Grant Thornton

Bromsgrove District Council audit plan

Year ending 31 March 2021

Contents

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

Key matters

Factors	Our response

Financial Reporting

Our audit of the 2019/20 financial statements was not completed until 5 October 2021. As a result of the COVID-19 pandemic the statutory deadline had been extended to 30 November 2020.

The 2020/21 financial outturn was not reported to Cabinet until 24 November 2021. We would expect this report to be presented around three months after the year end, so in June or July 2021. The previous finance monitoring report, covering the period to Quarter 3 (December 2020), was presented on 31 March 2021, which is within the expected timeframe. As at March 2022 there has not been any reporting of the 2021/22 financial position.

The 2020/21 financial statements should have been published and presented for audit by 30 July 2021. As at March 2022 the financial statements have not been prepared, and we were expecting them to be prepared by the end of March or early April. We now understand there will be further delays until the end of May at the earliest.

There has therefore been a significant deterioration in the timeliness of financial reporting. 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."

PSAA reported that at the target date of 30 September 2021 only 9% of local government bodies' 2020/21 audits had been completed. The position compares to completion of 45% of 2019/20 audits and 57% of 2018/19 audits by the respective target dates of 30 November 2020 and 31 July 2019.

Our response

As a firm, we are absolutely committed to audit quality and financial reporting in the local government sector. Our proposed work and fee, as set further in our Audit Plan, has been agreed with the Executive Director of Resources.

We will consider your arrangements for managing and reporting your financial resources as part of our work in completing our Value for Money work.

Our 2019/20 Audit Findings Report made five recommendations for improvement. These were agreed with management, and an action plan presented to the Audit, Standards & Governance Committee as part of that report. We will monitor progress progress against these previously agreed recommendations.

The Council's valuer reported a material uncertainty in regards to the valuation of properties in 2019/20 due to the COVID-19 pandemic and we expect uncertainty may continue in 2020/21 valuations. We identified a significant risk in regards to the valuation of properties – refer to page 9.

Key matters (continued)

Factors	Our response
Staffing in the finance team There are capacity issues, including systems knowledge shortages, within the finance team which has a number of vacancies. This has been exacerbated by unanticipated departures from some key roles and difficulties in recruiting. Whilst steps have and are being taken to respond to this challenge, including two national recruitment campaigns and the appointment of experienced permanent and temporary resource, more work needs to be done to secure a sustainable solution to ensure that the control environment is robust and the required skills and experience for accounts production are in place.	We identified a significant audit risk relating to the finance team capacity. Please refer to page 8.
New financial ledger The Corporate Peer Challenge Action Plan, reported to Members in October 2018, set out that "The business case for the Enterprise System has been approved by both Councils. Implementation by October 2019". Delays in implementing the new system led to "Go Live" being delayed from October 2019 to February 2021. As at March 2022 there are still issues with implementing the new system and it is still not functioning as fully as planned.	We identified a significant audit risk relating to implementation of the new financial ledger and the data migration to the new ledger. Please refer to page 8. Our IT auditors will review the Council's process for ensuring the data migration was complete and accurate and the IT General Controls in place around the new financial ledger.
Impact of COVID-19 pandemic The Council had to adapt service provision and also saw significant impact on various income streams as a result of the pandemic. However, various sources of government funding have offset this. The Council has invested in improved technology for Officers, which has made communicating with others while working from home easier. Alongside "business as usual", the Council administered significant values of Government grant schemes to businesses in 2020, and also distributed the Council Tax Hardship Funding received from Central Government. Accounting for this increased expenditure, and specifically the multitude of Government grants received in year, will require the Council to consider each funding stream separately.	We will consider the accounting treatment of COVID-19 funding and ensure that this has been appropriately reflected within the Council's financial statements. We will continue to provide you with sector updates via our updates.

Introduction and headlines

Purpose

This document provides an overview of the planned scope and timing of the statutory audit of Bromsgrove District Council ('the Council') for those charged with governance.

Respective responsibilities

The National Audit Office ('the NAO') has issued a document entitled Code of Audit Practice ('the Code'). This summarises where the responsibilities of auditors begin and end and what is expected from the audited body. Our respective responsibilities are also set out in the Terms of Appointment and Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA), the body responsible for appointing us as auditor of Bromsgrove District Council. We draw your attention to both of these documents.

Scope of our audit

The scope of our audit is set in accordance with the Code and International Standards on Auditing (ISAs) (UK). We are responsible for forming and expressing an opinion on the Council and group's financial statements that have been prepared by management with the oversight of those charged with governance (the Audit, Standards & Governance Committee).

We are also responsible for undertaking sufficient work to be able to satisfy ourselves as to whether, in our view, the Council has put arrangements in place that support the achievement of value for money.

The audit of the financial statements does not relieve management or the Audit, Standards & Governance Committee of your responsibilities. It is the responsibility of the Council to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Council is fulfilling these responsibilities.

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

Group Audit

The Council is required to prepare group financial statements that consolidate the financial information of Bromsgrove Arts Development Trust.

Significant risks

Those risks requiring special audit consideration and procedures to address the likelihood of a material financial statement error have been identified as:

- Management over-ride of controls;
- Valuation of land and buildings;
- Valuation of the pension fund net liability;
- Staffing within the finance department; and
- New financial ledger implementation.

We will communicate significant findings on these areas as well as any other significant matters arising from the audit to you in our Audit Findings (ISA 260) Report.

Materiality

We have determined planning materiality to be £0.940m (PY £0.904m) for the group and £0.900m (PY £0.900m) for the Council, which equates to 2% of your prior year gross expenditure. We are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. Clearly trivial has been set at £45k (PY £45k).

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Value for Money arrangements

Our risk assessment regarding your arrangements to secure value for money have identified the following risks of significant weakness:

- Medium Tern Financial Plan and Financial Sustainability;
- Risk management;
- Performance management reporting; and
- How the Council measures benefits realisation from commissioned or procured services.

Audit logistics

Our interim visit took place in January / February 2022 and we currently envisage that our final visit will take place from July 2022. Our key deliverables are this Audit Plan, our Audit Findings Report and Auditor's Annual Report.

Our proposed fee for the audit at the planning stage is £61,272 (PY: £64,734), subject to the Council delivering a good set of financial statements and working papers.

We have complied with the Financial Reporting Council's Ethical Standard (revised 2019) 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.

Group audit scope and risk assessment

In accordance with ISA (UK) 600, as group auditor we are required to obtain sufficient appropriate audit evidence regarding the financial information of the components and the consolidation process to express an opinion on whether the group financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework.

Component	Individually Significant?	Level of response required under ISA (UK) 600	Risks identified	Planned audit approach
Bromsgrove District Council	Yes	Audit of the financial information of the component using component materiality	See pages 8-11.	Full scope audit performed by Grant Thornton UK LLP
Bromsgrove Arts Development Trust (Artrix)	No	Specified audit procedures relating to significant risks of material misstatement of the group financial statements	Valuation of Artrix building	Specified audit procedures relating to the likely significant risks of material misstatement of the group financial statements

Significant risks identified

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.

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
The revenue cycle includes fraudulent transactions (rebutted)	Group & Council	Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue.	Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the Council, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because: • 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 Bromsgrove District Council, mean that all forms of fraud are seen as unacceptable. Therefore we do not consider this to be a significant risk for Bromsgrove District Council. Group revenues are not materially different to Council revenues and hence the same rebuttal applies.
Fraudulent expenditure recognition (rebutted)	Group & Council	Practice Note 10 states that as most public bodies are net spending bodies, then the risk of material misstatement due to fraud related to expenditure may be greater than the risk of material misstatements due to fraud related to revenue recognition.	We have rebutted this risk for Bromsgrove District Council because: • expenditure is primarily related to employee costs; and • there is a lack of incentive to manipulate financial results. We therefore do not consider this to be a significant risk for Bromsgrove District Council. We will continue to review material expenditure transactions as part of our audit ensuring that it remains appropriate to rebut the risk of expenditure recognition for Bromsgrove District Council. Group expenditure is not materially different to Council expenditure and hence the same rebuttal applies.
Finance team capacity	Council	The finance team has a number of vacancies which mean it is not currently in a sustainable position. The draft financial statements for 2020/21 have yet to be produced and there is also a risk that this adversely impacts upon the control environment.	We will: • keep in regular contact with senior officers to closely monitor the staffing levels and capacity in the finance department, including the arrangements put in place to address the situation; and • consider findings from internal audit reviews and the impact that these may have on our audit approach.
New financial ledger implementation	Council	The new financial ledger was implemented in February 2021. As at March 2022 there are still issues with implementing the new system and it is still not functioning as fully as planned.	Our IT auditors will review the Council's process for ensuring the data migration was complete and accurate and the IT General Controls in place around the new financial ledger.

Significant risks identified

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
Management over-ride of controls	Council	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. We have also considered the impact of COVID-19 on the risks of and opportunities for management override of controls and we are satisfied that opportunities have not been increased. 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 will: • evaluate the design effectiveness of management controls over journals; • analyse the journals listing and determine the criteria for selecting high risk unusual journals; • test unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration; • gain an understanding of the accounting estimates and critical judgements applied made by management and consider their reasonableness with regard to corroborative evidence; and • evaluate the rationale for any changes in accounting policies, estimates or significant unusual transactions.
Valuation of land and buildings	Group and Council	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 As a result of the impact of COVID-19 the 2019/20 financial statements were subject to a material uncertainty in regard to property valuations. As the pandemic is ongoing there remains an increased level of uncertainty that we will reflect in our work. We therefore identified valuation of land and buildings, particularly revaluations and impairments, as a significant risk.	We will: • evaluate management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work; • evaluate the competence, capabilities and objectivity of the valuation expert; • write to the valuer to confirm the basis on which the valuation was carried out; • challenge the information and assumptions used by the valuer to assess completeness and consistency with our understanding; • test revaluations made during the year to see if they have been input correctly into the Council's asset register; • evaluate 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; and • ensure that any RICS guidance in relation to material uncertainty around property valuations has been considered by the valuer and is appropriately reflected in the financial statements.

Significant risks identified

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
Valuation of the pension fund net liability	Council	The 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. 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. We have therefore concluded that there is a significant risk of material misstatement in the IAS 19 estimate due to the assumptions used in their calculation. With regard to these assumptions we have therefore identified valuation of the Council's pension fund net liability as a significant risk.	We will: • update our understanding of the processes and controls put in place by management to ensure that the Council's pension fund net liability is not materially misstated and evaluate the design of the associated controls; • evaluate the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work; • assess the competence, capabilities and objectivity of the actuary who carried out the Council's pension fund valuation; • assess the accuracy and completeness of the information provided by the Council to the actuary to estimate the liability; • test the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial report; • undertake 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; and • obtain 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.

Accounting estimates and related disclosures

The Financial Reporting Council issued an updated ISA (UK) 540 (revised): *Auditing Accounting Estimates and Related Disclosures which* includes significant enhancements in respect of the audit risk assessment process for accounting estimates. We identified one recommendation in our 2019/20 audit in relation to the Council's estimation process for the valuation of land and buildings.

Introduction

Under ISA (UK) 540 (Revised December 2018) auditors are required to understand and assess an entity's internal controls over accounting estimates, including:

- the nature and extent of oversight and governance over management's financial reporting process relevant to accounting estimates;
- how management identifies the need for and applies specialised skills or knowledge related to accounting estimates;
- how the entity's risk management process identifies and addresses risks relating to accounting estimates;
- the entity's information system as it relates to accounting estimates;
- the entity's control activities in relation to accounting estimates; and
- how management reviews the outcomes of previous accounting estimates.

As part of this process auditors also need to obtain an understanding of the role of those charged with governance, which is particularly important where the estimates have high estimation uncertainty, or require significant judgement.

Specifically do Audit, Standards & Governance Committee members:

- understand the characteristics of the methods and models used to make the accounting estimates and the risks related to them;
- oversee management's process for making accounting estimates, including the use of models, and the monitoring activities undertaken by management; and
- evaluate how management made the accounting estimates?

Accounting estimates and related disclosures

Additional information that will be required

To ensure our compliance with this revised auditing standard, we will be requesting further information from management and those charged with governance during our audit for the year ended 31 March 2021.

Based on our knowledge of the Council we have identified the following material accounting estimates for which this is likely to apply:

- Valuations of land and buildings;
- Depreciation;
- Valuation of defined benefit net pension fund liabilities;
- Fair value estimates (inc Surplus Assets); and
- Accruals & provisions (if material).

The Council's Information systems

In respect of the Council's information systems we are required to consider how management identifies the methods, assumptions and source data used for each material accounting estimate and the need for any changes to these. This includes how management selects, or designs, the methods, assumptions and data to be used and applies the methods used in the valuations.

When the models used include increased complexity or subjectivity, as is the case for many valuation models, auditors need to understand and assess the controls in place over the models and the data included therein. Where adequate controls are not in place we may need to report this as a significant control deficiency and this could affect the amount of detailed substantive testing required during the audit.

If management has changed the method for making an accounting estimate we will need to fully understand management's rationale for this change. Any unexpected changes are likely to raise the audit risk profile of this accounting estimate and may result in the need for additional audit procedures.

We are aware that the Council uses management experts in deriving some of its more complex estimates, e.g. asset valuations and pensions liabilities. However, it is important to note that the use of management experts does not diminish the responsibilities of management and those charged with governance to ensure that:

- all accounting estimates and related disclosures included in the financial statements have been prepared in accordance with the requirements of the financial reporting framework, and are materially accurate; and
- there are adequate controls in place at the Council (and where applicable its service provider or management expert) over the models, assumptions and source data used in the preparation of accounting estimates.

Estimation uncertainty

Under ISA (UK) 540 we are required to consider the following:

- how management understands the degree of estimation uncertainty related to each accounting estimate; and
- how management address this estimation uncertainty when selecting their point estimate.

For example, how management identified and considered alternative, methods, assumptions or source data that would be equally valid under the financial reporting framework, and why these alternatives were rejected in favour of the point estimate used.

The revised standard includes increased emphasis on the importance of the financial statement disclosures. Under ISA (UK) 540 (Revised December 2018), auditors are required to assess whether both the accounting estimates themselves and the related disclosures are reasonable.

Where there is a material uncertainty, that is where there is a significant risk of a material change to the estimated carrying value of an asset or liability within the next year, there needs to be additional disclosures. Note that not all material estimates will have a material uncertainty and it is also possible that an estimate that is not material could have a risk of material uncertainty.

Where there is material estimation uncertainty, we would expect the financial statement disclosures to detail:

- what the assumptions and uncertainties are;
- how sensitive the assets and liabilities are to those assumptions, and why;
- the expected resolution of the uncertainty and the range of reasonably possible outcomes for the next financial year; and
- an explanation of any changes made to past assumptions if the uncertainly is unresolved.

Planning enquiries

As part of our planning risk assessment procedures we have prepared and agreed with management a separate document (Informing the audit risk assessment 2020-21) that is being presented to the Audit, Standards & Governance Committee alongside this audit plan.

Further information

Further details on the requirements of ISA (UK) 540 (Revised December 2018) can be found in the auditing standard on the Financial Reporting Council's website:

https://www.frc.org.uk/getattachment/0fa69c03-49ec-49ae-a8c9-cc7a2b65382a/ISA-(UK)-540_Revised-December-2018_final.pdf

Other matters

Other work

In addition to our responsibilities under the Code of Practice, we have a number of other audit responsibilities, as follows:

- We read your Narrative Report and Annual Governance Statement to check that they are consistent with the financial statements on which we give an opinion and our knowledge of the Council.
- We carry out work to satisfy ourselves that disclosures made in your Annual Governance Statement are in line with requirements set by CIPFA.
- We carry out work on your consolidation schedules for the Whole of Government Accounts process in accordance with NAO group audit instructions.
- We consider our other duties under legislation and the Code, as and when required, including:
  - giving electors the opportunity to raise questions about your 2020/21 financial statements, consider and decide upon any objections received in relation to the 2020/21 financial statements;
  - issuing a report in the public interest or written recommendations to the Council under section 24 of the Local Audit and Accountability Act 2014 (the Act);
  - application to the court for a declaration that an item of account is contrary to law under section 28 or a judicial review under section 31 of the Act; or
  - issuing an advisory notice under section 29 of the Act.
- We certify completion of our audit.

Other material balances and transactions

Under International Standards on Auditing, "irrespective of the assessed risks of material misstatement, the auditor shall design and perform substantive procedures for each material class of transactions, account balance and disclosure". All other material balances and transaction streams will therefore be audited. However, the procedures will not be as extensive as the procedures adopted for the risks identified in this report.

Going concern

As auditors, we are required to obtain sufficient appropriate audit evidence regarding, and conclude on:

- whether a material uncertainty related to going concern exists; and
- the appropriateness of management's use of the going concern basis of accounting in the preparation of the financial statements.

The Public Audit Forum has been designated by the Financial Reporting Council as a "SORP-making body" for the purposes of maintaining and updating Practice Note 10: Audit of financial statements and regularity of public sector bodies in the United Kingdom (PN 10). It is intended that auditors of public sector bodies read PN 10 in conjunction with (ISAs) (UK).

PN 10 has recently been updated to take account of revisions to ISAs (UK), including ISA (UK) 570 on going concern. The revisions to PN 10 in respect of going concern are important and mark a significant departure from how this concept has been audited in the public sector in the past. In particular, PN 10 allows auditors to apply a 'continued provision of service approach' to auditing going concern, where appropriate. Applying such an approach should enable us to increase our focus on wider financial resilience (as part of our VfM work) and ensure that our work on going concern is proportionate for public sector bodies. We will review the Council's arrangements for securing financial sustainability as part of our Value for Money work and provide a commentary on this in our Auditor's Annual Report (see page 20).

Progress against prior year audit recommendations

We identified the following issues in our 2019/20 audit of the Council's financial statements, which resulted in five recommendations being reported in our 2019/20 Audit Findings Report. We have followed up on the implementation of our recommendations and all of them are still to be addressed.

	Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
High	×	Statement of Accounts production The Council did not publish pre-audit financial statements until 18 September, nearly three weeks after the deadline. With the Covid-19 pandemic ongoing it appears increasingly likely that the production of the 2021/22 financial statements will be impacted. Recommendation The Finance Team needs to ensure that robust arrangements are put in place to ensure that the financial statements are produced by the deadline, and that more time is available for review of the financial statements before they are published to reduce the number of typographical errors and amendments needed to better comply with the Code requirements. Management response The impact of Covid-19 in tandem with the launch of the new Enterprise Resource Planning system and day to day business of the Council stretched the resources of the finance team. Moving forwards management intends to increase the amount of resource available for year end tasks and processes and fully utilise the new system and as such is confident that year end will improve going forwards.	As noted on page 3, the 2020/21 financial statements should have been published and presented for audit by 30 July 2021. As at February 2022 the financial statements have not been prepared, and we now expect them to be completed by the end of March or early April. The situation has therefore deteriorated significantly from financial statements being prepared three weeks late in 2019/20 to an expected eight months in 2020/21.

Progress against prior year audit recommendations

	Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
High	×	**Quality of working papers and responses** This is the third year that we have made a recommendation in relation to the quality of working papers and responses to audit questions. The quality of working papers this year has not improved. While some of this is related to the challenges of Covid-19, most of the issues relate to lack of attention to detail, superficial explanations, and providing inaccurate or incomplete information. There is a direct cost to the Council of this – both internally through engaging contractors to support the audit, and externally through additional audit fees. **Recommendation** The Finance Team needs to properly address the recommendations made in previous years and to ensure that responses to audit questions are "right first time". **Management response** The Council acknowledges that the quality of working papers has led to a number of difficulties this year end, as with previous year ends, for the closure of the accounts and audit process. Covid-19 has driven some of this as officers were unable to sit down with auditors to go through working papers to explain them which can often resolve issues. Aside from this an old ledger system which was not fit for purpose made date extraction hard to support sampling and robust working papers. A new system has now gone live and it is anticipated that this will improve the quality of working papers in coming years. Additional resource will also need to be deployed in this area to ensure a smooth year end process next year.	As the 2020/21 financial statements have not yet been prepared we are unable to comment on the quality of the supporting working papers.

Progress against prior year audit recommendations

	Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
Medium	✗	**Fully depreciated assets** The Fixed Asset Register shows over £5.6m of fully depreciated Vehicles, Plant & Equipment. We asked Management to consider whether these should be written out (they are no longer used) or prove they are still in existence and in use. Management have advised that they are still in use. We would therefore ask Management to reconsider their useful lives as, if the assets are fully depreciated but still in use, they would not appear to be appropriate. **Recommendation** Management should reconsider the useful lives of these assets as, if the assets are fully depreciated but still in use, they would not appear to be appropriate. **Management response** Management will undertake a review of these assets as part of the closedown next year and determine an appropriate course of action as a result.	As the 2020/21 closedown process has not yet begun we are unable to comment on this recommendation.
Medium	✗	**Property, Plant and Equipment valuations** This is a major focus of our work, and will continue to be so in 2020/21. Our work this year took an excessively long time to complete – both for auditors and officers. The amount of time needed to complete this aspect of our audit is not sustainable. **Recommendation** Management needs to: 1) Ensure previous years valuation reports are readily available. 2) Ensure that a Letter of Engagement is agreed with the valuer, clearly setting out the requirements and expectations. 3) Ensure that evidence to support the floor area of revalued buildings is retained and readily available. 4) Conduct a review of assets not revalued in year to determine whether they continue to be fairly stated. **Management response** This was a particularly challenging are of the audit this year, in part due to the increased demands by the regulator. In addition to this, it was determined during the audit that the Council did not hold detailed records of assets owned. As a result the external valuer was required to supply this information such as floor areas. Moving forwards the Council will use the external valuers as a "first port of call" on all valuation and assets queries to allow for a smoother audit process rather than trying to do this internally.	The Council has yet to receive valuations for property as at 31 March 2021. Regardless of the challenges around the new financial ledger, as this work is conducted by expert valuers, external to the Council, we would have expected this to be have been completed in a timely manner.

Progress against prior year audit recommendations

	Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
Medium	×	**Annual Governance Statement** Our work on the Annual Governance Statement identified a significant number of typographical errors, referring to the wrong Committee, not referring to the CIPFA / SOLACE requirements, and saying nothing about the "Significant Governance Issues". **Recommendation** Management needs to ensure that the Annual Governance Statement complies with the CIPFA / SOLACE requirements. In particular referring to the S.151 Officer responsibilities and ensuring that "Significant Governance Issues" are appropriately explained. **Management response** Management agreed with the feedback from auditors and amended accordingly and this will be reflected in future sets of accounts.	As the 2020/21 Annual Governance Statement has yet to be prepared we are unable to provide an update on this recommendation.

Materiality

The concept of materiality

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. Misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Materiality for planning purposes

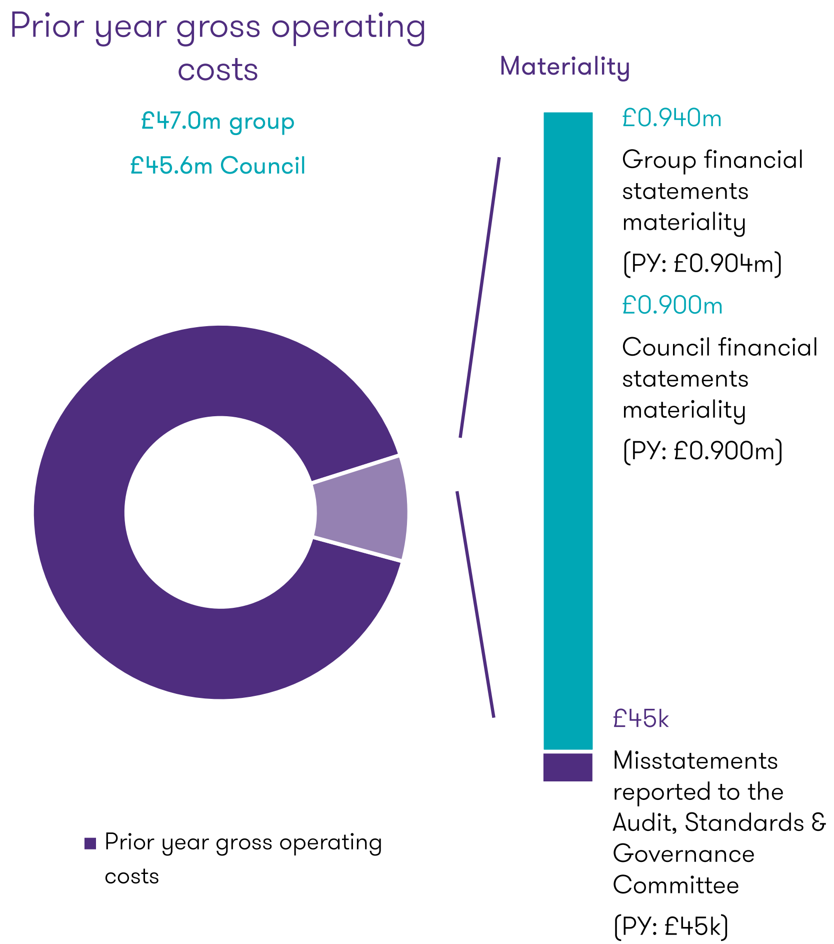
We have determined financial statement materiality based on a proportion of the gross expenditure of the group and Council for the financial year. In the prior year we used the same benchmark. Materiality at the planning stage of our audit is £0.940m (PY £0.904m) for the group and £0.900m (PY £0.900m) for the Council, which equates to 2% of your gross expenditure for the prior year. We design our procedures to detect errors in specific accounts at a lower level of precision. We deem senior officer remuneration as a specific sensitive area for users of the accounts and have applied a lower threshold of materiality of 2% of earnings disclosed in the remuneration disclosure, which in 2019/20 was £7k.

We reconsider planning materiality if, during the course of our audit engagement, we become aware of facts and circumstances that would have caused us to make a different determination of planning materiality.

Matters we will report to the Audit, Standards & Governance Committee

Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Audit, Standards & Governance Committee any unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work. Under ISA 260 (UK) 'Communication with those charged with governance', we are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. ISA 260 (UK) defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria. In the context of the group and Council, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £45k (PY £45k).

If management have corrected material misstatements identified during the course of the audit, we will consider whether those corrections should be communicated to the Audit, Standards & Governance Committee to assist it in fulfilling its governance responsibilities.



Value for Money arrangements

Revised approach to Value for Money work for 2020/21

On 1 April 2020, the National Audit Office introduced a new Code of Audit Practice which comes into effect from audit year 2020/21. The Code introduced a revised approach to the audit of Value for Money. (VFM)

There are three main changes arising from the NAO's new approach:

- A new set of key criteria, covering financial sustainability, governance and improvements in economy, efficiency and effectiveness
- More extensive reporting, with a requirement on the auditor to produce a commentary on arrangements across all of the key criteria, rather than the current 'reporting by exception' approach
- The replacement of the binary (qualified / unqualified) approach to VFM conclusions, with far more sophisticated judgements on performance, as well as key recommendations on any significant weaknesses in arrangements identified during the audit.

The Code require auditors to consider whether the body has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. When reporting on these arrangements, the Code requires auditors to structure their commentary on arrangements under three specified reporting criteria. These are as set out below:

Improving economy, efficiency and effectiveness

Arrangements for improving the way the body delivers its services. This includes arrangements for understanding costs and delivering efficiencies and improving outcomes for service users.

Financial Sustainability

Arrangements for ensuring the body can continue to deliver services. This includes planning resources to ensure adequate finances and maintain sustainable levels of spending over the medium term (3-5 years)

Governance

Arrangements for ensuring that the body makes appropriate decisions in the right way. This includes arrangements for budget setting and management, risk management, and ensuring the body makes decisions based on appropriate information

Risks of significant VFM weaknesses

As part of our planning work, we considered whether there were any risks of significant weakness in the body's arrangements for securing economy, efficiency and effectiveness in its use of resources that we needed to perform further procedures on. The risks we have identified are detailed in the first table below, along with the further procedures we will perform. We may need to make recommendations following the completion of our work. The potential different types of recommendations we could make are set out in the second table overleaf.

Risks of significant weakness

Those risks requiring audit consideration and procedures to address the likelihood that proper arrangements are not in place at the body to deliver value for money.

Financial Sustainability

How robust is the Medium Term Financial Plan (MTFP) and how well developed are savings plans?

The Medium Term Financial Plan 2021/22 – 2023/24 presented to Cabinet on 17 February 2021 sets out in the proposed use of £300k reserves that are no-longer needed to help balance the budget for 2021/22. The MTFP also includes "Savings and Additional income" of £426k in 2021/22; £474k in 2022/23 and £405k in 2023/24. Even with those savings, further use of balances of £1,099k will be required in 2022/23 and £1,472k in 2023/24. At 31 March 2024 general balances are forecast to be £1,735k, compared to a target of £2,000k.

To address this risk we will:

- review the MTFP which Cabinet approved in February 2021 and select a sample of savings or income generation schemes to test in order to obtain assurance that they are robust and realistic;
- monitor the progress made to identify non priority areas and to begin to disinvest in those areas; and
- review the longer term plan to bridge the structural deficit.

Risk Management

How the Council monitors and assesses risk.

An Internal Audit report from June 2019 identified significant weaknesses in risk management arrangements. The Council engaged external experts (Zurich) to build on this report, and reported the findings to the Audit, Standards & Governance Committee in October 2019. Since that date there have not been any formal update reports to Members, nor has a corporate risk register been presented. Members are therefore not provided with appropriate assurance over effective risk management and whether the issues raised by Internal Audit and Zurich have been addressed.

To address this risk we will:

- review the arrangements in place to ensure that Members are provided with appropriate risk management information in order for them to obtain assurance over the processes and to make informed decisions.

Risks of significant VFM weaknesses

Risks of significant weakness

Those risks requiring audit consideration and procedures to address the likelihood that proper arrangements are not in place at the body to deliver value for money.

Performance information reporting

How financial and performance information has been used to assess performance to identify areas for improvement.

During 2017/2018 the Council began presenting a "Corporate Performance Report", presented to Cabinet on a regular basis. In our Audit Findings Report for the year we commented "Corporate Performance is now presented bi-monthly using a new format. The first report was presented to Cabinet on 7 March 2018. The report is very comprehensive and thorough, an is also easily understandable. This report notes the strategic measures that are currently used to understand the purpose 'keep my place safe and looking good'. These are reported, along with others relevant to the strategic purpose. The Council is now adequately reporting progress against the Council Plan and the key indicators for each strategic purpose to Cabinet."

The last such report was 30 May 2018 which pre-dates the COVID-19 pandemic by around two years. It is now nearly four years since a Corporate Performance Report was presented.

To address this risk we will:

- review how the Council is reporting performance to Members, or making information available to them on an ongoing basis in order for them to obtain assurance over the processes and to make informed decisions.

Benefits realisation

How the Council assesses whether it is realising the expected benefits from outsourcing and procurement.

We have not seen any evidence on how the benefits realisation of projects is measured. We have therefore assessed this as a risk of significant weakness.

To address this risk we will:

- review the arrangements in place for how the Council measures benefits realisation from commissioned or procured services.

Potential types of recommendations

A range of different recommendations could be made following the completion of work on risks of significant weakness, as follows:

Statutory recommendation

Written recommendations to the body under Section 24 (Schedule 7) of the Local Audit and Accountability Act 2014. A recommendation under schedule 7 requires the body to discuss and respond publicly to the report.

Key recommendation

The Code of Audit Practice requires that where auditors identify significant weaknesses in arrangements to secure value for money they should make recommendations setting out the actions that should be taken by the body. We have defined these recommendations as 'key recommendations'.

Improvement recommendation

These recommendations, if implemented should improve the arrangements in place at the body, but are not made as a result of identifying significant weaknesses in the body's arrangements

Audit logistics and team

Jackson Murray, Key Audit Partner

Jackson's role will be to lead our relationship with you and take overall responsibility for the delivery of a high quality audit, meeting the highest professional standards and adding value to the Council.

Neil Preece, Audit Manager

Neil's role will be to manage the delivery of a high quality audit, meeting the highest professional standards and adding value to the Council.

Cathy Smith, Audit Incharge

Cathy's role will be to have day to day responsibility for the running of the audit and first point of contact.

Audited body responsibilities

Where audited bodies do not deliver to the timetable agreed, we need to ensure that this does not impact on audit quality or absorb a disproportionate amount of time, thereby disadvantaging other audits. Where the elapsed time to complete an audit exceeds that agreed due to a client not meeting its obligations we will not be able to maintain a team on site. Similarly, where additional resources are needed to complete the audit due to a client not meeting their obligations we are not able to guarantee the delivery of the audit to the agreed timescales. In addition, delayed audits will incur additional audit fees.

Our requirements

To minimise the risk of a delayed audit, you need to ensure that you:

- produce draft financial statements of good quality by the agreed timetable you have agreed with us, including all notes, the Narrative Report and the Annual Governance Statement;
- ensure that good quality working papers are available at the start of the audit, in accordance with the working paper requirements schedule that we have shared with you;
- ensure that the agreed data reports are available to us at the start of the audit and are reconciled to the values in the accounts, in order to facilitate our selection of samples for testing;
- ensure that all appropriate staff are available on site throughout (or as otherwise agreed) the planned period of the audit; and
- respond promptly and adequately to audit queries.

Audit fees

In 2017, PSAA awarded a contract of audit for Bromsgrove District Council to begin with effect from 2018/19. The fee agreed in the contract was £37,484. Since that time, there have been a number of developments, particularly in relation to the revised Code and ISA's which are relevant for the 2020/21 audit.

As referred to on page 20, the 2020/21 Code introduces a revised approach to our VFM work. This requires auditors to produce a commentary on arrangements across all of the key criteria, rather than the current 'reporting by exception' approach. Auditors now have to make far more sophisticated judgements on performance, as well as issue key recommendations if any significant weaknesses in arrangements are identified during the audit. We will be working with the NAO and other audit firms to discuss and share learning in respect of common issues arising across the sector.

The new approach will be more challenging for audited bodies, involving discussions at a wider and more strategic level. Both the reporting, and the planning and risk assessment which underpins it, will require more audit time, delivered through a richer skill mix than in previous years. Our estimate is that for your audit, this will result in an increased fee of £61,272 (63%). This is in line with increases we are proposing at all our local audits.

Additionally, across all sectors and firms, the FRC has set out its expectation of improved financial reporting from organisations and the need for auditors to demonstrate increased scepticism and challenge and to undertake additional and more robust testing, as noted in the number of revised ISA's issued by the FRC that are applicable to audits of financial statements commencing on or after 15 December 2019.

As a firm, we are absolutely committed to meeting the expectations of the FRC with regard to audit quality and public sector financial reporting. Our proposed work and fee for 2020/21, as set out below, is detailed overleaf and has been agreed with the Executive Director Resources.

	Actual Fee 2018/19	Actual Fee 2019/20	Proposed fee 2020/21
Bromsgrove District Council Audit	£45,484	£64,734	£61,272

Assumptions

In setting the above fees, we have assumed that the Council will:

- prepare a good quality set of accounts, supported by comprehensive and well presented working papers which are ready at the start of the audit;
- provide appropriate analysis, support and evidence to support all critical judgements and significant judgements made during the course of preparing the financial statements; and
- provide early notice of proposed complex or unusual transactions which could have a material impact on the financial statements.

Relevant professional standards

In preparing our fee estimate, we have had regard to all relevant professional standards, including paragraphs 4.1 and 4.2 of the FRC's Ethical Standard (revised 2019) which stipulate that the Engagement Lead (Key Audit Partner) must set a fee sufficient to enable the resourcing of the audit with partners and staff with appropriate time and skill to deliver an audit to the required professional and Ethical standards.

Audit fees – detailed analysis

Scale fee published by PSAA		£37,484
Ongoing increases to scale fee first identified in 2019/20		
Raising the bar/regulatory factors	£2,000	
Enhanced audit procedures for Property, Plant and Equipment	£2,000	
Enhanced audit procedures for Pensions	£1,750	
PSAA inflationary uplift	£1,438	
		£7,188
Revised base audit fee 2019/20		£44,672
New issues for 2020/21		
Additional work on Value for Money (VfM) under new NAO Code	£9,000	
Increased audit requirements of revised ISA 540 (Estimates)	£2,100	
Additional work relating to journals and COVID-19 grants	£3,000	
Additional work on new ledger system	£2,500	
Proposed increase to base 2019/20 fee		£16,600
Total audit fees (excluding VAT)		£61,272

Independence and non-audit services

Auditor independence

Ethical Standards and ISA (UK) 260 require us to give you timely disclosure of all significant facts and matters that may bear upon the integrity, objectivity and independence of the firm or covered persons. relating to our independence. We encourage you to contact us to discuss these or any other independence issues with us. We will also discuss with you if we make additional significant judgements surrounding independence matters.

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 (Revised 2019) and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements. Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in May 2020 which sets out supplementary guidance on ethical requirements for auditors of local public bodies

We confirm that we have implemented policies and procedures to meet the requirements of the Ethical Standard. For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council.

Other services

The following other services provided by Grant Thornton were identified.

The amounts detailed are fees agreed to-date for audit related and non-audit services to be undertaken by Grant Thornton UK LLP in the current financial year

Any changes and full details of all fees charged for audit related and non-audit related services by Grant Thornton UK LLP and by Grant Thornton International Limited network member Firms will be included in our Audit Findings report at the conclusion of the audit.

None of the services provided are subject to contingent fees.

Service	Fees £	Threats	Safeguards
Audit related			
Certification of Housing benefit subsidy claim	15,000	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 £15,000 in comparison to the total fee for the audit of £61,272 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.
Non-audit related			
None			

Grant Thornton