

The Audit Findings for Tamworth Borough Council

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Year ended 31 March 2020
29 October 2020



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The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed for the purpose of expressing our opinion on the financial statements. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose all defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify. 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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Headlines

This table summarises the key findings and other matters arising from the statutory audit of Tamworth Borough Council ('the Council') and the preparation of the Council's financial statements for the year ended 31 March 2020 for those charged with governance.

Financial Statements

Under International Standards of Audit (UK) (ISAs) and the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion, the Council's financial statements:

- give a true and fair view of the financial position of the Council and its income and expenditure for the year; and
- have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting and prepared in accordance with the Local Audit and Accountability Act 2014.

We are also required to report whether other information published together with the audited financial statements (including the Annual Governance Statement (AGS), and Narrative Report), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

Our audit work was completed during September and October. Our findings are summarised on pages 4 to 13. We have not yet identified any adjustments to the financial statements.

Our work is substantially complete and there are no matters of which we are aware that would require modification of our audit opinion (included as Appendix B), subject to the outstanding matters detailed on the next page.

We have concluded that the other information to be published with the financial statements is consistent with our knowledge of your organisation and the financial statements we have audited.

Our anticipated audit report opinion will be unmodified. We propose that our audit report will include an Emphasis of Matter paragraph, highlighting the material uncertainties in asset valuations stated in your accounts due to the Covid-19 pandemic. This will draw attention to this issue and is not a qualification of our audit opinion.

The Council made some disclosure changes at audit which included correcting prior year comparatives, clarifying actual external audit fees for 2019/20 and enhancing disclosures in relation to the Covid-19 Pandemic including going concern and estimation uncertainty. This was in addition to some minor amendments for typing, rounding and formatting errors.

Covid-19

The outbreak of the Covid-19 coronavirus pandemic has had a significant impact on the normal operations of the Council. Authorities are still required to prepare financial statements in accordance with the relevant accounting standards and the Code of Audit Practice, albeit to an extended deadline for the preparation of the financial statements up to 31 August 2020 and the date for audited financial statements to 30 November 2020. The Council has faced many front-line challenges such as administration of grants to businesses, closure of schools and leisure centres alongside the additional challenges of reopening services under new government guidelines. Finance staff have had to work at home.

We have considered emerging guidance issued by the Financial Reporting Council and actively contributed to audit firm and NAO technical meetings where the impact of the virus on the financial reporting disclosures and audit approach has been discussed.

Restrictions resulted in both the Council and audit team introducing new remote access working arrangements including remote accessing financial systems, video calling as well as making greater use of 'Inflo', our document management sharing system.

We updated our audit risk assessment to consider the impact of the pandemic on our audit and issued an audit plan addendum on 9 April 2020. In that addendum we reported an additional financial statement risk in respect of Covid -19 .

Headlines

This table summarises the key findings and other matters arising from the statutory audit of Tamworth Borough Council ('the Council') and the preparation of the Council's financial statements for the year ended 31 March 2020 for those charged with governance.

Value for Money arrangements

Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report if, in our opinion, the Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources ('the value for money (VFM) conclusion').

We have completed our risk based review of the Council's value for money arrangements. We have concluded that Tamworth Borough Council has proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

We therefore anticipate issuing an unqualified value for money conclusion, as detailed in Appendix B. Our findings are summarised on pages 14 to 16.

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 required under the Code, and expect to be able to certify the completion of the audit when we give our audit opinion.

Acknowledgements

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

Summary

Overview of the scope of our audit

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

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.

Our approach to materiality

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

Materiality calculations were revised from that reported in our audit plan to reflect higher outturn expenditure in 2019/20.

	Amount (£)
Materiality for the financial statements	1,200,000
Performance materiality	900,000
Trivial matters	60,000
Materiality for disclosures relating to:	100,000
<ul style="list-style-type: none"> • Senior Officer Remuneration; and • Exit Packages. 	

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

We have not had to alter or change our audit plan, as communicated to you in February 2020.

Conclusion

We have substantially completed our audit of your financial statements and subject to outstanding queries being resolved, we anticipate issuing an unqualified audit opinion following the Audit and Governance Committee meeting on 29 October 2020, as detailed in Appendix B. These outstanding items include:

- completion of final aspects of our work to challenge the work of the Council's actuary and receipt and consideration of the IAS19 report from Staffordshire Pension Fund's external auditor
- completion of our work to challenge the revaluations performed on the Council's land and buildings, and finalisation of sample testing of the Council's assumptions used for the valuation of assets;
- receipt of final two direct confirmations for investments held. Confirmations received by the Council have already been reviewed.
- quality reviews by the audit manager and engagement lead;
- receipt of the signed management representation letter; and
- review of the final, approved, set of financial statements.

Significant findings – audit risks

Risks identified in our Audit Plan	Commentary
<p>1 The revenue cycle includes fraudulent transactions</p> <p>Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue.</p> <p>This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.</p>	<p>Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the Authority, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:</p> <ul style="list-style-type: none"> • there is little incentive to manipulate revenue recognition; • opportunities to manipulate revenue recognition are very limited; and • the culture and ethical frameworks of local authorities, including the Authority, mean that all forms of fraud are seen as unacceptable. <p>Therefore we do not consider this to be a significant risk for Tamworth Borough Council.</p> <p>Our audit work has not identified any issues in respect of revenue recognition.</p>
<p>2 Management override of controls</p> <p>Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities.</p> <p>We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>	<p>We have:</p> <ul style="list-style-type: none"> • evaluated the design effectiveness of management controls over journals; • analysed the journals listing and determine the criteria for selecting high risk unusual journals; • tested unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration; • gained an understanding of the accounting estimates and critical judgements applied made by management and consider their reasonableness with regard to corroborative evidence; and • evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions. <p>Our audit work has not identified any issues in respect of management override of controls. However our testing did identify some control issues on journals that could lead to an increased risk of fraud although no fraud was identified from our testing. This related to the fact that the most senior finance staff can post journals.</p>

Significant findings – audit risks

Risks identified in our Audit Plan

Commentary

3

Valuation of land and buildings

The Authority revalue PPE land and buildings on a rolling five-yearly basis, and investment properties every year.

This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved and the sensitivity of this estimate to changes in key assumptions.

Additionally, management will need to ensure the carrying value in the Authority financial statements is not materially different from the current value or the fair value (for surplus and investment assets) at the financial statements date, where not all assets are valued in the financial year.

We therefore identified valuation of land and buildings, particularly revaluations and impairments, as a significant risk.

We have:

- evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work;
- evaluated the competence, capabilities and objectivity of the valuation expert;
- communicated with the valuer to confirm the basis on which the valuation was carried out;
- challenged the information and assumptions used by the valuer to assess completeness and consistency with our understanding;
- tested revaluations made during the year to see if they had been input correctly into the Authority's asset register; and
- evaluated the assumptions made by management for those assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value at year end.

Our audit work in this area is ongoing. We are waiting an explanation for challenge on some increases in investment property. We are also awaiting evidence to back up the assumptions made for a sample of valuations.

We propose that our audit report will include an Emphasis of Matter paragraph, highlighting the material uncertainties in asset valuations stated in your accounts due to the Covid-19 pandemic. This will draw attention to this issue and is not a qualification of our audit opinion

Significant findings – audit risks

Risks identified in our Audit Plan

Commentary

4

Valuation of pension fund net liability

The Authority's pension fund net liability, as reflected in its balance sheet as the net defined benefit liability, represents a significant estimate in the financial statements.

The pension fund net liability is considered a significant estimate due to the size of the numbers involved (£41.2 million in the Authority's balance sheet) and the sensitivity of the estimate to changes in key assumptions.

We therefore identified valuation of the Authority'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 Authority's pension fund net liability is not materially misstated and evaluate the design of the associated controls;
- evaluated the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work;
- assessed the competence, capabilities and objectivity of the actuary who carried out the Authority's pension fund valuation;
- assessed the accuracy and completeness of the information provided by the Authority to the actuary to estimate the liability;
- 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 consulting actuary (as auditor's expert) and performing any additional procedures suggested within the report.
- obtained 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.

The Council instructed its actuary to reconsider the net pensions liability based on actual asset valuation as at 31 March 2020 and also taking into account the recent McCloud restitution proposals. This demonstrated that collectively they did not have a material impact.

Our audit work in this area is ongoing, but has not identified any other issues in respect of valuation of the Council's net pension liability at the time of writing our report.

Significant audit risks

Risks identified in our Audit Plan

4

Covid-19 pandemic

The global outbreak of the Covid-19 virus pandemic has led to unprecedented uncertainty for all organisations, requiring urgent business continuity arrangements to be implemented. We expect current circumstances will have an impact on the production and audit of the financial statements for the year ended 31 March 2020, including and not limited to: Remote working arrangements and redeployment of staff to critical front line duties may impact on the quality and timing of the production of the financial statements, and the evidence we can obtain through physical observation

Volatility of financial and property markets will increase the uncertainty of assumptions applied by management to asset valuation and receivable recovery estimates, and the reliability of evidence we can obtain to corroborate management estimates

Financial uncertainty will require management to reconsider financial forecasts supporting their going concern assessment and whether material uncertainties for a period of at least 12 months from the anticipated date of approval of the audited financial statements have arisen; and Disclosures within the financial statements will require significant revision to reflect the unprecedented situation and its impact on the preparation of the financial statements as at 31 March 2020 in accordance with IAS1, particularly in relation to material uncertainties.

We therefore identified the global outbreak of the Covid-19 virus as a significant risk, which was one of the most significant assessed risks of material misstatement

Auditor commentary

We carried out the following work

- Worked with management to understand the implications the response to the Covid-19 pandemic has on the organisation's ability to prepare the financial statements and update financial forecasts and assess the implications on our audit approach
- Liaised with other audit suppliers, regulators and government departments to co-ordinate practical cross sector responses to issues as and when they arise
- Evaluated the adequacy of the disclosures in the financial statements in light of the Covid-19 pandemic.
- Evaluated whether sufficient audit evidence using alternative approaches can be obtained for the purposes of our audit whilst working remotely
- Evaluated whether sufficient audit evidence can be obtained to corroborate significant management estimates such as asset valuations and recovery of receivable balances
- Evaluated management's assumptions that underpin the revised financial forecasts and the impact on management's going concern assessment
- Discussed with management any potential implications for our audit report if we have been unable to obtain sufficient audit evidence

Conclusion

The audit has been more challenging for both us and the finance team due to this remote working. There are material uncertainties in the valuation of land and buildings as a result of the pandemic which are referred to on page 9 and an increased risk of material estimation uncertainty in the net pension liability. There is also a negative impact as elsewhere on the Council's financial sustainability as discussed further in the value for money section of this report

Significant findings – key judgements and estimates


	Summary of management’s policy	Audit Comments	Assessment																								
Net pension liability	<p>The Council’s net pension liability at 31 March 2020 is £41.2m (PY £50.9m) comprising obligations under the Staffordshire Pension Fund Local Government pension scheme.</p> <p>The Council uses Hymans Robertson to provide actuarial valuations of the Council’s assets and liabilities derived from the schemes.</p> <p>A full actuarial valuation is required every three years. The latest full actuarial valuation was completed in 2019. A roll forward approach is used in intervening periods, which utilises key assumptions such as life expectancy, discount rates, salary growth and investment returns.</p> <p>Given the significant value of the net pension fund liability, small changes in assumptions can result in significant valuation movements.</p>	<ul style="list-style-type: none"> We have no concerns over the competence, capabilities and objectivity of the actuary used by the Council. We have used the work of PwC, as auditors expert, to assess the actuary and assumptions made by the actuary. See below for consideration of key assumptions in the Pension Fund valuation: 	●																								
Final: £41.2m		<table border="1"> <thead> <tr> <th>Assumption</th> <th>Actuary’s Value</th> <th>PwC’s expected range</th> <th>Assessment</th> </tr> </thead> <tbody> <tr> <td>Discount rate</td> <td>2.3%</td> <td>2.3%</td> <td style="text-align: center;">●</td> </tr> <tr> <td>Pension increase rate</td> <td>1.9%</td> <td>1.8% - 2%</td> <td style="text-align: center;">●</td> </tr> <tr> <td>Salary growth</td> <td>2.3%</td> <td>1.9% to 2.8%</td> <td style="text-align: center;">●</td> </tr> <tr> <td>Life expectancy – Males currently aged 45 / 65</td> <td>21.2 22.1</td> <td>20.5-22.2 21.6-23.3</td> <td style="text-align: center;">●</td> </tr> <tr> <td>Life expectancy – Females currently aged 45 / 65</td> <td>23.6 25</td> <td>22.9-24.3 24.6-26.3</td> <td style="text-align: center;">●</td> </tr> </tbody> </table>	Assumption	Actuary’s Value	PwC’s expected range	Assessment	Discount rate	2.3%	2.3%	●	Pension increase rate	1.9%	1.8% - 2%	●	Salary growth	2.3%	1.9% to 2.8%	●	Life expectancy – Males currently aged 45 / 65	21.2 22.1	20.5-22.2 21.6-23.3	●	Life expectancy – Females currently aged 45 / 65	23.6 25	22.9-24.3 24.6-26.3	●	
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		<ul style="list-style-type: none"> No issues were noted with the completeness and accuracy of the underlying information used to determine the estimate. There have been no changes to the valuation method since the previous year, other than the updating of key assumptions above. We have confirmed that the Council’s share of the pension scheme assets is in line with expectations. Disclosure of the estimate in the financial statements is considered adequate. 																									

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Assessment

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


Significant findings – key judgements and estimates

Accounting area	Summary of management's policy	Audit Comments	Assessment
Provision for NNDR appeals £2.032m	<p>The Council are responsible for repaying a proportion of successful rateable value appeals. Management use historic data relating to appeal success rates and the latest information about outstanding rates appeals provided by the Valuation Office Agency (VOA) to calculate the level of provision required.</p>	<ul style="list-style-type: none"> We have not yet noted any issues with the completeness and accuracy of the underlying information used to determine the estimate. We have considered the approach taken by the Council to determine the provision, and it is in line with that used by other bodies in the sector. Disclosure of the estimate in the financial statements is considered adequate. There have been no changes to the calculation method this year. 	
Valuation of Land and Buildings £222.9m	<p>The Council has engaged the Valuers to complete the valuation of its properties. The Council owns a number of dwellings and is required to revalue these properties in accordance with DCLG's Stock Valuation for Resource Accounting guidance. The guidance requires the use of beacon methodology, in which a detailed valuation of representative property types is then applied to similar properties.</p> <p>The total year end valuation of land and buildings (including dwellings) was £222.9m, a net increase of £22.7m from 2018/19 (£200.2m).</p>	<ul style="list-style-type: none"> We have not noted any issues with the completeness and accuracy of the underlying information used to determine the estimate but this work is still ongoing. We have no concerns over the competence, capabilities and objectivity of the valuation expert used by the Council. There have been no changes to the valuation method this year. We have considered the movements in the valuations of individual assets and their consistency with indices provided by Gerald Eve as our auditor's expert. This work has not raised any issues with the 2019/20 valuations. Your accounts highlight the material uncertainties in asset valuations stated in your accounts due to the Covid-19 pandemic. Disclosure of the estimate in the financial statements is considered adequate. 	TBC

Assessment

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

Significant findings – key judgements and estimates

Accounting area	Summary of management's policy	Audit Comments	Assessment
Valuation of Investment Properties £23.5m	<p>The Council has a number of assets that it has determined to be investment properties. Investment properties must be included in the balance sheet at fair value (the price that would be received in an orderly transaction between market participants at the measurement date) so these assets are valued every year at 31 March.</p> <p>The year end valuation of the Council's investment property was £23.5m, a net increase of £1m from 2018/19 (£22.5m).</p>	<ul style="list-style-type: none"> We have not yet noted any issues with the completeness and accuracy of the underlying information used to determine the estimate but this work is ongoing. We have no concerns over the competence, capabilities and objectivity of the valuation expert used by the Council. There have been no changes to the valuation method this year. We have considered the movements in the valuations of individual assets and their consistency with indices provided by Gerald Eve as our auditor's expert. We are waiting an explanation from your valuer for variations.. Disclosure of the estimate in the financial statements is considered adequate. 	TBC
Other accruals and estimates	<p>The Council continues to apply estimates and judgements in a number of areas, such as accruals of income and expenditure.</p>	<ul style="list-style-type: none"> The policies for these items are in line with accounting standards and the requirements of the Code of Practice on Local Authority Accounting. Disclosure of the estimates in the financial statements is considered adequate. As part of our testing, we have reviewed the judgements applied by the Council relating to these items, and significant balances within these have been discussed with management in detail. We have found no material misstatements in the financial statements relating to these balances. As part of our review of the provision for bad debt for council tax and NNDR, we reviewed collection rates for the period up to 30 September 2020. Council tax collection rates for the first six months of the 2020/21 year were 56.57% against a target of 58.6% and business rates collection rates were 54.28% against a target of 57.5%. 	

Assessment

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

Going concern

Our responsibility

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

It has been a challenging year due to the Covid-19 pandemic which has seen the administration of grants to businesses, closure of car parks with additional challenges of reopening services under new government guidelines and the need to free up capacity of teams in addition to normal responsibilities. The Council is facing new and increased challenges to its financial sustainability. Given the sensitive nature of these disclosures, we have identified this as an area of focus in our audit.

Going concern commentary

Management's assessment process

The Council approved a budget for the financial year 2020/21, and updated the Medium Term Financial Strategy (MTFS), which sets out spending and resources for three years ahead. The s151 Officer has reported (under Section 25 of the Local Government Act 2003) that the budget proposals are based on robust estimates, and that the level of reserves is adequate for 2020/21. He has recently re-assessed the medium term financial position in light of the Pandemic and other factors which demonstrated additional pressures in 2020/21 and beyond. The Council do not consider that there will be any liquidity issues in this assessment period.

Auditor commentary

ISA (UK) 570 requires the auditor to evaluate management's assessment of the entity's ability to continue as a going concern for at least 12 months from the date of the accounts. We have gained assurance that management's use of the going concern basis of accounting is reasonable and appropriate. Management's forward planning process is thorough and transparent. This determination is made by personnel who are sufficiently senior and experienced.

The Council's arrangements to set a budget, taking into account its key funding sources and expenditure requirements are appropriate. Management's assessment is comprehensive and does not include assumptions on additional government funding where funding is expected not yet known. It takes into account the impact of Covid-19 which has significantly affected the financial outlook. The Council consider themselves a going concern as they will continue to provide services according to the public sector presumption and they do not consider there to be any material uncertainties.

Work performed

We reviewed the 2020/21 budget and updated MTFS as part of our Value for Money Conclusion risk assessment. We also considered management's recent updated view on the financial position due to the Covid-19 pandemic. We also considered the most recent management assessment and reviewed the underlying cash flow forecasts.

The Council's financial forecasts show that it has sufficient assets available to meet its liabilities for the foreseeable future. We have considered these forecasts, and the Council's past performance against its budgets, and have no concerns over the Council's financial plans.

We did not identify any material uncertainties relating to going concern up to the end of November 2021.

Our review of the assertions made and did not identify any further risk issues. We are not aware of any events or conditions that we are aware of that cast significant doubt on the Council's ability to continue as a going concern for 12 months from our proposed opinion date.

Concluding comments

There is no impact on our audit opinion from our management's going concern assessment.

We are satisfied that there are no events or conditions identified in the course of the audit that cast significant doubt on the Council's ability to continue as a going concern and intend to issue an unqualified opinion in this regard.

We have noted as part of our review of the MTFS that the forecast position to the end of 2021/22 includes additional pressures and risks. The outlook is challenging and requires the Council to deliver further savings and increase its income.

Other communication requirements

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

Issue	Commentary
① Matters in relation to fraud	We have previously discussed the risk of fraud with the Audit and Governance Committee. We have not been made aware of any incidents in the period and no issues have been identified during the course of our audit procedures.
② Matters in relation to related parties	We are not aware of any related parties or related party transactions which have not been disclosed.
③ Matters in relation to laws and regulations	You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work.
④ Written representations	A standard letter of representation has been requested from the Council, which is included in the Committee papers.
⑤ Confirmation requests from third parties	We requested from management permission to send confirmation requests to the Council's counterparties. This permission was granted and the requests were sent. Where responses were not received, we undertook alternative procedures to confirm balances with no issues noted.
⑥ Disclosures	Our review found no material omissions in the financial statements.
⑦ Audit evidence and explanations/significant difficulties	All information and explanations requested from management was provided.

Other responsibilities under the Code

Issue	Commentary
<p>1 Other information</p>	<p>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 the Narrative Report), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.</p> <p>No inconsistencies have been identified. We plan to issue an unmodified opinion in this respect (per Appendix C).</p>
<p>2 Matters on which we report by exception</p>	<p>We are required to report on a number of matters by exception in a numbers of areas:</p> <ul style="list-style-type: none"> • If the Annual Governance Statement does not meet the disclosure requirements set out in the CIPFA/SOLACE guidance or is misleading or inconsistent with the other information of which we are aware from our audit • If we have applied any of our statutory powers or duties <p>We have nothing to report on these matters.</p>
<p>3 Specified procedures for Whole of Government Accounts</p>	<p>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.</p> <p>This work is not required as the Council does not exceed the threshold.</p>
<p>4 Certification of the closure of the audit</p>	<p>We intend to certify the closure of the 2019/20 audit of Tamworth Borough Council in the audit opinion, as detailed in Appendix C.</p>

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Value for Money

Background to our VFM approach

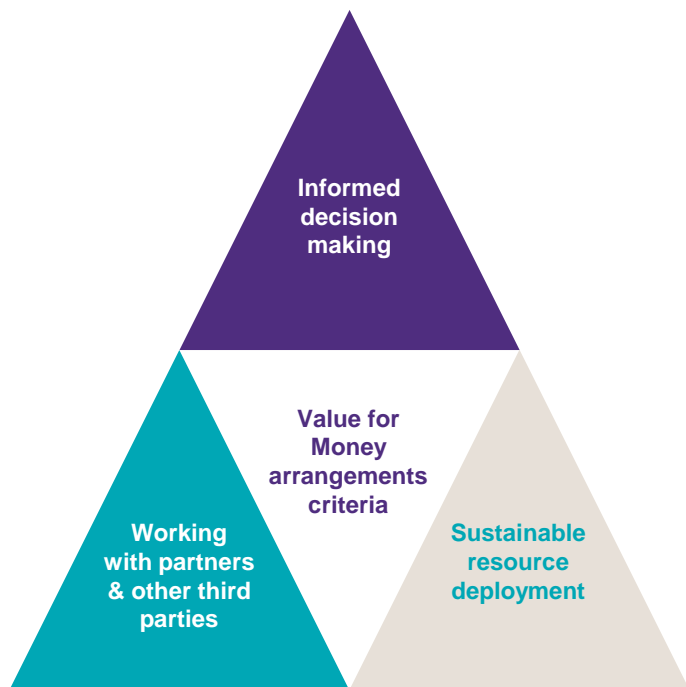
We are required to satisfy ourselves that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the Value for Money (VFM) conclusion.

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

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

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

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Risk assessment

We carried out an initial risk assessment in February 2020 and did not identify any significant risks in respect of specific areas of proper arrangements using the guidance contained in AGN03. We communicated this to you in our Audit Plan in February 2019.

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

We only carry out further work in respect of the significant risks we identified from our initial and ongoing risk assessment. Where our consideration of the significant risks determined that arrangements were not operating effectively, we have used the examples of proper arrangements from AGN 03 to explain the gaps in proper arrangements that we have reported in our VFM conclusion.

Value for Money

Our work

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

We completed our planning in this area in February and did not identify any significant risks in the audit plan we issued. We have updated our risk based planning and did not identify any new risks.

Findings

As part of our continuous planning we considered the Council's, outturn financial position for 2019/20, progress in setting its budget for the 2020/21 year, and also the updated medium term financial strategy (MTFS) in light of the Covid-19 Pandemic. We considered the appropriateness of the process followed, including any actions taken to mitigate the Council's risk. The Council's reporting on its forward planning and budget setting was considered to be transparent, clearly setting out key assumptions and risks such as the uncertainties around future government funding.

The Council finished the 2019/20 financial year with an underspend (£418k) against budget. This continues the Council's performance of strong budget management.

The medium to long term financial position remains challenging. The original MTFS included the planned use of General Fund reserves, which would reduce the available balance to £0.5m by the end of 2022/23. Due to reductions in income and additional cost pressures, without further action or additional income, the Council has forecast that it will have exhausted its general Fund balance by the end of 2022/23. This is not an acceptable position as the Council needs to retain sufficient balances to respond to any future emergencies.

The Council is aware of this and has already taken action in the short term to mitigate the impact. These actions include a suspension of non-essential spending and a vacancy freeze. It is also taking proposals for further savings to Cabinet in October. Further savings of £1.6m are likely to be needed over 5 years.

The Council acknowledge that this is not sustainable in the long-term. Work is ongoing in a number of areas to address the financial position in future years, including future options for the Council's commercial investment strategy. It is important that progress on this work is carefully monitored by members.

Overall conclusion

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

The text of our report, which confirms this can be found at Appendix B.

Significant difficulties in undertaking our work

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

Significant matters discussed with management

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

Independence and ethics

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

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

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

Details of fees charged are detailed in Appendix B

Audit and Non-audit services

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

	Fees £	Threats identified	Safeguards
Audit related			
Certification of Housing Benefits claim	12,000	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 £12,000 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 mitigate the perceived self-interest threat to an acceptable level
Non-audit related			
No non-audit related services identified.			

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

Fees

We set out below our fees for the audit and provision of non-audit services.

Audit Fees

	Proposed fee £	Final fee £
Council Audit	45,875	TBC

Over the past six months the pandemic has had a significant impact on all of our lives, both at work and at home and the recent announcements show that this is now likely to continue for some time to come. Our focus as a firm has been to protect our people while continuing to progress our audits so that we are able to deliver as many as possible to the 30 November timetable.

The impact of COVID 19 on the audit of your financial statements includes:

- Revisiting planning - we have needed to revisit our planning and refresh risk assessments, materiality and testing levels. This has driven additional areas of audit work (see below).
- Management's assumptions and estimates - there is increased uncertainty over many estimates including property, pension and other investment valuations. Many of these valuations are impacted by the reduction in economic activity and we are required to understand and challenge the assumptions applied by management. There are similar challenges for management and ourselves on areas such as credit loss allowances, financial guarantees, and other provisions.
- Financial resilience assessment – we are required to consider the financial resilience of audited bodies. COVID 19 has impacted on the financial resilience of all local government bodies, including Tamworth. This has increased the amount of work that we have undertake on going concern and value for money (financial sustainability). In your report we make reference to the long term financial resilience of the Council. We have not had to include an emphasis of matter or use our statutory powers
- Remote working – the most significant impact in terms of delivery is the move to remote working (both our teams and yours). The Council has worked effectively with us. Despite our efforts and the Council's we have needed to put additional resources into the audit. Where possible we have mitigated this with reduced travel and expense costs

We have been discussing this issue with PSAA over the last few months and note these issues are similar to those experienced in the commercial sector and NHS. In both sectors there has been a recognition that audits will take longer with commercial audit deadlines being extended by 4 months and NHS deadline by a month. The FRC has also issued guidance to companies and auditors setting out its expectation that audit standards remain high and of additional work needed across all audits. The link attached <https://www.frc.org.uk/covid-19-guidance-and-advice> (see guidance for auditors) sets out the expectations of the FRC.

The impact of the matters outlined above have increased the cost of the audit .We will discuss the revised final fee with you shortly.

	Fees £
Fees for other services	
Certification of Housing Benefits claim	12,000

Audit opinion

We anticipate we will provide the Council with an unmodified audit report

Independent auditor's report to the members of Tamworth Borough Council

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Tamworth Borough Council (the 'Authority') for the year ended 31 March 2020 which comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement, the Housing Revenue Account Income and Expenditure Statement, the Movement on the Housing Revenue Account Statement, the Collection Fund Statement and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2019/20.

In our opinion, the financial statements:

- give a true and fair view of the financial position of the Authority as at 31 March 2020 and of its expenditure and income for the year then ended;
- have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2019/20; and
- have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the 'Auditor's responsibilities for the audit of the financial statements' section of our report. We are independent of the Authority in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

The impact of macro-economic uncertainties on our audit

Our audit of the financial statements requires us to obtain an understanding of all relevant uncertainties, including those arising as a consequence of the effects of macro-economic uncertainties such as Covid-19 and Brexit. All audits assess and challenge the reasonableness of estimates made by the Director of Finance and Legal and the related disclosures and the appropriateness of the going concern basis of preparation of the financial statements. All of these depend on assessments of the future economic environment and the Authority's future operational arrangements.

Covid-19 and Brexit are amongst the most significant economic events currently faced by the UK, and at the date of this report their effects are subject to unprecedented levels of uncertainty, with the full range of possible outcomes and their impacts unknown. We applied a standardised firm-wide approach in response to these uncertainties when assessing the Authority's future operational arrangements. However, no audit should be expected to predict the unknowable factors or all possible future implications for an authority associated with these particular events.

Audit opinion

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Executive Director Finance's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Executive Director Finance has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Authority's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

In our evaluation of the Executive Director Finance's conclusions, and in accordance with the expectation set out within the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2019/20 that the Authority's financial statements shall be prepared on a going concern basis, we considered the risks associated with the Authority's operating activities, including effects arising from macro-economic uncertainties such as Covid-19 and Brexit. We analysed how those risks might affect the Authority's financial resources or ability to continue operations over the period of at least twelve months from the date when the financial statements are authorised for issue. In accordance with the above, we have nothing to report in these respects.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the Authority will continue in operation.

Emphasis of Matter – effects of Covid-19 on the valuation of land and buildings and pensions liability

We draw attention to Note 4 of the financial statements, which describes the effects of the Covid-19 pandemic on the valuation of the Authority's land and buildings and investment properties and the Authority's share of the pension fund's property investments as at 31 March 2020. As, disclosed in note 4 to the financial statements, the outbreak of Covid-19 has impacted global financial markets and as at the valuation date, less weight can be attached to previous market evidence to inform opinions of value. A material valuation uncertainty was therefore disclosed in both the Authority's property valuer's report and the pension fund's property valuation reports. Our opinion is not modified in respect of this matter.

Other information

The Executive Director Finance is responsible for the other information. The other information comprises the information included in the Statement of Accounts, the Narrative Report, the Annual Governance Statement other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge of the Authority obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Audit opinion

Opinion on other matter required by the Code of Audit Practice

In our opinion, based on the work undertaken in the course of the audit of the financial statements and our knowledge of the Authority gained through our work in relation to the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources, the other information published together with the financial statements in the Statement of Accounts, the Narrative Report, the Annual Governance Statement for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

Under the Code of Audit Practice, we are required to report to you if:

- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make a written recommendation to the Authority under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or;
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014, in the course of, or at the conclusion of the audit.

We have nothing to report in respect of the above matters.

Responsibilities of the Authority, the Executive Director Finance and Legal and Those Charged with Governance for the financial statements

As explained more fully in the Statement of Responsibilities set out on page 24, the Authority is required to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the Executive Director Finance. The Executive Director Finance's responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2019/20, for being satisfied that they give a true and fair view, and for such internal control as the Executive Director Finance determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Executive Director Finance is responsible for assessing the Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless there is an intention by government that the services provided by the Authority will no longer be provided.

The Audit and Governance is Those Charged with Governance. Those charged with governance are responsible for overseeing the Authority's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Audit opinion

Report on other legal and regulatory requirements - Conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

Conclusion

On the basis of our work, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in April 2020, we are satisfied that the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2020.

Responsibilities of the Authority

The Authority is responsible for putting in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

Auditor's responsibilities for the review of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to be satisfied that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in April 2020, as to whether in all significant respects the Authority had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined this criterion as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2020.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to be satisfied that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

Report on other legal and regulatory requirements - Certificate

We certify that we have completed the audit of the financial statements of the Tamworth Borough Council in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice

Use of our report

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the Authority's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

Mark Stocks, Key Audit Partner
for and on behalf of Grant Thornton UK LLP, Local Auditor

Birmingham

November 2020

