



The Annual Audit Letter for Bromsgrove District Council

Year ended 31 March 2020

15 November 2021



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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 Bromsgrove District Council (the Council) and its subsidiary (the group) 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 group 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, Standards & Governance Committee as those charged with governance in our Audit Findings Report on 11 March 2021.

Our work

Materiality We determined materiality for the audit of the Council's financial statements to be £900,000 and £904,000 for the group, both of which equate to 2% of the gross cost of services.

Financial Statements opinion We gave an unqualified opinion on the group's financial statements on 5 October 2021. There were significant delays to the financial statements audit for 2019/20 which led to the late sign off of the audit opinion. Further information can be found on page 10.

We included an emphasis of matter paragraph in our report in respect of the uncertainty over valuations of the Council's land and buildings given the Coronavirus pandemic. This does not affect our opinion that the statements give a true and fair view of the group and Council's financial position and its income and expenditure for the year.

We expect to receive draft financial statements for the year ended 31 March 2021 in February or March 2022. The deadline by which these should have been published, and available for audit, is 30 July 2021. The excessive delay in completing the audit of the 2019/20 financial statements, and in receiving draft 2020/21 statements, has potentially serious consequences. In its report "Local auditor reporting on local government in England", published on 8 July 2021, the House of Commons Committee of Public Accounts stated "If local authorities are to effectively recover from the pandemic, it is critical that citizens have the necessary assurances that their finances are in order and being managed in the correct manner." And "The Department [the Ministry of Housing, Communities & Local Government] considered that a local authority was in a stronger position to complete its budget setting process each Autumn if its auditors had already completed their audit of the previous year's accounts, as the audited accounts often formed the underlying basis for the budget setting process. The Department felt that audited accounts provided confidence, assurance and transparency for the budget setting process. It noted that there had been recent cases where an audit had revealed information that affected the value of a local authority's reserves and which had knock-on effects on future budgets."

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 and group's financial statements (section two); and
- 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 and group's financial statements, we comply with International Standards on Auditing (UK) (ISAs) and other guidance issued by the NAO.

Executive Summary

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.
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 reported our findings in our Audit Findings Report on 11 March 2021.
Certificate	We certified that we had completed the audit of the financial statements of Bromsgrove District Council in accordance with the requirements of the Code of Audit Practice on 5 October 2021.

Working with the Council

The impact of the Covid-19 pandemic on the Council, operationally and in preparing the financial statements, has been significant. Finance and audit staff have been working remotely, and meeting through MS Teams. Not being able to meet face to face had a significant impact on the time taken to complete our audit work.

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

Grant Thornton UK LLP
November 2021

Audit of the Financial Statements

Our audit approach

Materiality

In our audit of the Council and group'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 group financial statements to be £904,000, which is 2% of the group's gross cost of services. We determined materiality for the audit of the Council's financial statements to be £900,000, which is 2% of the Council's gross cost of services. We used this benchmark as, in our view, users of the group and Council's financial statements are most interested in where the group and Council has spent its revenue in the year.

We set a separate lower materiality level for the disclosure note on remuneration of individual senior managers. In view of the sensitivity of this note to the reader of the accounts, we have set a materiality level of £7k, being 2% of the earnings disclosed in the prior year remuneration note.

We set a lower threshold of £45,000, above which we reported errors to the Audit, Standards & 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 Statement of Accounts to check it is consistent with our understanding of the Council and group and with the financial statements included in the Statement of Accounts 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 group and 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>Covid-19</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 expected current circumstances would 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> <ul style="list-style-type: none"> 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. <p>We therefore identified the global outbreak of the Covid-19 virus as a significant risk.</p>	<p>As part of our audit work we:</p> <ul style="list-style-type: none"> worked with management to understand the implications the response to the Covid-19 pandemic had on the organisation's ability to prepare the financial statements and update financial forecasts and assessed 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 arose. An example of this is the audit approach to the material valuation uncertainty disclosed by property valuers and the Emphasis of Matter paragraph included in audit opinions; 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 could be obtained for the purposes of our audit whilst working remotely; evaluated whether sufficient audit evidence could 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; and discussed with management any potential implications for our audit report if we were unable to obtain sufficient audit evidence. 	<p>The Council was ultimately unable to produce draft financial statements to the extended financial reporting timetable following the Covid-19 pandemic and as a result of this and other challenges experienced during the audit, our audit opinion was provided significantly later than planned.</p> <p>Aspects of our work were much more challenging as we were unable to meet with officers to discuss issues. Being able to do this makes discussing issues and resolving questions much easier.</p>

Audit of the Financial Statements

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Valuation of land and buildings</p> <p>The Council and group revalues its land and buildings on a rolling five-yearly basis. 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 Council and group financial statements is not materially different from the current value or the fair value (for surplus assets) at the financial statements date, where a rolling programme is used</p> <p>We therefore identified valuation of land and buildings, particularly revaluations and impairments, as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>	<p>As part of our audit work we:</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; wrote to 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 Council'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>Management's valuation expert reported the valuations on a 'material valuation uncertainty' basis as a result of the Covid-19 pandemic and in accordance with RICS. We included an Emphasis of Matter paragraph in our audit opinion in respect of this.</p>	<p>We noted in our Audit Plan dated 5 March 2020 that the FRC has determined that auditors need to improve the quality of audit challenge on PPE valuations across the sector. We therefore increased the volume and scope of our audit work to ensure an adequate level of audit scrutiny and challenge over the assumptions that underpin PPE valuations. This resulted in significantly more work than previous years, including review and challenge of the source data used by the valuer to prepare valuations. This work was particularly challenging as we were not able to meet in person with the valuer to go through this work.</p> <p>We encountered some significant challenges and delays in completing our work, as follows:</p> <ul style="list-style-type: none"> we had difficulty in obtaining the previous revaluation reports. This delayed us being able to select a sample for detailed testing; having selected a sample for detailed testing we were unable to follow the accounting treatment, necessitating further discussions with Officers; Officers were unable to provide us with floor areas for those properties revalued, which is a key input in the valuation calculation. This is surprising as we would expect the Council to know the floor area of buildings it owns for other purposes. These were eventually provided by the Valuer, but obtaining them took a huge amount of time; and Officers had not engaged the external valuer through a Letter of Engagement. This makes it impossible to ascertain whether the valuer completed all of the work requested or intended.

Audit of the Financial Statements

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Valuation of net pension liability</p> <p>The group and Council'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 and the sensitivity of the estimate to changes in key assumptions.</p> <p>We therefore identified valuation of the Council's pension fund net liability as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>	<p>As part of our audit work we:</p> <ul style="list-style-type: none"> • updated our understanding of the processes and controls put in place by management to ensure that the group and Council's pension fund net liability is not materially misstated and evaluated 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 group and Council's pension fund valuation; • assessed the accuracy and completeness of the information provided by the group and Council 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; • undertook procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performed any additional procedures suggested within the report; and • obtained assurances from the auditor of Worcestershire 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 did not identify any issues in respect of the valuation of the pension fund net liability.</p>

Audit of the Financial Statements

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Management override of internal 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>As part of our audit work we:</p> <ul style="list-style-type: none"> • evaluated the design effectiveness of management controls over journals; • analysed the journals listing and determined the criteria for selecting high risk unusual journals; • tested unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration; • gained an understanding of the accounting estimates and critical judgements applied made by management and considered their reasonableness with regard to corroborative evidence; and • evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions. 	<p>Our work in this area not identify any issues in respect of management override of controls.</p>

Audit of the Financial Statements

Audit opinion

We gave an unqualified opinion on the Council and group's financial statements on 5 October 2021.

Preparation of the financial statements

We reported the initial delay in draft financial statements being presented for audit and the subsequent significant challenges in completing our audit work in our Audit Findings Report presented to Audit, Standards & Governance Committee on 11 March 2021. We had previously presented reports to the Committee on 21 January 2021 and 24 November 2020. In our progress report presented to the Audit, Standards & Governance Committee on 24 November 2020 we again highlighted our concerns and challenges regarding quality of working papers supporting the financial statements and responses to audit questions, and provided some illustrative examples. During the ensuing discussion Members recognised the issues both officers and auditors face.

Issues arising from the audit of the financial statements

We reported the key issues from our audit to the Council's Audit, Standards & Governance Committee on the three dates noted above.

In our Audit Findings Report presented to Committee on 11 March 2021 we noted that our audit was substantially complete, with the following to complete:

- employee remuneration testing;
- receipt of management representation letter; and
- review of the final set of financial statements.

We were presented with four further versions of the financial statements which did not reflect all of the agreed amendments. The fifth version did include all of the changes. Considerable audit time was spent checking each of the five versions, discussing the financial statements with Officers, and updating our consideration of events after the balance sheet date through minute reviews.

In our Audit Findings Report presented to Committee on 11 March 2021 we reported "the final audit fee is to be confirmed, pending discussions with Officers and PSAA regarding additional fee as a result of:

- the additional work required to resolve the very high number of questions we raised, inadequate explanations to our questions, and the number of amendments required to the Statement of Accounts (estimated £10,000); and
- the additional work and time as a result of the impact of Covid-19 (estimated £7,500)."

As a result of the additional audit time required in the seven months between 11 March and 5 October we have discussed with Officers that further additional fees will be required. The final audit fee variation will now be £20,000.

Annual Governance Statement and Narrative Report

We are also required to review the Council's Annual Governance Statement and Narrative Report. It published them on its website in the draft Statement of Accounts in September 2020.

Our work on the Annual Governance Statement identified a significant number of typographical errors, not referring to the CIPFA / SOLACE requirements, and saying nothing about the "Significant Governance Issues". The Statement was enhanced in order to meet the disclosure requirements and is consistent with the financial statements and our knowledge obtained in the audit.

Our work on the Narrative Report identified a number of areas for enhancement. The amended Report meets the disclosure requirements and is consistent with the financial statements and our knowledge obtained in the audit.

Whole of Government Accounts (WGA)

We carried out work in line with instructions provided by the NAO . We issued an assurance statement which confirmed the Council was below the audit threshold.

Certificate of closure of the audit

We certified that we have completed the audit of the financial statements of Bromsgrove District Council in accordance with the requirements of the Code of Audit Practice on 5 October 2021.

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 April 2020 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.

The risks we identified and the work we performed are set out overleaf.

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.

As part of our work we also considered whether the significant challenges in relation to the financial statements audit also needed to be reflected in our value for money conclusion, given one of the NAO VFM criteria relates to “Unreliable and untimely financial reporting that doesn’t support the delivery of strategic priorities, such as the late submission of financial statements for audit”. This was considered by an independent consistency panel, who agreed with our assessment that the VFM Conclusion should not be qualified in this regard. This was principally because of the support from the Chief Executive to the Acting Section 151 Officer, and of the audit process.

Value for Money conclusion

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Financial sustainability</p> <p>How robust is the Medium Term Financial Plan (MTFP) and how well developed are savings plans?</p> <p>In October 2019, Cabinet received a report setting out the MTFP framework. The report highlighted that the Council had a £3m gap over the next 3 years with £0.7m to be found for 2020/21 in order to avoid using reserves to support revenue expenditure. While the Council does have sufficient reserves to cover these deficits, difficult decisions on priority and non priority areas are needed in order to avoid using reserves.</p> <p>We will review the MTFP which Cabinet approved in February 2020 and select a sample of savings or income generation schemes to test in order to obtain assurance that they are robust and realistic.</p> <p>We will monitor the progress made to identify non priority areas and to begin to disinvest in those areas.</p>	<p>The MTFP approved by Cabinet in February 2019 showed a financial gap up to and including 2022/23 of £3.4m. By February 2020 that had improved to forecast a gap, up to and including 2023/24, of £2m. The improved financial position is largely a result of windfalls such as the Local Enterprise Partnership (LEP) contribution saving (£150k), reduced pension fund and Minimum Revenue Provision (MRP) contributions (£236k), reviewing asset lives and the capital programme (£437k) and New Homes Bonus being more than anticipated (£589k). There is little evidence so far of Members taking difficult decisions to identify and disinvest in non-priority areas. The Council has a relatively small window of opportunity to do this before it needs to start to use significant levels of reserves to balance its' budget.</p> <p>Despite this, Members are provided with regular reports as the MTFP is developed, and are thus sighted and engaged in decision making. Key assumptions used in the MTFP are reasonable.</p> <p>We reviewed some of the higher value savings or income generation schemes identified in the MTFP agreed in February 2020. These were the LEP contribution saving, lower pension fund contributions, MRP, lower insurance costs and investment income. These total £1,314k out of a total of £1,544k (85%) in the MTFP (excluding New Homes Bonus and Council Tax Surplus). With the exception of investment income we found these to be robust, realistic and clearly reported. Many are essentially "cashable" and delivered. While the investment income returns do seem reasonable and prudent it is premature to reflect these in the MTFP as savings. They ought only to be included when properties have been purchased. It could also be misleading to Members and the Public to show the investment income in the way it is – i.e. gross, with the associated interest and other costs shown elsewhere.</p> <p>The Council estimates that the financial impact of Covid-19 could amount to £2m, which is partly offset by grants totalling £1m, leaving a net deficit of £1m. The Council (with others) continues to lobby government for additional funding to cover certain specific areas, such as leisure, and more recently the National Leisure Recovery Fund was announced. Officers have been very clear in their reporting to Members of the impact this will have on the financial position.</p>	<p>As we reported last year, the Council is currently in a sound financial position, but faces a challenging future, even before the impact of Covid-19. Members and Officers need to ensure that anticipated savings and income generation schemes are delivered in order to avoid using reserves to support revenue expenditure.</p> <p>Management response</p> <p>The Council is currently reviewing its service delivery and expenditure plans to ensure that appropriate actions are taken to address the forecast budget deficits in the MTFP. This has been a period of profound uncertainty and with one year spending reviews it has been difficult for the Council to forecast government support moving forwards, for example the replacement for the new homes bonus scheme. While the Council believes that schemes will be introduced to replace these it has taken a prudent approach and reflects the ending of these schemes with no new support.</p>

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	5 March 2020
Audit Progress Report and Sector Update	9 November 2020
Interim Audit Findings Report	14 January 2021
Audit Findings Report	11 March 2021
Annual Audit Letter	November 2021

Fees

	Planned fees £	Actual fees £	2018/19 fees £
Statutory audit	44,734	64,734	45,484
Total fees	44,734	64,734	45,484

Audit fee variation

As outlined in our audit plan, the 2019-20 scale fee published by PSAA of £37,484 assumes that the scope of the audit does not significantly change. There are a number of areas where the scope of the audit has changed, which has led to additional work. These are set out over the page.

Fee variations are subject to PSAA approval.

Fees for non-audit services

Service	Fees £
Audit related services	12,500
- Certification of Housing Benefit subsidy claim	
Non-Audit related services	
- None	

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.

A. Reports issued and fees continued

Area	Reason	Fee proposed
Pensions – IAS 19	The Financial Reporting Council has highlighted that the quality of work by audit firms in respect of IAS 19 needs to improve across local government audits. Accordingly, we have increased the level of scope and coverage in respect of IAS 19 this year to reflect this.	1,750
PPE Valuation – work of experts	As above, the Financial Reporting Council has highlighted that auditors need to improve the quality of work on PPE valuations across the sector. We have increased the volume and scope of our audit work to reflect this.	2,000
Increased challenge and depth of work	The Financial Reporting Council (FRC) has raised the threshold of what it assesses as a good quality audit.	2,000
New accounting standards	The proposed implementation of IFRS16. This was deferred as a result of Covid-19, and the proposed additional fee has been netted off the figures below	1,500
Total per audit plan		7,250
Qualitative issues	The additional work required to resolve the very high number of questions we raised, inadequate explanations to our questions, the number of amendments required to the Statement of Accounts, and reviewing five further versions of the draft accounts. As reported throughout our audit in various progress reports.	13,300
Covid-19	The additional work and time as a result of the impact of Covid-19.	6,700
Revised total		27,250
Scale fee		37,484
Proposed fee		64,734



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