



**BROMSGROVE DISTRICT COUNCIL**

**MEETING OF THE AUDIT, STANDARDS AND GOVERNANCE COMMITTEE**

THURSDAY 21ST JANUARY 2021  
AT 6.00 P.M.

VIRTUAL MEETING - TEAMS

**SUPPLEMENTARY PAPERS**

MEMBERS: Councillors L. C. R. Mallett (Chairman), P. J. Whittaker (Vice-Chairman), S. J. Baxter, A. J. B. Beaumont, S. G. Hession, J. E. King, A. D. Kriss, C. J. Spencer, K. J. Van Der Plank and Mr. J. Cypher (Parish Councils' Representative)

**AGENDA**

5. Grant Thornton - Interim Audit Findings Report (Pages 1 - 32)
7. Benefits and Compliance Update (Pages 33 - 36)

K. DICKS  
Chief Executive

Parkside  
Market Street  
BROMSGROVE  
Worcestershire  
B61 8DA

18th January 2021

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#### GRANT THORNTON – Interim Audit Findings for Bromsgrove District Council

<b>Relevant Portfolio Holder</b>	Councillor Geoff Denaro
<b>Portfolio Holder Consulted</b>	-
<b>Relevant Head of Service</b>	Chris Forrester – Head of Finance and Customer Services
<b>Ward(s) Affected</b>	All Wards
<b>Ward Councillor(s) Consulted</b>	No
<b>Key Decision / Non-Key Decision</b>	Non–Key Decision

#### 1.    **SUMMARY OF PROPOSALS**

To present an Interim Audit Findings for Bromsgrove District Council.

#### 2.    **RECOMMENDATIONS**

2.1    The Committee is asked to note the report and Appendix 1.

#### 3.    **KEY ISSUES**

##### **Financial Implications**

3.1    There are no financial implications arising out of this report.

##### **Legal Implications**

3.2    The Council has a statutory responsibility to comply with financial regulations.

##### **Service / Operational Implications**

3.3    The report attached at Appendix 1 updates Members on the Interim Audit Findings for Bromsgrove District Council undertaken by Grant Thornton since the last Committee meeting.

3.4    Officers are continuing to work with the auditors to ensure the Council successfully signs off its statement of accounts.

##### **Customer / Equalities and Diversity Implications**

3.5    There are no implications arising out of this report.

#### 4.    **RISK MANAGEMENT**

**AUDIT, STANDARDS AND GOVERNANCE COMMITTEE 21<sup>st</sup> January 2021**

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4.1 As part of all audit work the auditors undertake a risk assessment to ensure that adequate controls are in place within the Council so reliance can be placed on internal systems.

**5. APPENDICES**

Appendix 1 - Grant Thornton Report

**6. BACKGROUND PAPERS**

None

**7. KEY**

N/A

**AUTHOR OF REPORT**

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# The Interim Audit Findings for Bromsgrove District Council

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Progress at 14 January 2021

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## Section

1. Headlines
2. Financial statements
3. Value for money
4. Independence and ethics

## Appendices

- A. Action plan
- B. Follow up of prior year recommendations
- C. Audit adjustments
- D. Fees
- E. Audit Opinion
- F. Audit Status as at 14 January 2021

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The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed for the purpose of expressing our opinion on the financial statements. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose all defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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Agenda Item 5

# Headlines

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

<p><b>Covid-19</b></p>	<p>The outbreak of the Covid-19 coronavirus pandemic has had a significant impact on the normal operations of the Council. The financial implications have been set out in a report from the Executive Director of Resources to Cabinet on 8 July 2020.</p> <p>Officers have had to deal with factors such as the administration of grants to businesses, closure of leisure centres and car parks, and the additional challenges of reopening services under new government guidelines, as well as facilitating hundreds of people working from home.</p> <p>Authorities are still required to prepare financial statements in accordance with the relevant accounting standards and the Code of Audit Practice, albeit to an extended deadline for the preparation of the financial statements up to 31 August 2020 and the date for audited financial statements to 30 November 2020.</p>	<p>We updated our audit risk assessment to consider the impact of the pandemic on our audit and issued an audit plan addendum on 28 April 2020. In that addendum we reported an additional financial statement risk in respect of Covid -19 and highlighted the impact on our VfM approach. Further detail is set out on page 8.</p> <p>Restrictions for non-essential travel has meant both Council and audit teams have had to get used to new ways of remote working, including remotely accessing financial systems, video calling, additional procedures to verify the completeness and accuracy of information produced by the Council, as well as making greater use of 'Inflo', our document management sharing system.</p> <p>We had initially planned to begin our work on your draft financial statements in early August, but this was initially put back to the beginning of September as the financial statements were not ready. On 27 August Officers notified us that they would not be able to prepare and publish the financial statements by 31 August as required by the amended regulations. The pre audit financial statements were signed by the Executive Director of Resources on 18 September, which is over two weeks later than the revised 31 August deadline.</p>
<p><b>Financial Statements</b></p>	<p>Under International Standards of Audit (UK) (ISAs) and the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion, the group and Council's financial statements:</p> <ul style="list-style-type: none"> <li>• give a true and fair view of the financial position of the group and Council and the group and Council's income and expenditure for the year; and</li> <li>• have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting and prepared in accordance with the Local Audit and Accountability Act 2014.</li> </ul> <p>We are also required to report whether other information published together with the audited financial statements (including the Annual Governance Statement (AGS) and Narrative Report), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.</p>	<p>Our audit work is ongoing. As set out in Appendix F, there is still a considerable amount of work to complete before we will be in a position to conclude the audit and provide an audit opinion. The audit is being undertaken remotely during September - January. Our findings are summarised on pages 6 to 16. We will report adjustments to the financial statements that will require changes to the Council's Comprehensive Income and Expenditure Statement to you once Officers have worked through the adjustments and amended the financial statements. There is one item, in relation to housing benefit payments to claimants, amounting to £72k, which is shown in 2019/20, rather than 2020/21. Officers have declined to adjust for this owing to the impact on ongoing claim payments, and will process the change at the beginning of 2021/22. Audit adjustments are detailed in Appendix C. We have also raised recommendations for management as a result of our audit work in Appendix A. Our follow up of recommendations from the prior year's audit are detailed in Appendix B.</p> <p>At the time of writing this report we anticipate that our audit opinion will be unmodified, but will include an "Emphasis of Matter" highlighting the material uncertainty around property valuations.</p> <p>We have concluded that the other information to be published with the financial statements is consistent with our knowledge of your organisation.</p>

# Headlines

## Value for Money arrangements

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

We have completed our risk based review of the Council's value for money arrangements in respect of the significant risk identified in our Audit Plan around financial sustainability. We have concluded that Bromsgrove District Council has proper arrangements to secure economy, efficiency and effectiveness in its use of resources in this area. However, we need to consider whether the significant challenges in relation to the financial statements audit also need 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 will need to be considered by an independent consistency panel.

We have updated our VFM risk assessment to document our understanding of your arrangements to ensure critical business continuity in the current environment. We have not identified any new VFM risks in relation to Covid-19.

Our findings are summarised on pages 17 to 18.

## Statutory duties

The Local Audit and Accountability Act 2014 ('the Act') also requires us to:

- report to you if we have applied any of the additional powers and duties ascribed to us under the Act; and
- to certify the closure of the audit.

We have not exercised any of our additional statutory powers or duties.

Whilst our work under the Code is ongoing we expect to be able to certify the completion of the audit when we give our audit opinion.



# Audit approach

## Overview of the scope of our audit

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

As auditors we are responsible for performing an audit, in accordance with International Standards on Auditing (UK) and the Code, which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities for the preparation of the financial statements.

## Our approach to materiality

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

Materiality levels remain the same as reported in our audit plan.

## Audit approach

Our audit approach was based on a thorough understanding of the Council's business and is risk based, and in particular included:

- an evaluation of the Council's internal controls environment, including its IT systems and controls; and
- substantive testing on significant transactions and material account balances, including the procedures outlined in this report in relation to the key audit risks

We have had to alter our audit plan, as communicated to you on 5 March 2020, to reflect our response to the Covid-19 pandemic. We reported this in our audit plan addendum dated 28 April 2020. We have reported how we addressed this risk on page 8.

	Group Amount (£)	Council Amount (£)	Qualitative factors considered
Materiality for the financial statements	904,000	900,000	We considered materiality from the perspective of the users of the financial statements. The Council prepares an expenditure based budget for the financial year with the primary objective to provide services for the local community and therefore gross expenditure at the Net Cost of Services level was deemed as the most appropriate benchmark. This benchmark was used in the prior year.  Recognising the size and scale of the Council, we deemed that 2% was an appropriate rate to apply to the expenditure benchmark. We also applied this to the Group.
Performance materiality	542,000	540,000	We have set performance materiality at 60% of headline materiality. This reflects the issues experienced, and number of changes to the financial statements, in previous years.
Trivial matters	45,000	45,000	This is the level set for reporting errors or omissions to Those Charged with Governance (5% of headline materiality).
Materiality for the remuneration of individual senior managers	7,000	7,000	We have 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.

# Key messages

## Quality of working papers

In our Audit Findings Reports for the 2018/19 and 2017/18 financial years we have noted the need to improve the quality of working papers supporting the financial statements, and agreed recommendations and actions with Officers. In both years we have agreed an additional audit fee of £4,500 to reflect the significant amount of additional audit time required as a result of poor quality working papers.

In our progress report presented to the Audit, Standards & Governance Committee on 24 November 2020 we again highlighted our concerns and challenges in this area, and provided some illustrative examples. During the ensuing discussion Members recognised the issues both officers and auditors face. We have set out some illustrative examples below.

## Creditors

The extract from the financial statements included below demonstrates that this is a simple note, analysing the amount the Council owed at 31 March 2020 into three categories. We set up an initial request for working papers supporting this note on 24 July. While this is before the financial statements were due to be approved it is good practice for working papers to be prepared alongside the financial statements to provide officers and auditors with assurance that the figures are supported by the underlying information.

### Note 22 Creditors

	Short term creditors	
	2019/20 £000	2018/19 £000
Central government bodies	(3,719)	(327)
Other local authorities	(6,760)	(3,330)
Other Entities and Individuals	(2,203)	(1,465)
<b>Total</b>	<b>(12,682)</b>	<b>(5,122)</b>

However, the information request was not opened until 7 October – nearly a month after the financial statements were published. Officers began to provide information to the audit team from 11 November – a further five weeks after opening the request, and two months after publication of the financial statements.

The audit team and officers discussed the information presented by Officers numerous times after 11 November, with the final working papers supporting the Note being presented to the audit team on 8 December – nearly three months after the publication of the financial statements.

Ultimately there were 14 separate documents presented to the audit team in support of this Note. Many of those were Excel spreadsheets with numerous tabs. From this information the audit team followed the Grant Thornton audit approach to select a sample of items for detailed testing.

Just 13 items were tested in detail. Of these, we raised further questions on 9. All of the supporting evidence was not received until 11 January..

## Debtors

The audit team faced similar challenges in this area. We were not able to select a sample of items for detailed testing until 10 November. Even then, the breakdown from which the team had to work consisted of 13 separate files, many in Excel with multiple tabs.

## Cash received after 31 March

Auditors need to test income received in the new financial year to ensure that it has been recognised in the correct year. A large proportion of the income receipts have been processed through a suspense account before being coded to the correct account code. This means that we were unable to remove many of the items that had already been tested elsewhere (e.g. council tax, housing benefit overpayments etc) as we were unable to identify what the suspense account items related to. We therefore had to spend a lot of time understanding the process and discussing the best way to obtain an appropriate sample.

These are some examples arising from our audit of the financial statements that demonstrate the significant amount of additional work that both auditors and officers have had to undertake in order to obtain appropriate assurance over what are actually fairly simple and straightforward parts of the financial statements.

# Key messages from completed work

## Key messages arising from our completed financial statements work

- Officers have made a material prior period adjustment to Note 26 for the 2018/19 'Movement in Pension Liability' figure. This arose because the impact of the late McCloud pension adjustment in 2018/19, while processed properly through the CIES and Balance Sheet, was not also processed through the Cash Flow Statement as "Movement in pension liability". This means that "Cash and cash equivalents at the end of the reporting period" was misstated by £1,151k. Officers have included a note explaining this.
- After reviewing the disclosures around the Non Domestic Rates (NDR) Provision and the business rate pool we agreed with officers that several Notes in the financial statements, where this is discussed, could be made clearer. Notes 3, 4, 5, 6 and 38 were enhanced.
- The depreciation policy disclosed in the accounts is not consistent with what is actually being applied, and needs to be updated.
- Note 37 – Pensions – we identified a small number of areas that need to be amended to make the Note clearer. None affect the assets, liabilities or amounts paid.

# Significant audit risks

## Risk identified in our Audit Plan addendum

### Covid- 19

The global outbreak of the Covid-19 virus pandemic has led to unprecedented uncertainty for all organisations, requiring urgent business continuity arrangements to be implemented. We expect current circumstances will have an impact on the production and audit of the financial statements for the year ended 31 March 2020, including and not limited to;

- remote working arrangements and redeployment of staff to critical front line duties may impact on the quality and timing of the production of the financial statements, and the evidence we can obtain through physical observation;
- volatility of financial and property markets will increase the uncertainty of assumptions applied by management to asset valuation and receivable recovery estimates, and the reliability of evidence we can obtain to corroborate management estimates;
- financial uncertainty will require management to reconsider financial forecasts supporting their going concern assessment and whether material uncertainties for a period of at least 12 months from the anticipated date of approval of the audited financial statements have arisen; and
- disclosures within the financial statements will require significant revision to reflect the unprecedented situation and its impact on the preparation of the financial statements as at 31 March 2020 in accordance with IAS1, particularly in relation to material uncertainties.

We therefore identified the global outbreak of the Covid-19 virus as a significant risk.

## Auditor commentary

To address this risk we:

- 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.

## Findings

As previously noted, the Council were 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, we are not yet in a position to issue our audit opinion.

There remain areas of our work where, at present, we have been unable to obtain sufficient appropriate audit evidence to undertake our audit as we planned. Aspects of our work have been 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.

# Significant audit risks

## Risks identified in our Audit Plan

### The revenue cycle includes fraudulent transactions (rebutted)

Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue.

This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.

## Auditor commentary

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. The group financial statements do not include any additional revenue, so there is no risk relating to the group.

## Findings

Our audit work has not identified any issues that have caused us to revisit our initial assessment as set out above.

### Management over-ride 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.

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.

To address this risk we:

- 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.

## Findings

Our audit work in relation to testing of our sample of journals is ongoing. The rest of our work in this area has not identified any issues in respect of management override of controls.

# Significant audit risks

## Risks identified in our Audit Plan

### Valuation of land and buildings

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

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.

## Auditor commentary

To address this risk we:

- 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.

## Findings

### Revaluations

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.

Our work in this area is ongoing. We have encountered some very serious challenges and delays in completing our work:

- 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; and
- Officers have been 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.

Our work in this area is continuing.

# Significant audit risks

## Risks identified in our Audit Plan

### Valuation of pension fund net liability

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.

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.

## Auditor commentary


To address this risk we:

- updated 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 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 Council's pension fund valuation;
- assessed the accuracy and completeness of the information provided by the 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.

### Findings

Our audit work is ongoing, specifically in relation to agreeing the information provided to the actuary, via the pension fund, to the payroll figures. Our completed work to date has not identified any issues in respect of the valuation of the pension fund net liability.





# Significant findings – key estimates and judgements

Accounting area	Summary of management's policy	Auditor commentary	Assessment
<b>Provisions for NNDR appeals</b>	<p>In previous years the Council has been responsible for repaying successful rateable value appeals. The calculation of the provision required was based upon the latest information about outstanding rates appeals provided by the Valuation Office Agency (VOA) and previous success rates. The provision remained largely unchanged being £1,303k in 2017/18 and £1,311k in 2018/19.</p> <p>However, as explained in Note 5 – "From 1st April 2019 the Council became part of the Worcestershire 75% Business Rate Pilot Pool rather than the Greater Birmingham and Solihull Business Rate Pool (GBSBRP). The agreement is a no detriment arrangement whereby the Council receives a share equal to the 40% it received under GBSBRP arrangements and benefit from any increase in business rate income. The Council share is received from Worcestershire County Council (WCC) rather than the Collection Fund. The 75% Pilot arrangements apply for 2019/20 only and provide that WCC receive 74% of business rate income, Hereford and Worcester Fire and Recuse (HWFR) continue to receive 1% and Central Government receive 25% rather than 50% it received under the previous arrangements. The Balance Sheet as at 31st March 2020 requires business rate activity (arrears, prepayments, appeals, surplus and provision for bad debts) other than court costs to be allocated to WCC (74%), HWFR (1%) and Central Government (25%) whereas the Balance Sheet as at 31st March 2019 included a 40% allocation to the Council."</p> <p>Therefore, the provision for business rate appeals has reduced from £1,311k in 2018/19 to zero in 2019/20.</p>	<p>This represents a significant change in the approach to recognising provisions for business rates appeals. We conducted extensive work in order to obtain adequate assurance that the new arrangements were consistent with other Worcestershire local authorities and the Business Rate Pool agreement.</p> <p>Officers agreed to enhance the notes in the financial statements which relate to this issue – 3, 4, 5, 6 and 38. Adding to note 5:</p> <p>"The significant changes to creditors and provisions in respect of the Worcestershire Business Rate Pilot Pool will only apply to 2019/20, the duration of the Pilot. In 2020/21, the Council will return to being accountable for 40% of the Business Rate Pool and holding a 40% share of business rate creditors, prepayments and appeals"</p> <p>Adding to notes 3, 4, 6 &amp; 38:</p> <p>"The Council manages the Collection Fund and accounts for business rates on behalf of itself, Worcestershire County Council, Hereford and Worcester Fire and Recuse Authority and Central Government. The Council share of the business rate assets and liabilities in 2019/20 was 0% in accordance with the Worcestershire Business Rate Pilot Pool that operated for that year. This compares with 40% in 2018/19. From 2020/21 the share of assets and liabilities will revert back to 40%."</p> <p>We are satisfied that the amended disclosures provide clarity over the arrangements, and that the accounting for them is reasonable.</p>	<p> (Green)</p>

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## Assessment





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



# Significant findings – key estimates and judgements

Accounting area	Summary of management's policy	Auditor commentary	Assessment
<b>Land and Buildings – Other</b>	The Council revalues its land and buildings as a minimum on a rolling five-yearly basis with interim reviews. If the value of an asset class is projected to materially change during the period since the last valuation then further valuations are instructed. Some asset classes are currently valued annually.	<p>We have set out our findings in relation to the valuation of other land and buildings on page 10.</p> <p>The work required for us to be satisfied that the judgements and estimates used by management in determining the value of other land and buildings are appropriate for the Council is still in progress.</p>	 (In progress)
<b>Net pension liability</b>	A full actuarial valuation is required every three years. The latest full actuarial valuation was completed in 2019. A roll forward approach is used in intervening periods, which utilises key assumptions such as life expectancy, discount rates, salary growth and investment returns. Given the significant value of the net pension fund liability, small changes in assumptions can result in significant valuation movements.	We have set out our findings in relation to the net pension liability on page 11. We are satisfied that the judgements and estimates used by management in determining the pension fund asset and liability are consistent with those used by the actuary and appropriate for the Council.	 (Green)

## Assessment

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

# Significant findings – going concern

## Our responsibility

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

## Going concern commentary

### Management's assessment process

Management do not undertake a formal assessment of whether the Council is a going concern.

The Council has a sound income stream through Council Tax (£9.2m) and Business Rates (£4.5m) (although this includes a one-off gain through the release on the 2017 rating list provision for appeals, the Council share being £1.9m). It has delivered a balanced budget year on year and has a realistic Medium Term Financial Plan.

The Council also has usable, non earmarked reserves of £4.4m.

### Work performed

Our audit work, including our VFM work, has not raised any doubts around the going concern assumption. Also, in the public sector, going concern is taken to mean that the services are transferred / delivered by another body. As the Council services / functions would be delivered by any successor body, the threat of re-organisation does not apply.

We are still waiting for further information in relation to cash flow forecasts before we can complete our work.

## Auditor commentary

### Auditor commentary

The use of the going concern assumption is reasonable as the Council has a realistic Medium Term Financial Plan and sufficient reserves to cover any short term unexpected need. It would be considered a going concern even if it demised and the services transferred to another body. Our Informing the Audit Risk Assessment report, presented to Audit, Standards and Governance Committee on 5 March, shows on pages 16 to 19 the arrangements in place to demonstrate that the Council is a going concern.

### Auditor commentary

The reported position of the Council at 31 March 2020 per the draft financial statements shows that they have total current assets of £11.2m compared to £17.7m current liabilities. £1.4m of the total current assets are cash and are therefore highly liquid.

To date, we have nothing to report in relation to Going Concern, however our work is ongoing.

## Other matters for communication

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

Issue	Auditor commentary
<b>Matters in relation to fraud</b>	We have previously discussed the risk of fraud with the Audit, Standards and Governance Committee. We have not been made aware of any material incidents in the period and no other issues have been identified during the course of our audit procedures.
<b>Matters in relation to related parties</b>	We are not aware of any related parties or related party transactions which have not been disclosed.
<b>Matters in relation to laws and regulations</b>	You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work.
<b>Written representations</b>	A letter of representation will be requested from the Council. At present, there is one item that Officers are proposing not to amend, in relation to housing benefit payments to claimants incorrectly shown in 2019/20 rather than 2020/21. The amount is £72,000. This will be included in the letter we request. We will also make specific representations in relation to the Prior Period Adjustment made in the post-audit financial statements.
<b>Confirmation requests from third parties</b>	We requested from management permission to send confirmation requests to banks and councils with whom the Council had investments or borrowing. This permission was granted and the requests were sent. All of these requests were returned with positive confirmation.
<b>Disclosures</b>	Our review found no material omissions in the financial statements, however disclosure adjustments are disclosed in Appendix C.
<b>Audit evidence and explanations/significant difficulties</b>	Our audit is still ongoing. We have reported the significant difficulties with our audit of the draft accounts and working papers on page 6.

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## Other responsibilities under the Code

Issue	Commentary
<b>Other information</b>	<p>We are required to give an opinion on whether the other information published together with the audited financial statements (including the Annual Governance Statement and Narrative Report), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.</p> <p>Our work in this area is ongoing.</p>
<b>Matters on which we report by exception</b>	<p>We are required to report on a number of matters by exception in a numbers of areas:</p> <ul style="list-style-type: none"> <li>• if the Annual Governance Statement does not meet the disclosure requirements set out in the CIPFA/SOLACE guidance or is misleading or inconsistent with the other information of which we are aware from our audit; and/or</li> <li>• if we have applied any of our statutory powers or duties.</li> </ul> <p>We have nothing to report on these matters.</p>
<b>Specified procedures for Whole of Government Accounts</b>	<p>We are required to carry out specified procedures (on behalf of the NAO) on the Whole of Government Accounts (WGA) consolidation pack under WGA group audit instructions.</p> <p>Detailed work is not required as the Council does not exceed the audit threshold.</p>
<b>Certification of the closure of the audit</b>	<p>We are not in a position to certify the closure of the 2019/20 audit of Bromsgrove District Council until the remaining audit queries on the financial statements are resolved.</p>

# Value for Money

## Background to our VFM approach

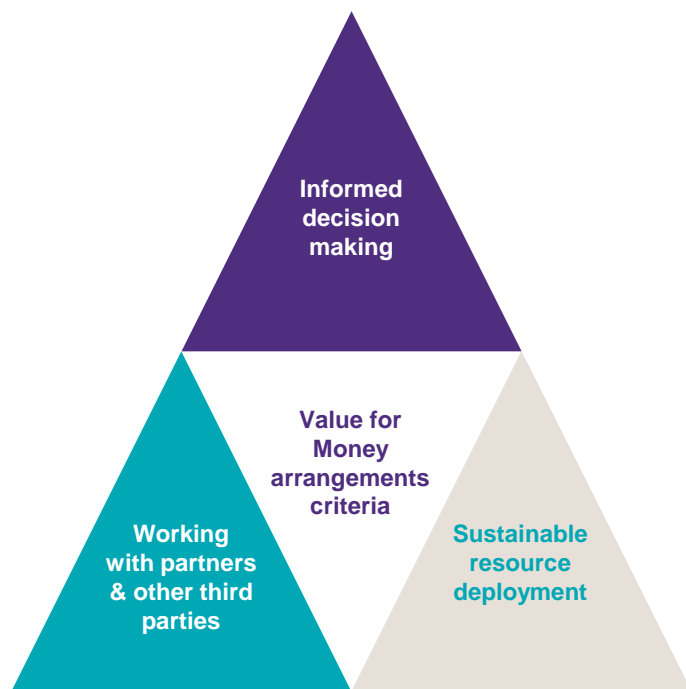
We are required to satisfy ourselves that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the Value for Money (VFM) conclusion.

We are required to carry out sufficient work to satisfy ourselves that proper arrangements are in place at the Council. In carrying out this work, we are required to follow the NAO's Auditor Guidance Note 3 (AGN 03) issued in April 2020. AGN 03 identifies one single criterion for auditors to evaluate:

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

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

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## Risk assessment

We carried out an initial risk assessment in January 2020 and identified one significant risk in respect of specific areas of proper arrangements using the guidance contained in AGN03. We communicated this risk to you in our Audit Plan dated 5 March 2020.

We have continued our review of relevant documents up to the date of giving our report, and have not identified any further significant risks where we need to perform further work. We do not consider Covid-19 to be a significant risk given the date of the pandemic.

We carried out further work only in respect of the significant risk we identified from our initial and ongoing risk assessment.

## Our work

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

We have focused our work on the significant risk that we identified in the Council's arrangements. In arriving at our conclusion, our main considerations were robustness of your Medium Term Financial Plan.

We have set out more detail on the risk we identified, the results of the work we performed, and the conclusions we drew from this work on page 18.

## Significant difficulties in undertaking our work

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

## Significant matters discussed with management

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

## Overall conclusion

Based on the work we performed to address the significant risk, we are satisfied that the Council had proper arrangements for securing economy, efficiency and effectiveness in its use of resources. However, we need to consider whether the significant challenges in relation to the financial statements audit also need 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 will need to be considered by an independent consistency panel.

# Value for Money

## Key findings

We set out below our key findings against the significant risks we identified through our initial risk assessment and further risks identified through our ongoing review of documents.

Significant risk	Findings	Conclusion
<p><b>Financial sustainability</b></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><b>Management response</b></p> <p>[...]</p>

# Independence and ethics

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

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

Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in May 2020 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

Details of fees charged are detailed in Appendix D

## Audit and Non-audit services



For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council. The following non-audit services were identified, which were charged from the beginning of the financial year to January 2021, as well as the threats to our independence and safeguards that have been applied to mitigate these threats.

	Fees £	Threats identified	Safeguards
<b>Audit related</b>			
Certification of Housing Benefit subsidy claim	12,500	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £12,500 in comparison to the total fee for the audit of £44,734 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

# Action plan

We have identified two recommendations for the Council as a result of issues identified during the course of our audit. We have agreed our recommendations with management and we will report on progress on these recommendations during the course of the 2020/21 audit. The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

Assessment	Issue and risk	Recommendations
 High	<b>Statement of Accounts production</b> 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.	<b>Recommendation</b> The Finance Team needs to ensure that robust arrangements are put in place to ensure that the financial statements are produced by the deadline. <b>Management response</b>
Page 22  High	<b>Quality of working papers and responses</b> 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.	<b>Recommendation</b> 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”. <b>Management response</b>

## Controls

-  High – Significant effect on control system
-  Medium – Effect on control system
-  Low – Best practice



# Follow up of prior year recommendations

We identified the following issues in the audit of Bromsgrove District Council's 2018/19 financial statements, which resulted in two recommendations being reported in our 2018/19 Audit Findings report. Our audit work this year indicates that the implementation of our recommendations is still to be completed.

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
X	<p><b>Statement of Accounts production</b></p> <p>Many of the changes we identified as a result of our audit were repeated from last year. It is disappointing and time consuming to have to raise the same amendments in successive years. The Council needs to ensure that the template Statement of Accounts for 2019/20 start with the final audited 2018/19 Statement.</p> <p><b>Recommendation</b></p> <p>The Finance Team needs to ensure that amendments to the structure of the Statement of Accounts for 2019/20 and the titles and headings used therein reflects the changes agreed this year.</p> <p><b>Management response</b></p> <p>The Council will ensure that in future years a greater amount of time will be allocated to quality checking at a senior level.</p>	<p>While recognising the obvious impact that the Covid-19 pandemic has had, Bromsgrove District Council was one of a few councils which was unable to publish its pre-audit accounts by the revised deadline of the end of August.</p> <p>We have not identified any issues or errors that have been repeated from the previous year.</p>
Page 23	<p><b>Quality of working papers and responses</b></p> <p>We noted some improvement in the quality of the working papers initially provided to us. However, those improvements were insufficient to avoid a very high number of questions being raised. For the majority of our audit the responses we received were frequently inadequate, necessitating further questions.</p> <p>Officers need to properly address the recommendation made last year and to ensure that responses to audit questions are "Right first time".</p> <p><b>Recommendation</b></p> <p>The Finance Team needs to properly address the recommendation made last year and to ensure that responses to audit questions are "Right first time".</p> <p><b>Management response</b></p> <p>A training plan will be put in place to address improvements in working papers and responses to audit queries. This will be developed in consultation with Grant Thornton.</p>	<p>Unfortunately, this has not improved. The delays and challenges we have experienced this year are worse than in previous years. 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.</p>

#### Assessment

- ✓ Action completed
- X Not yet addressed

# Audit adjustments

We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management. We will report these in our final Audit Findings Report.

## Impact of adjusted misstatements

All adjusted misstatements are set out in detail below along with the impact on the key statements and the reported net expenditure for the year ending 31 March 2020.

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000
To be updated in final version of the report, as applicable.	[...]	[...]	[...]
<b>Overall impact</b>	<b>£X,XXX</b>	<b>£X,XXX</b>	<b>£X,XXX</b>

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## Misclassification and disclosure changes

The table below provides details of misclassification and disclosure changes identified during the audit which have been made in the final set of financial statements.

Disclosure omission	Detail	Auditor recommendations	Adjusted?
To be updated in final version of the report, as applicable.	[...]	[...] <b>Management response</b>	✓

Agenda Item 5

# Audit adjustments

## Impact of unadjusted misstatements

The table below provides details of adjustments identified during the 2019/20 audit which have not been made within the final set of financial statements. The Audit, Standards & Governance Committee is required to approve management's proposed treatment of all items recorded within the table below:

We anticipate that there will be at least one item to report. This relates to housing benefit payments to claimants, amounting to £72k, that were recorded in 2019/20, but which should be in 2020/21. Having clarified with the software provider, CIVICA, Officers have determined that to amend the housing benefit claim which is submitted to DWP would cause knock-on issues as it would not take into account any adjustments that were made within those payments (e.g. underpayment & overpayments) as these would still be classified as 2019/20. Officers therefore propose to process the changes at the beginning of 2021/22.

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000	Reason for not adjusting
To be updated in final version of the report, as applicable.	[...]	[...]	[...]	
<b>Overall impact</b>	<b>£X,XXX</b>	<b>£X,XXX</b>	<b>£X,XXX</b>	

# Fees

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

<b>Audit fees</b>	<b>Proposed fee (£)</b>	<b>Final fee (£)</b>
Council Audit	£44,734	TBC*
<b>Total audit fees (excluding VAT)</b>	<b>£44,734</b>	<b>TBC</b>

\*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).

<b>Non-audit fees for other services</b>	<b>Proposed fee (£)</b>	<b>Final fee (£)</b>
Audit Related Services:		
Certification of Housing Benefit subsidy claim	£12,500	TBC**
Non- Audit Related Services - None	0	0
<b>Total non- audit fees (excluding VAT)</b>	<b>£12,500</b>	<b>TBC</b>

\*\*We are unable to confirm our fees for this work as it is incomplete.

# Audit opinion

We are not yet in a position to provide an audit opinion

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Agenda Item 5

# Audit Status as at 14 January 2021

We set out below the status of the key areas of our audit work, including the work required to complete each area, any issues identified to date, and any significant challenges faced in undertaking our work.

Area of accounts	Status of work	Significant challenges / findings
Journals	Testing of selected journals to complete. Initial evidence received.	None to date.
Going Concern	Cash flow forecasts needed.	Significant delays in receiving the requested information.
Property, Plant & Equipment – existence & ownership	Testing of 17/32 assets is incomplete.	Further supporting evidence received on 12 January, which is still subject to audit testing.
Property, Plant & Equipment - valuations	There is a very significant amount of work to complete in this area – in particular following through the accounting entries and obtaining supporting evidence for the valuations undertaken as at 31 March 2020.	Please refer to page 10 for the key challenges encountered.
Property, Plant & Equipment - depreciation	Small number of questions remaining.	<p>The depreciation policies were not consistent, and we asked management to clarify them.</p> <p>The Fixed Asset Register shows over £5.6m of fully depreciated Vehicles, Plant &amp; Equipment. Management needs to consider whether these should be written out (they are no longer used) or they prove they are still in existence and in use. If the latter, we would 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.</p>
Debtors	Three balances to complete testing on.	<p>Please refer to page 6 for a high level overview of the challenges faced.</p> <p>Further information received on 7 January, which is still subject to audit testing.</p>

# Audit Status as at 14 January 2021

Area of accounts	Status of work	Significant challenges / findings
Creditors	Questions on 9/13 items selected for testing still need to be resolved. Initial responses have been received, but are subject to audit testing.	Please refer to page 6, where we set out in some detail the challenges we have faced.  Remaining evidence, which is still subject to audit testing, received on 11 January.
Pension Liability	Our work in this area is almost complete. However, as noted on page 11, our audit work is ongoing, specifically in relation to agreeing the information provided to the actuary, via the pension fund, to the payroll figures. Our completed work to date has not identified any issues in respect of the valuation of the pension fund net liability.	None to date.
Employee benefits / Payroll	There remains a reasonable amount of work to complete in this area. In particular, agreeing the monthly payroll reports to the year end reconciliation and the financial statements, and obtaining assurance that starters and leavers have been actioned appropriately.	We have experienced very significant challenges in this area. In particular: <ol style="list-style-type: none"> <li>1) Obtaining monthly payroll reports that can be reconciled to the financial statements; and</li> <li>2) Obtaining "Full Time Equivalent" staff reports that correctly show starters and leavers. Different reports have variously: <ol style="list-style-type: none"> <li>a) Shown leavers being paid after they left;</li> <li>b) Shown leavers as never having been paid in the year;</li> <li>c) Merged information from Bromsgrove DC and Redditch BC payroll; and</li> <li>d) Not shown starters as having ever been paid in the year.</li> </ol> </li> </ol> <p>We have had numerous video calls with Officers, and we are now working on the fifth version of these reports. The failure of Officers to provide us with what ought to be straightforward report undermines audit confidence in the system and raises serious questions around the veracity of the information.</p>
Other service expenditure	Work remaining includes obtaining appropriate evidence for 7 transactions selected from the first 10 months of the financial year.	There have been significant delays in receiving responses to our questions. Further responses were received on 8 January. These are still subject to audit testing.

# Audit Status as at 14 January 2021

Area of accounts	Status of work	Significant challenges / findings
Housing benefit expenditure	Our work in this area is complete.	We have agreed with officers that £72k of expenditure is incorrectly included in 2019/20 rather than 2020/21. Not unreasonably, Officers challenged our initial view, and it took some considerable time and further testing, as well as Officers contacting the software supplier, to agree with our view. As noted on pages 3, 15, and 23, Officers have decided not to adjust for this error, and we will need to include it in the Letter of Representation we request.
Income – fees & charges	Relating to our testing of income from the first 10 months of the financial year, 10/23 credit items and 3/5 debit items remain outstanding.	We would expect our interim testing to be completed before we start our final accounts work. We began our work in this area in March. We received further information from Officers on 11 January. The work has been delayed, in part, as auditors were working on other assignments for May – September.
Officer Remuneration over £50k	We have one query to confirm that employer contributions have been excluded from the pay figures used to determine bandings.	None to date.
Audit fees	Our work is complete, except for checking the final revised note.	We have agreed 5 changes to the original note. These are required to ensure that the audit fee for the year is correctly disclosed, and that the note is clear. There have been significant delays in receiving responses to our questions, with a final response received on 4 January.
Related Party Transactions	Our work in this area is ongoing.	There have been significant delays in receiving responses to our questions, with a response received on 6 January. This is still subject to audit testing.
Annual Governance Statement	We need to check the updated Statement complies with the disclosure requirements.	There have been significant delays in receiving responses to our questions with a response received on 7 January. This is still subject to audit testing.
Narrative Report	We need to check the updated Report complies with the disclosure requirements, and is consistent with our understanding of the Council.	There have been significant delays in receiving response to our questions, with a response received on 4 January. This is still subject to audit testing.

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#### BENEFITS AND COMPLIANCE UPDATE – 2019/20

Relevant Portfolio Holder	Cllr G N Denaro
Portfolio Holder Consulted	Yes
Relevant Head of Service	Chris Forrester - Chris Forrester – Head of Finance and Customer Services
Wards Affected	All Wards
Ward Councillor Consulted	N/A

#### 1. SUMMARY OF PROPOSALS

This report provides an update on the work of the council's compliance team which was created following the transfer of Housing Benefit (HB) Investigations to the Department of Work and Pensions (DWP) Single Fraud Investigation Service in February 2016.

#### 2. RECOMMENDATIONS

**The Committee is asked to RESOLVE that subject to any comments, the report be noted.**

#### 3. KEY ISSUES

##### Financial Implications

3.1 In February 2016 responsibility for HB fraud investigations transferred to DWP. Following the transfer of responsibility to DWP some duties carried out by the existing Investigations Officers remained with the authority. These duties included:

- Investigation of Council Tax Support claims
- Verification of HB claims
- Processing of Housing Benefit Matching Service (HBMS) referrals
- National Fraud Initiative (NFI) data matching
- Police requests for information / liaison
- Support to DWP in respect of Housing Benefit fraud cases.

3.2 The authority has maintained a compliance team to enable the remaining duties to be performed. The role of the compliance team has developed to include; verification of on-going entitlement to Council Tax discounts, exemptions and reductions; and the use of data and intelligence to identify missing and undervalued business premises.

3.3 The compliance team's role is to maximise revenues to the authority by identifying fraud and error and maximising the Council Tax and Non-Domestic Rate taxbase. The team is intended to be self-funding with income generated exceeding the salary costs of the service.

3.4 The table at 3.6 details the income generated by the work carried out by the compliance team in the year ended 31<sup>st</sup> March 2020:

3.5

Work Stream	Additional Income £000
Council Tax discount/exemption compliance	0
Council Tax un-banded properties	184
HBMS Referrals HB Overpayments	14
HMBS Referrals CTS Overpayments	0
NFI Referrals	27
Non-Domestic Rate unrated and underrated property	1,853
Verification of Earnings and Pensions (VEPs)	60
<b>Total</b>	<b>2,138</b>

- 3.6 The total income comprises additional Council Tax, Non-Domestic rates, and Invoiced Housing Benefit overpayments.
- 3.7 The Council Tax income is shared across preceptors within the Worcestershire Area, approximately 13% of the additional income is retained by Bromsgrove District Council.
- 3.8 Non-Domestic Rates income is shared between Local and Central Government.
- 3.9 HBMS and NFI referrals result in additional Council Tax being debited, and the creation of Housing Benefit overpayments. Council Tax is retained as detailed at 3.8. Housing Benefit Subsidy allows the council to claim an additional 40% or 100% on Housing Benefit overpayments collected meaning income of £1.40 or £2 is generated for the authority per pound of recovered overpayment.
- 3.10 Council Tax exemption compliance work has not been completed in the year ending 31<sup>st</sup> March 2020. There is potential to complete target reviews in the forthcoming tax year and to identify cases where customers have failed to report the end of entitlement to discounts and exemptions.
- 3.11 Council Taxpayers have a legal duty to inform the authority that they are no longer entitled to exemption. Council Taxpayers must provide this notification within 21 days of the entitlement to exemption ending, where they fail to do so the council may impose an administration penalty of £70.00. The administration penalties are retained by the billing authority.
- 3.12 A review of Council Tax Discounts undertaken by The Audit Commission estimated that in 4% of cases there is no entitlement to discount. Presently 14,067 dwellings within Bromsgrove are subject to a Council Tax discount, reduction or exemption.
- 3.13 A targeted review of discounts, reductions and exemptions with the imposition of financial penalties in appropriate cases has the potential to realise income to the council of up to £39,000 in administrative penalties, and £23,000 as a share of £176,000 of increased Council Tax income.

**Legal Implications**

- 3.14 There are no specific legal implications.

**Service/Operational Implications**

- 3.15 The work of the compliance team is supported through the effective use of internal data and data supplied by DWP; during 2019/20 work relating to compliance has been completed in the following areas.

**Non-Domestic Rates**

The compliance team pro-actively search for business premises which are unreported or undervalued. This work is carried out through the examination of internal and external data sets, including referencing NDR database with Local Land and Property Gazeteer, examining current and historic planning applications, and proactively analysing external data sources to identify missing business premises. The work carried out during 2019/20 identified new, missing and undervalued RV of £2,092.950 which resulted in additional NDR liabilities of £1,853,373

**Council Tax Discounts & Exemptions**

Targeted reviews of Council Tax discount and exemptions are completed to ensure that entitlement to discount or exemption is ended at appropriate times. This work will include reviews of empty properties, analysis of records relating to probate to ensure identification of changes to liability for properties which are exempt and form part of an owner's estate. Limited work on empty properties was completed during 2019/20 and therefore there was no additional CT.

**Council Tax missing properties**

Council Tax property records are cross referenced to the Local Land and Property Gazeteer, Internal Planning and Building Control data, and Environmental Services records to identify missing or newly completed domestic premises. The work carried out during 2019/20 identified missing or newly completed domestic premises which resulted in additional CT liabilities of £184,137

**HBMS/VEPs**

Data is provided by DWP which indicates that the information used for the assessment of Housing Benefit has changed or was inaccurate when a claim was made. This information is compared to the information held within Housing Benefit and where permitted Council Tax reduction claims and entitlement is adjusted

**Customer / Equalities and Diversity Implications**

- 3.17 Identification of overpayments, or incorrectly claimed discounts and exemptions and the subsequent work to recover these debts can result in financial hardship; therefore consideration is given to a customer's financial position when considering how to recover monies owed to the authority.

3.18 When action to recover a debt is required consideration will be made as to whether additional support, such as money management advice, is required and a referral to appropriate advisors will be made.

4. **RISK MANAGEMENT**

The work of the compliance team is to reduce the risk of lost income to the authority. The results show that this work is both necessary and financially rewarding.

5. **APPENDICES**

None

6. **BACKGROUND PAPERS**

None

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