Grant Thornton

Tamworth Borough Council
Audit Progress Report

Year ending 31 March 2022

September 2022

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Agenda Item 4

Contents

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 Authority or all weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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Introduction

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This paper provides the Audit and Governance Committee with a report on progress in delivering our responsibilities as your external auditors.

We have not yet completed the financial statements audit, this report includes detail on the progress against the significant risks to date and when the audit will be delivered.

We would also like to inform members of the Audit and Governance Committee that you can find useful material on our website, where we have a section dedicated to our work in the public sector. Here you can download copies of our publications https://www.grantthornton.co.uk/en/services/public-sector-services/

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Progress at September 2022

Financial Statements Audit

Our audit work commenced in July. The audit team have been on site for some of this time alongside officers of the Council. Our findings to date we have not identified any material errors.

However, there is one issue in relation to the valuation of council dwellings which is currently being investigated further. The valuer has estimated that there may be an error of approximately 0.2% of the valuation provided, which equates to approximately £483k. The Council is awaiting a revised valuation report from the valuer, Jones Lang LaSelle. Once the revised valuation report is received, management will need to decide whether to adjust the financial statements and we will need to carry out additional testing.

Our work has progressed well and to date there are no matters of which we are aware that would require modification of our audit opinion.

The Accounts and Audit Regulations 2015 were amended by SI 2021 No. 263. The Department for Levelling Up, Housing and Communities (DLUHC) previously stated their intention to introduce secondary legislation to extend the deadline for publishing audited local authority accounts to 30 November 2022 for the 2021/22 accounts. This is enacted by The Accounts and Audit (Amendment) Regulations 2022 (SI 2022 No. 708) that came into force on 22 July 2022. The deadline for publishing audited local authority accounts for 2021/22 is extended to 30 November 2022 and thereafter changed to 30 September for years up to 2027/28.

Value for Money

The new Code of Audit Practice (the “Code”) came into force on 1 April 2020 for audit years 2020/21 and onwards. The most significant change under the new Code was the introduction of an Auditor’s Annual Report, containing a commentary on arrangements to secure value for money and any associated recommendations, if required.

The new approach is more complex, more involved and is planned to make more impact.

Under the 2020 Code of Audit Practice, for relevant authorities other than local NHS bodies auditors are required to issue our Auditor’s Annual Report no later than 30 September or, where this is not possible, issue an audit letter setting out the reasons for delay.

We have not yet completed all of our VFM work and we are not expecting to be in a position to issue our Auditor’s Annual Report at the same time as our audit opinion. An audit letter explaining the reasons for the delay is attached in the Appendix A to this report. We expect to issue our Auditor’s Annual Report by January 2023. This is in line with the National Audit Office's revised deadline, which requires the Auditor's Annual Report to be issued no more than three months after the date of the opinion on the financial statements.

As part of our work, we consider whether there are any risks of significant weakness in the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources. We have not identified any such risks from our initial planning work. We will continue our review of your arrangements, including reviewing your Annual Governance Statement, before we issue our auditor’s annual report.

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Progress against 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 an update regarding the significant audit risks communicated in the Audit Plan.

Risks identified in our Audit Plan	Commentary
Management override of controls Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. The Council faces external scrutiny of its spending and this could potentially place management under undue pressure in terms of how they report performance. 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.	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; • identified journals made during the year which are considered to be high risk or unusual and selected a sample for testing; and • gained an understanding of the accounting estimates and critical judgements applied by management and considered their reasonableness. We are yet to complete: • our review and testing of transfers between the General Fund and HRA; and • our testing to supporting evidence of the sample of journals selected.

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Progress against significant risks

Risks identified in our Audit Plan	Commentary
Valuation of land and buildings (including investment property) Revaluation of property, plant and equipment should be performed with sufficient regularity to ensure that carrying amounts are not materially different from those that would be determined at the end of the reporting period. The Council revalues its land and buildings on a rolling basis to ensure that the carrying value is not materially different from the current value or fair value (for surplus assets) at the financial statements date. 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. We therefore identified valuation of land and buildings, particularly revaluations and impairments, as a significant risk, requiring special audit consideration.	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 valuers to confirm the basis on which the valuation was carried out; We are in the process of: • challenging the information and assumptions used by the valuer to assess completeness and consistency with our understanding; • testing revaluations made during the year to see if they have been input correctly into the Authority's asset register; and • evaluating 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. <u>Council Dwellings</u> We have identified an error in relation to the valuation of council dwellings. The valuer has valued some assets as the incorrect classification of dwelling. We are awaiting a revised valuation report from the valuer which, it is expected, will report the correct valuation of council dwellings. Once this report is received we will have to perform additional testing and management will need to decide whether to adjust for the error.

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Progress against significant risks

Risks identified in our Audit Plan	Commentary
Valuation of the pension fund net liability The pension fund net liability, as reflected in the 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 estate 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 inflation rates and life expectancy, where, in the prior year, it was disclosed that Variations in the key assumptions will have the following impact on the net liability: • A 0.1% decrease in the real discount rate will increase the net pension liability by £2.8m (2%); • A 0.1% increase in the assumed level of salary increases will increase the net pension liability by £0.2m (0%); and • A 0.1% increase in the assumed level of pension increases will increase the net pension liability by £2.5m (2%). 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 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. We have not yet: • 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. .

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Audit Deliverables

2021/22 Deliverables	Planned Date	Status
Audit Plan We are required to issue a detailed audit plan to the Audit and Governance Committee setting out our proposed approach in order to give an opinion on the Authority's 2021/22 financial statements and to report on the Authority's value for money arrangements in the Auditor's Annual Report	June 2022	Completed
Audit Findings Report The Audit Findings Report will be reported to the November Audit and Governance Committee.	September 2022	Not ready for issue due to the issues outlined on page 4
Auditors Report This includes the opinion on your financial statements.	November 2022	Not yet due
Auditor's Annual Report This report communicates the key outputs of the audit, including our commentary on the Authority's value for money arrangements.	January 2023	Not yet due

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2021/22 Audit-related Deliverables	Planned Date	Status
Housing Benefit Subsidy – certification This is the report we submit to Department of Work and Pensions based upon the mandated agreed upon procedures we are required to perform.	January 2023	Not yet due
Pooling of housing capital receipts - certification This is the report we submit to the Department for Levelling Up, Housing and Communities ("DLUHC"). based upon the mandated agreed upon procedures we are required to perform.	TBC	Not yet due

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Appendices

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A. Audit letter in respect of delayed VFM work

Dear Cllr Turner

The original expectation under the approach to VFM arrangements work set out in the 2020 Code of Audit Practice was that auditors would follow an annual cycle of work, with more timely reporting on VFM arrangements, including issuing their commentary on VFM arrangements for local government by 30 September each year at the latest. Unfortunately, due to the on-going challenges impacting on the local audit market, including the need to meet regulatory and other professional requirements, we have been unable to complete our work as quickly as would normally be expected. The National Audit Office has updated its guidance to auditors to allow us to postpone completion of our work on arrangements to secure value for money and focus our resources firstly on the delivery of our opinions on the financial statements. This is intended to help ensure as many as possible could be issued in line with national timetables and legislation.

As a result, we have therefore not yet issued our Auditor's Annual Report, including our commentary on arrangements to secure value for money. We now expect to publish our report no later than January 2023.

For the purposes of compliance with the 2020 Code, this letter constitutes the required audit letter explaining the reasons for delay.

Yours faithfully

Laurelin Griffiths

Director

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