

The Annual Audit Letter for Tamworth Borough Council

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Year ended 31 March 2020
8 January 2021



Agenda Item 4

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Your key Grant Thornton
team members are:

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Mark Stocks

Key Audit Partner

T: 0121 232 5437

E: mark.c.stocks@uk.gt.com

Terry Tobin

Senior Manager

T: 0121 232 5376

E: terry.p.tobin@uk.gt.com

Aaron Smallwood

In-Charge Auditor

T: 0121 232 5336

E: aaron.k.smallwod@uk.gt.com

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Executive Summary

Purpose

Our Annual Audit Letter (Letter) summarises the key findings arising from the work that we have carried out at Tamworth Borough Council (the Council) for the year ended 31 March 2020.

This Letter is intended to provide a commentary on the results of our work to the Council and external stakeholders, and to highlight issues that we wish to draw to the attention of the public. In preparing this Letter, we have followed the National Audit Office (NAO)'s Code of Audit Practice and Auditor Guidance Note (AGN) 07 – 'Auditor Reporting'. We reported the detailed findings from our audit work to the Council's Audit and Governance Committee as those charged with governance in our Audit Findings Report on 20 November 2020.

Our work

Materiality

We determined materiality for the audit of the Council's financial statements to be £1,200,000, which is 2% of the Council's gross revenue expenditure.

Financial Statements opinion

We gave an unqualified opinion on the Council's financial statements on 20 November 2020. This was the first opinion we issued at a Staffordshire council for 2019/20.

Whole of Government Accounts (WGA)

We completed work on the Council's consolidation return following guidance issued by the NAO.

Use of statutory powers

We did not identify any matters which required us to exercise our additional statutory powers.

Respective responsibilities

We have carried out our audit in accordance with the NAO's Code of Audit Practice, which reflects the requirements of the Local Audit and Accountability Act 2014 (the Act). Our key responsibilities are to:

- give an opinion on the Council's financial statements (section two)
- assess the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources (the value for money conclusion) (section three).

In our audit of the Council's financial statements, we comply with International Standards on Auditing (UK) (ISAs) and other guidance issued by the NAO.

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Executive Summary

Value for Money arrangements We were satisfied that the Council put in place proper arrangements to ensure economy, efficiency and effectiveness in its use of resources. We reflected this in our audit report to the Council on 20 November 2020.

Certificate We certified that we have completed the audit of the financial statements of Tamworth Borough Council in accordance with the requirements of the Code of Audit Practice on 20 November 2020.

Working with the Council The outbreak of the Covid-19 coronavirus pandemic has had a significant impact on the normal operations of the Council. Authorities were 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 financials statements to 30 November 2020. The Council has faced many front-line challenges such as administration of grants to businesses and the additional challenges of reopening services under new government guidelines. Finance staff have had to work at home.

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 have also held regular virtual meetings with management and the Audit and Governance Committee.

We would like to record our appreciation for the excellent assistance and co-operation provided to us during our audit by the Council's staff.

Mark Stocks, Partner, Grant Thornton
January 2021

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Audit of the Financial Statements

Our audit approach

Materiality

In our audit of the Council's financial statements, we use the concept of materiality to determine the nature, timing and extent of our work, and in evaluating the results of our work. We define materiality as the size of the misstatement in the financial statements that would lead a reasonably knowledgeable person to change or influence their economic decisions.

We determined materiality for the audit of the Council's financial statements to be £1,200,000, which is 2% of the Council's gross revenue expenditure. We used this benchmark as, in our view, users of the Council's financial statements are most interested in where the Council has spent its revenue in the year.

We also set a lower level of specific materiality for senior officer remuneration and exit packages of £100,000.

We set a lower threshold of £60,000, above which we reported errors to the Audit and Governance Committee in our Audit Findings Report.

The scope of our audit

Our audit involves obtaining sufficient evidence about the amounts and disclosures in the financial statements to give reasonable assurance that they are free from material misstatement, whether caused by fraud or error. This includes assessing whether:

- the accounting policies are appropriate, have been consistently applied and adequately disclosed;
- the significant accounting estimates made by management are reasonable; and
- the overall presentation of the financial statements gives a true and fair view.

We also read the remainder of the financial statements and the narrative report, annual governance statement and Annual Report published alongside the financial statements to check it is consistent with our understanding of the Council and with the financial statements included in the Annual Report on which we gave our opinion.

We carry out our audit in accordance with ISAs (UK) and the NAO Code of Audit Practice. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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

We identified key risks and set out overleaf the work we performed in response to these risks and the results of this work.

Audit of the Financial Statements

Significant Audit Risks

These are the significant risks which had the greatest impact on our overall strategy and where we focused more of our work.

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Management override of controls</p> <p>Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management override of controls is present in all entities.</p> <p>We therefore identified management override of controls, 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>
<p>Valuation of land and buildings (both PPE and Investment Assets)</p> <p>The Authority revalue PPE land and buildings on a rolling five-yearly basis, and investment properties every year.</p> <p>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.</p> <p>This represents a significant estimate by management in the financial statements.</p> <p>We identified valuation of land and buildings, particularly revaluations and impairments, as a significant risk.</p>	<p>We have:</p> <ul style="list-style-type: none"> evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work; evaluated the competence, capabilities and objectivity of the valuation expert; 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. 	<p>Our audit work did not identify any issues in respect of valuations of the Council's property. Our audit report included an Emphasis of Matter paragraph, highlighting the material uncertainties in asset valuations stated in your accounts due to the Covid-19 pandemic. This drew attention to this issue and was not a qualification of our audit opinion</p>

Audit of the Financial Statements

Significant Audit Risks - continued

These are the risks which had the greatest impact on our overall strategy and where we focused more of our work.

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Valuation of pension fund net liability</p> <p>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.</p> <p>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.</p> <p>We therefore identified valuation of the Authority's pension fund net liability as a significant risk.</p>	<p>We have:</p> <ul style="list-style-type: none"> 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. 	<p>Our audit work has not identified any issues in respect of the valuation of the pension fund liability. Our audit report included an Emphasis of Matter paragraph, highlighting the material uncertainties in pension fund property investment asset valuations stated in your accounts due to the Covid-19 pandemic. This drew attention to this issue and was not a qualification of our audit opinion</p>

Audit of the Financial Statements

Significant Audit Risks - continued

These are the risks which had the greatest impact on our overall strategy and where we focused more of our work.

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Covid-19 pandemic</p> <p>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:</p> <p>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</p> <p>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</p> <p>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</p> <p>Disclosures within the financial statements will require significant revision to reflect the unprecedented situation and its impact on the preparation of the financial statements as at 31 March 2020 in accordance with IAS1, particularly in relation to material uncertainties.</p> <p>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</p>	<p>We carried out the following work</p> <ul style="list-style-type: none"> • 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 	<p>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 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 letter.</p>

Audit of the Financial Statements

Audit opinion

We gave an unqualified opinion on the Council's financial statements on 20 November 2020.

Preparation of the financial statements

The Council presented us with draft financial statements in accordance with the national deadline, and provided a good set of working papers to support them. The finance team responded promptly and efficiently to our queries during the course of the audit.

Issues arising from the audit of the financial statements

We reported the key issues from our audit to the Council's Audit and Governance Committee on 29 October 2020.

Annual Governance Statement and Narrative Report

We are required to review the Council's Annual Governance Statement and Narrative Report. It published them on its website in the Statement of Accounts in line with the national deadlines.

Both documents were prepared in line with the CIPFA Code and relevant supporting guidance. We confirmed that both documents were consistent with the financial statements prepared by the Council and with our knowledge of the Council.

Whole of Government Accounts (WGA)

We carried out work on the Council's Data Collection Tool in line with instructions provided by the NAO. We issued an assurance statement which confirmed the Council was below the audit threshold on 20 November 2020.

Other statutory powers

We also have additional powers and duties under the Act, including powers to issue a public interest report, make written recommendations, apply to the Court for a declaration that an item of account is contrary to law, and to give electors the opportunity to raise questions about the Council's accounts and to raise objections received in relation to the accounts.

We did not identify any matters which required us to exercise our additional statutory powers.

Certificate of closure of the audit

We certified that we have completed the audit of the financial statements of Tamworth Borough Council in accordance with the requirements of the Code of Audit Practice on 20 November 2020.

Value for Money conclusion

Background

We carried out our review in accordance with the NAO Code of Audit Practice, following the guidance issued by the NAO in November 2017 which specified the criterion for auditors to evaluate:

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

Key findings

Our first step in carrying out our work was to perform a risk assessment and identify the risks where we concentrated our work. No significant risks were identified from this planning.

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. Further savings of £1.6m are likely to be needed over 3 years. Cabinet on 22nd October 2020 approved the Recovery and Reset programme which aims to consider how the Council can tackle the financial challenges facing the council as a result of the coronavirus pandemic. This will include reviewing services, reducing waste demand on services, exploring opportunities for income generation and identifying any further savings.

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 Value for Money conclusion

We are satisfied that in all significant respects the Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2020.

A. Reports issued and fees

We confirm below our final reports issued and fees charged for the audit and provision of non-audit services.

Reports issued

Report	Date issued
Audit Plan	February 2020
Audit Findings Report	October 2020
Annual Audit Letter	December 2020

Fees

	Planned £	Actual £	2017/18 £
Statutory audit	45,875	52,750	42,875
Total fees	45,875	52,750	42,875

The variation in audit fee from that planned is due to the impact of the Covid-19 Pandemic on the audit of your financial statements and is still subject to PSAA approval. As a result of the impact of the pandemic and regulatory changes, the total number of audit days increased by 45 (50%) from 2018/19. Due to the quality and proactivity of the Council accounts team, the accounts were signed off earlier than our other Staffordshire councils and needed less resource than could have been the case. Hence the proposed change in fee from the audit plan is at the minimum end of the scale compared to other councils.

Our fees for the certification of the Council's Housing Benefit grant and pooling of housing capital receipts will be confirmed following the completion of our work.

Fees for non-audit services

Service	Fees £
Non audit related services	Nil
Audit related services	
- Certification of Pooling of Housing Capital Receipts	2,500
- Housing Benefits Assurance	12,000

Non-audit services

- For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council. The table above summarises all non-audit services which were identified.
- We have considered whether non-audit services might be perceived as a threat to our independence as the Council's auditor and have ensured that appropriate safeguards are put in place.

The above non-audit services are consistent with the Council's policy on the allotment of non-audit work to your auditor.



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