's accounting policies, accounting estimates and financial statement disclosures. Our review found no material omissions in the financial statements.
Audit evidence and explanations/ significant difficulties	All information and explanations requested from management were provided. The need to finalise the prior year financial statements before the draft statement of accounts was available for audit, and the change in key finance team members during the audit, has caused the audit completion to be delayed.

2. Financial Statements: other communication requirements

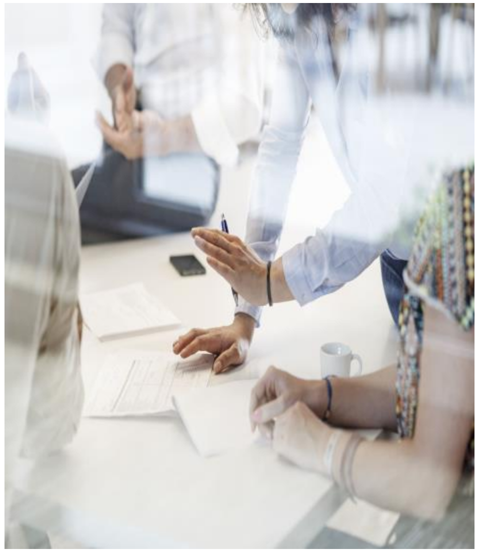
Our responsibility

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).

Issue	Commentary
Going concern	In performing our work on going concern, we have had reference to Statement of Recommended Practice – Practice Note 10: Audit of financial statements of public sector bodies in the United Kingdom (Revised 2020). The Financial Reporting Council recognises that for particular sectors, it may be necessary to clarify how auditing standards are applied to an entity in a manner that is relevant and provides useful information to the users of financial statements in that sector. Practice Note 10 provides that clarification for audits of public sector bodies. Practice Note 10 sets out the following key principles for the consideration of going concern for public sector entities: • the use of the going concern basis of accounting is not a matter of significant focus of the auditor's time and resources because the applicable financial reporting frameworks envisage that the going concern basis for accounting will apply where the entity's services will continue to be delivered by the public sector. In such cases, a material uncertainty related to going concern is unlikely to exist, and so a straightforward and standardised approach for the consideration of going concern will often be appropriate for public sector entities • for many public sector entities, the financial sustainability of the reporting entity and the services it provides is more likely to be of significant public interest than the application of the going concern basis of accounting. Our consideration of the Council's financial sustainability is addressed by our value for money work, which is covered elsewhere in this report. Practice Note 10 states that if the financial reporting framework provides for the adoption of the going concern basis of accounting on the basis of the anticipated continuation of the provision of a service in the future, the auditor applies the continued provision of service approach set out in Practice Note 10. The financial reporting framework adopted by the Council meets this criteria, and so we have applied the continued provision of service approach. In doing so, we have considered and evaluated: • the nature of the Council and the environment in which it operates • the Council's financial reporting framework • the Council's system of internal control for identifying events or conditions relevant to going concern • management's going concern assessment. On the basis of this work, we have obtained sufficient appropriate audit evidence to enable us to conclude that: • a material uncertainty related to going concern has not been identified • management's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

2. Financial Statements: other responsibilities under the Code

Issue	Commentary
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 and Narrative Report, 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. We plan to issue an unmodified opinion in this respect.
Matters on which we report by exception	We are required to report on a number of matters by exception in a number of areas: • if the Annual Governance Statement does not comply with disclosure requirements set out in CIPFA/SOLACE guidance or is misleading or inconsistent with the information of which we are aware from our audit, • if we have applied any of our statutory powers or duties. • where we are not satisfied in respect of arrangements to secure value for money and have reported [a] significant weakness/es. We have nothing to report on these matters.



2. Financial Statements: other responsibilities under the Code

Issue	Commentary
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. The Council does not exceed the group reporting threshold therefore no additional audit procedures are required.
Certification of the closure of the audit	We intend to certify the closure of the 2022/23 audit of the Council in the audit report.

3. Value for Money arrangements (VFM)

Approach to Value for Money work for 2022/23

The National Audit Office issued its guidance for auditors in April 2020. The Code require 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 the three specified reporting criteria.

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

Potential types of recommendations

A range of different recommendations could be made following the completion of work on the body's arrangements to secure economy, efficiency and effectiveness in its use of resources, which are 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

3. VFM: our procedures and conclusions

We have completed our VFM work and our detailed commentary is set out in the separate Auditor's Annual Report, which is presented alongside this report.

As part of our work, we considered whether there were any risks of significant weakness in the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources. We did not identify any risks of significant weakness. We are satisfied that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

4. 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 and consider that an objective reasonable and informed third party would take the same view. 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 May 2020 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

Details of fees charged are detailed in Appendix D.

Transparency

Grant Thornton publishes an annual Transparency Report, which sets out details of the action we have taken over the past year to improve audit quality as well as the results of internal and external quality inspections. For more details see Grant Thornton International Transparency report 2023.

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 audit-related services were identified, as well as the threats to our independence and safeguards that have been applied to mitigate these threats.

Service	Fees £	Threats identified	Safeguards
Audit related			
Certification of Housing Benefit Claim	22,856	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 £22,856 in comparison to the total fee for the audit of £73,766 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.
		Self-review (because GT provides audit services)	To mitigate against the self-review threat , the timing of certification work is done after the audit has completed, materiality of the amounts involved to our opinion and unlikelihood of material errors arising and the Council has informed management who will decide whether to amend returns for our findings and agree the accuracy of our reports on grants.

No other non-audit services were identified.

4. Independence and ethics

As part of our assessment of our independence we note the following matters:

Matter	Conclusion
Relationships with Grant Thornton	We are not aware of any relationships between Grant Thornton and the Council that may reasonably be thought to bear on our integrity, independence and objectivity.
Relationships and Investments held by individuals	We have not identified any potential issues in respect of personal relationships with the Council or investments held by individuals.
Employment of Grant Thornton staff	We are not aware of any former Grant Thornton partners or staff being employed, or holding discussions in respect of employment, by the Group as a director or in a senior management role covering financial, accounting or control related areas.
Business relationships	We have not identified any business relationships between Grant Thornton and the Council.
Contingent fees in relation to non-audit services	No contingent fee arrangements are in place for non-audit services provided.
Gifts and hospitality	We have not identified any gifts or hospitality provided to, or received from, a member of the Council, senior management or staff.

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 and consider that an objective reasonable and informed third party would take the same view. The firm and each covered person have complied with the Financial Reporting Council's Ethical Standard and confirm that we are independent and are able to express an objective opinion on the financial statements.

Appendices

A. Communication of audit matters to those charged with governance

Our communication plan	Audit Plan	Audit Findings
Respective responsibilities of auditor and management/those charged with governance	•	
Overview of the planned scope and timing of the audit, form, timing and expected general content of communications including significant risks	•	
Confirmation of independence and objectivity	•	•
A statement that we have complied with relevant ethical requirements regarding independence. Relationships and other matters which might be thought to bear on independence. Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged. Details of safeguards applied to threats to independence	•	•
Significant findings from the audit		•
Significant matters and issue arising during the audit and written representations that have been sought		•
Significant difficulties encountered during the audit		•
Significant deficiencies in internal control identified during the audit		•
Significant matters arising in connection with related parties		•
Identification or suspicion of fraud involving management and/or which results in material misstatement of the financial statements		•
Non-compliance with laws and regulations		•
Unadjusted misstatements and material disclosure omissions		•
Expected modifications to the auditor's report, or emphasis of matter		•

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

This document, the Audit Findings, outlines those key issues, findings and other matters arising from the audit, which we consider should be communicated in writing rather than orally, together with an explanation as to how these have been resolved.

Respective responsibilities

As auditor we are responsible for performing the audit in accordance with ISAs (UK), 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.

Distribution of this Audit Findings report

Whilst we seek to ensure our audit findings are distributed to those individuals charged with governance, we are also required to distribute our findings to those members of senior management with significant operational and strategic responsibilities. We are grateful for your specific consideration and onward distribution of our report to all those charged with governance.

B. Action Plan – Audit of Financial Statements

We have identified three recommendations for the Council as a result of issues identified during the course of our audit. We have agreed our recommendations with management. The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

Assessment	Issue and risk	Recommendations
Medium	We identified that a grouped IT asset had been partially disposed in 21/22 but this had not been recorded on the FAR or in the financial statements. Whilst this was not material, it did result in the overstatement of the cost and accumulated depreciation of plant, property and equipment (but no impact on the balance sheet since the assets were fully depreciated).	Management should maintain records of Individual components of grouped assets so that changes such as disposals or impairments are reflected in the fixed asset register and in the financial statements. **Management response** Management will consider this finding and seek to identify any appropriate opportunities for providing further details in relation to grouped assets within the fixed asset register, however the scope for additional information will need to be balanced between administration time required to obtain and maintain that information compared to the materiality level, and risk, of each grouped asset.
Medium	A member of the finance team is also the system administrator for the financial reporting system and has super-user access to the system. This increases the risk of management override of controls.	Management should consider how segregation of roles within the financial reporting system could be improved, to reduce the risk of management override of controls. For example, the role of system administrator could be transferred to a member of the IT team. **Management response** The full super user role does already sit with the IT department. The super user role identified within finance is a lower role without the ability to create new users or make changes to existing user roles and responsibilities, which reduces the level of risk. There are also already robust processes in place in relation to system activities with higher levels of risk, for example controls relating to changes to bank account details, controls and authorisations relating to journals, which are also tested as part of the audit. In addition to the existing controls, we will undertake further dialogue with our system provider to identify if further reports are available which log activity undertaken by super users, and if so will put in place regular spot checks throughout the year of the output of those reports.
Low	Management were unable to provide a completed declaration of interests form for one of the members of the Council during 2022/23. This was because the member had not submitted a form to management. Absence of declarations of interest increases the risk of errors in disclosure of related party transactions. We did not identify any errors in the related party transactions disclosures in this case.	Management should take steps to ensure that members are aware of the need to declare any interests they may have which could have an actual or perceived impact on their actions on behalf of the Council and on reporting of related party transactions. **Management response** Management can confirm that declarations of interest are now in place for all members. Councillors are asked to complete forms on an annual basis, and these are followed up by Democratic Services if not received.

Controls

- High – Significant effect on financial statements
- Medium – Limited Effect on financial statements
- Low – Best practice

C. Audit Adjustments

We are required to report all non-trivial misstatements over £70,000 to those charged with governance, whether or not the accounts have been adjusted by management.

Impact of adjusted misstatements

There were no adjusted misstatements identified during the audit.

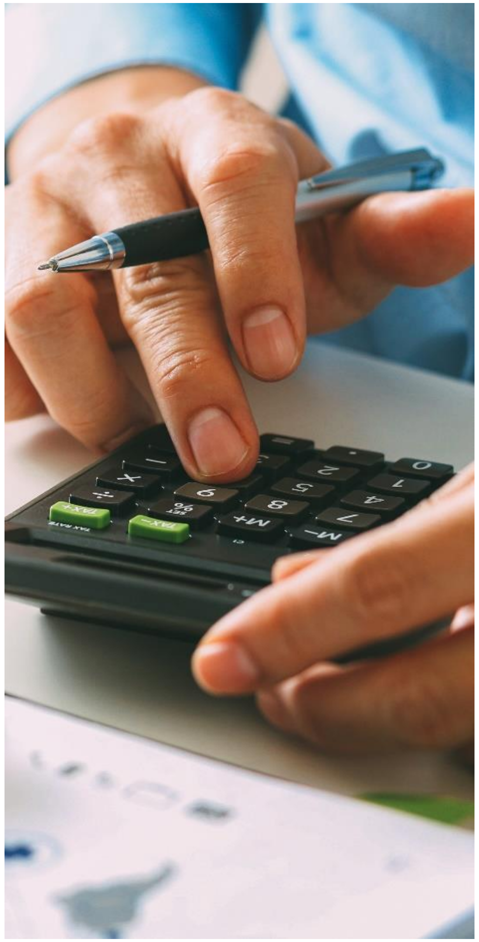
Misclassification and disclosure changes

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/issue/Omission	Auditor recommendations
Note 2 Critical judgements in applying accounting policies This note includes a disclosure relating to critical judgements in determining the risk to the Council in its role as guarantor for the pension risks associated with former employees who transferred to the leisure provider in 2019. We do not consider this to be a critical judgement, as the risk has been assessed as low and quantified as being no more than £0.2m.	We recommend removing this disclosure in order to avoid overstating the significance of this judgement to users of the accounts. **Management response** Management note the finding and will remove the disclosure as recommended.
Note 3 Assumptions made about the future and other sources of estimation uncertainty This note includes a disclosure relating to uncertainties in the impairment allowance for doubtful debt. We do not consider this to be a source of material estimation uncertainty, as the uncertainty is quantified at £0.3m.	We recommend removing this disclosure in order to avoid overstating the significance of this uncertainty to users of the accounts. **Management response** Management note the finding and will remove the disclosure as recommended.
Note 34 External audit services The fees for the audit of the financial statements and certification of grants in 2022/23 and 2021/22 do not correspond with the proposed / final fees agreed with management.	We recommend that the disclosure should be amended so that the proposed and actual fees for audit are in line with those agreed with management. **Management response** Management note the finding and will remove the disclosure as recommended.

In addition, a small number of minor changes have been agreed with management in relation to disclosures in the financial statements and other information to improve accuracy, clarity and understandability. The final set of accounts remains subject to review ahead of closure of the audit.

C. Audit Adjustments



Impact of unadjusted misstatements

The table below provides details of adjustments identified during the 2022/23 audit which have not been made within the final set of financial statements. The Audit 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	Impact on general fund £'000	Reason for not adjusting
Plant, Property and Equipment		169			Not material
Depreciation *To reflect the impact of extending asset lives beyond that used to estimate depreciation*	(169)		(169)	nil	
Overall impact	(169)	169	(169)	nil	

Impact of prior year unadjusted misstatements

All adjustments identified during the prior year audit were amended within the final set of 2021/22 financial statements

D. Fees and non-audit services

We confirm below our final fees charged for the audit.

Audit fees	Proposed fee	Final fee
Scale fee	£45,116	£45,116
Value for Money audit – new NAO requirements	£9,000	£9,000
Increased audit requirements of ISA 540 / 700	£2,100	£2,100
Additional journals testing	£3,000	£3,000
Enhanced audit procedures for payroll – change of circumstances testing	£500	£500
Enhanced audit procedures for Collection Fund – reliefs testing	£750	£750
Increased audit requirements of revised ISA 315	£3,000	£3,000
Additional testing of pensions data required following the recent triennial review	£5,000	£5,000
Other – additional time required to complete sample testing and for extended project management due to delay in audit completion.	-	£5,300
Total audit fees (excluding VAT)	**£68,466**	**£73,766**

D. Fees and non-audit services

Non-audit fees for other services	Proposed fee
Audit Related Services	
Certification of Housing Benefit Subsidy Claim	£22,856
Total non-audit fees (excluding VAT)	£22,856

The fees reconcile to the financial statements as follows:

	Audit fee	Certification of Housing Benefit Subsidy claim
Fee per financial statements	£59,000	£18,000
Fee per pages 32 & 33	£73,766	£22,856
Difference	£9,466	£2,000
Explanation	The fee reported in the financial statements includes the scale fee element of the 2022/23 audit fee (£45,116) plus part of the fee variation in respect of the 2021/22 audit (£14,000), since this amount was not confirmed until the 2021/22 financial year. The remaining fee variation for 2021/22 and the variation in respect of the 2022/23 audit will be recognised in future financial statements according to when the fee variations are finalised.	The fee reported in the financial statements relates to certification work for the 2021/22 Housing Benefit Subsidy Claim, which was carried out in 2022/23. The fee for the certification of the 2022/23 Housing Benefit Subsidy Claim will be recognised in the 2023/24 financial statements, in accordance with the timing of the work.

None of the above services were provided on a contingent fee basis.

This covers all services provided by us and our network to the Council, its directors and senior management and its affiliates, and other services provided to other known connected parties that may reasonably be thought to bear on our integrity, objectivity or independence (The FRC Ethical Standard (ES 1.69)).

E. Auditing developments

Revised ISAs

There are changes to the following ISA (UK):

ISA (UK) 315 (Revised July 2020) 'Identifying and Assessing the Risks of Material Misstatement'
This impacts audits of financial statement for periods commencing on or after 15 December 2021.
ISA (UK) 220 (Revised July 2021) 'Quality Management for an Audit of Financial Statements'
ISA (UK) 240 (Revised May 2021) 'The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements

A summary of the impact of the key changes on various aspects of the audit is included below:

These changes will impact audit for audits of financial statement for periods commencing on or after 15 December 2022.

Area of change	Impact of changes
Risk assessment	The nature, timing and extent of audit procedures performed in support of the audit opinion may change due to clarification of: • the risk assessment process, which provides the basis for the assessment of the risks of material misstatement and the designof audit procedures • the identification and extent of work effort needed for indirect and direct controls in the system of internal control • the controls for which design and implementation needs to be assess and how that impacts sampling • the considerations for using automated tools and techniques.
Direction, supervision and review of the engagement	Greater responsibilities, audit procedures and actions are assigned directly to the engagement partner, resulting in increased involvement in the performance and review of audit procedures.
Professional scepticism	The design, nature, timing and extent of audit procedures performed in support of the audit opinion may change due to: • increased emphasis on the exercise of professional judgement and professional scepticism • an equal focus on both corroborative and contradictory information obtained and used in generating audit evidence • increased guidance on management and auditor bias • additional focus on the authenticity of information used as audit evidence • a focus on response to inquiries that appear implausible
Definition of engagement team	The definition of engagement team when applied in a group audit, will include both the group auditors and the component auditors. The implications of this will become clearer when the auditing standard governing special considerations for group audits is finalised. In the interim, the expectation is that this will extend a number of requirements in the standard directed at the 'engagement team' to component auditors in addition to the group auditor. • Consideration is also being given to the potential impacts on confidentiality and independence.
Fraud	The design, nature timing and extent of audit procedures performed in support of the audit opinion may change due to: • clarification of the requirements relating to understanding fraud risk factors • additional communications with management or those charged with governance
Documentation	The amendments to these auditing standards will also result in additional documentation requirements to demonstrate how these requirements have been addressed.

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