



BROMSGROVE DISTRICT COUNCIL

MEETING OF THE CABINET

WEDNESDAY 23RD SEPTEMBER 2015, AT 4.00 P.M.

THE COUNCIL HOUSE, BURCOT LANE, BROMSGROVE

SUPPLEMENTARY DOCUMENTATION

The attached papers were specified as "to follow" on the Agenda previously distributed relating to the above mentioned meeting.

3. Audit Findings Report 2014/15 (Pages 1 - 46)

K. DICKS
Chief Executive

The Council House
Burcot Lane
BROMSGROVE
Worcestershire
B60 1AA

18th September 2015

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GRANT THORNTON AUDIT FINDINGS REPORT 2014/15

| | |
|---------------------------------|---|
| Relevant Portfolio Holder | Councillor Geoff Denaro |
| Portfolio Holder Consulted | - |
| Relevant Head of Service | Jayne Pickering – Exec Director Finance and Resources |
| Ward(s) Affected | All Wards |
| Ward Councillor(s) Consulted | No |
| Key Decision / Non-Key Decision | Non–Key Decision |

1. SUMMARY OF PROPOSALS

- 1.1 To present Members with the Grant Thornton Audit Findings Report in relation to the final accounts 2014/15.

2. RECOMMENDATIONS

- 2.1 That Cabinet considers and notes the Audit Findings Report 2014/15 as attached at Appendix 1.
- 2.2 That Cabinet recommend to Council the approval of the draft letter of representation as included at Appendix 2.

3. KEY ISSUES

Financial Implications

- 3.1 Any additional costs in relation to the work undertaken by Grant Thornton whilst undertaking the Audit for 2014/15 will be met from current savings within the accountancy budget.

Legal Implications

- 3.2 The Council has a statutory responsibility to comply with financial regulations. Included within the report is a recommendation to the Council under section 11(3) of the Audit Commission Act 1998 which requires the Council to respond formally to the recommendations included within the report. The summary of the recommendations has to be published in a local newspaper, subject to the exceptions in relation to confidential issues contained in section 12(3) of the Act.

Service / Operational Implications

- 3.3 The report attached at Appendix 1 presents the Audit Findings Report in relation to the audit of the 2014/15 Statement of Accounts. As explained in the report the audit is ongoing. Members are aware that the Statement of Accounts were submitted late to the External Auditors and as can be seen in the detail of the report there have been issues in carrying

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23RD SEPT 2015

out the Audit following the receipt of the accounts. It is worth reminding Members as to the circumstances that have been agreed by the Auditors as leading to the issues surrounding the Accounts. These included:

- Implementation of a new financial ledger
- Restructure of the finance team, turnover of staff and difficulties in recruiting to vacant senior posts
- Introduction of a new chart of accounts and changes in coding issues

3.4 The accounts were submitted on Monday 6th July with the deadline of Wednesday 30th June. Officers have supported the Audit however there are a number of queries outstanding following the Audit that require resolving prior to an opinion on the accounts being presented to Cabinet and Council on 23rd September. It is hoped that with the support from all officers this deadline will be achieved.

3.5 The report contains a number of detailed recommendations which will form part of a wider action plan in relation to addressing the issues identified and preparing a plan for the 2015/16 accounts. The specific formal recommendations include:

- Development of a comprehensive project plan for the preparation of 2015/16 Accounts .
- Production of the 2015/16 Accounts to meet the statutory deadlines
- Robust budget preparation and monitoring processes to be put in place

Officers are currently working on developing a plan to meet the above recommendations

3.6 The detailed action plan will be reported to the Audit, Standards and Governance Members on a monthly basis.

Customer / Equalities and Diversity Implications

3.7 There are no implications arising out of this report.

4. RISK MANAGEMENT

4.1 There are a significant number of issues that require addressing and a formal risk plan will be developed alongside the action plan..

5. APPENDICES

Appendix 1 – Grant Thornton Audit Findings Letter 2014/15

AUTHOR OF REPORT

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The Audit Findings for Bromsgrove District Council

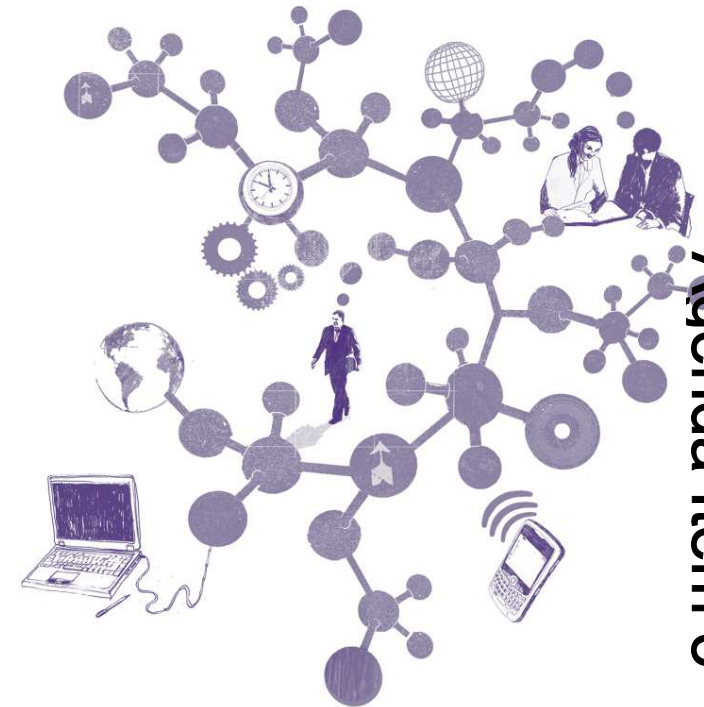
Year ended 31 March 2015

September 2015

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17 September 2015

Dear Jayne

Audit Findings for Bromsgrove District Council for the year ending 31 March 2015

This Audit Findings report highlights the significant findings arising from the audit for the benefit of those charged with governance (in the case of Bromsgrove District Council, the Executive Committee), as required by International Standard on Auditing (UK & Ireland) 260. Its contents have been discussed with the Audit Committee.

As auditors we are responsible for performing the audit, in accordance with International Standards on Auditing (UK & Ireland), 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.

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 primarily 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 any control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify. 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.

We would like to take this opportunity to record our appreciation for the kind assistance provided by the finance team and other staff during our audit.

Yours sincerely

Phil Jones
Engagement lead

Chartered Accountants

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Appendices

- A Action plan
- B Audit opinion

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Section 1: Executive summary

01. Executive summary

02. Audit findings

03. Value for Money

04. Fees, non-audit services and independence

05. Communication of audit matters

Executive summary

Purpose of this report

This report highlights the key matters arising from our audit of Bromsgrove District Council's (the Council) group and Council financial statements for the year ended 31 March 2015. It is also used to report our audit findings to management and those charged with governance in accordance with the requirements of International Standard on Auditing 260 (ISA UK&I).

Under the Audit Commission's Code of Audit Practice we are required to report whether, in our opinion, the group and Council's financial statements present a true and fair view of the financial position and expenditure and income for the year and whether they have been properly prepared in accordance with the CIPFA Code of Practice on Local Authority Accounting. We are also required to reach a formal conclusion on whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources (the Value for Money conclusion).

Introduction

In the conduct of our audit we have changed our planned audit approach, which we communicated to you in our Audit Plan dated March 2015. We judged that there were additional risks around the gross operating expenses disclosed on the face of the CIES. We judged it necessary to extend our planned testing in these areas. We have not yet completed that additional work.

Our audit is substantially complete although we are finalising our work in the following areas:

- review of Senior Manager remuneration and disclosures
- further testing of operating expenditure including recharges
- review of the final version of the Financial Statements
- property, plant and equipment valuations and residual value considerations
- financial Instruments
- obtaining and reviewing evidence to support Housing Benefit Module 5, Software diagnostics
- obtaining and reviewing the final management letter of representation
- review of final version of the Annual Governance Statement and
- updating our post balance sheet events review, to the date of signing the opinion
- obtaining and reviewing the final management letter of representation
- review of final version of the Annual Governance Statement and
- updating our post balance sheet events review, to the date of signing the opinion

We received draft financial statements and some of the accompanying working papers at the start of our audit. The accounts had to be restated, following queries that we raised relating to significant variances within the accounts. Additional requests for supporting working papers have been made throughout the audit and these have been dealt with promptly by the majority of the accounts team. Some working papers had to be restated due to the changes in the accounts

Key issues arising from our audit

Financial statements opinion

We anticipate providing an unqualified opinion in respect of the financial statements.

The key messages arising from our audit of the group and Council's financial statements are:

- the Council missed the statutory deadline of 30 June for production of the accounts, the accounts being presented on 6 July
- there are material changes to those accounts
- the audit was protracted due to difficulties in completing our work.

The accounts were restated on 26 August, part way through the audit because of matters arising in the course of our work. The restatement was undertaken to enable the accounts to be prepared on a consistent basis with the prior year. This materially changed the primary statements.

Other audit adjustments were also material. The main ones related to the accounting treatment of Bromsgrove town centre enhancements and an adjustment to the business rates appeals provision as a result of appeals received after the year end. The draft financial statements for the year ended 31 March 2015 recorded net expenditure of £14.5m the audited financial statements show net expenditure of £16.6m.

The draft accounts reported a £341k increase to general fund balances and the final draft £530k.

Further details are set out in section two of this report.

Value for Money conclusion

We are pleased to report that, based on our review of the Council's arrangements to secure economy, efficiency and effectiveness in its use of resources, we propose to give an unqualified VfM conclusion.

Further detail of our work on Value for Money is set out in section three of this report. In this section of the report we highlight that some of the recommendations raised in the prior year have not been adequately progressed and thus our recommendations are again repeated this year. This is not a satisfactory position.

Overall we consider that the Council has a medium term financial plan that makes reasonable assumptions. It forecasts that the Council will have adequate level of balances to provide resilience in the medium term.

There have been improvements this year in the forecasting of out-turn financial performance, however once again the accounts have demonstrated large increases in general fund balances which were not planned when the budget was set. It is not clear from the Council's management processes however how this has been achieved. It may be due to service reviews over delivering against budgeted savings plans, but current reporting arrangements are not sufficiently robust to demonstrate that this was the cause. It is possible that the savings arose, as in prior years, due to inaccurate budget forecasting.

Strategic planning and adequate performance management arrangements have again not been progressed which is disappointing.

Whole of Government Accounts (WGA)

We are not required to report to the National Audit Office on the Council's WGA submission.

Controls

Roles and responsibilities

The Council's management is responsible for the identification, assessment, management and monitoring of risk, and for developing, operating and monitoring the system of internal control.

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 any control weaknesses, we report these to the Council.

In our audit plan and July audit update we highlighted that the bank reconciliation had not been completed routinely during the year although was up to date at June.

The Council has a joint finance team with Redditch Borough Council (RBC). The benefits of economy of scale, operational and increased resilience which was envisaged when the teams merged, have not as yet been realized, During the year Bromsgrove replaced its ledger with 'Agresso' and RBC upgraded its ledger at the same time. In addition a finance restructure was undertaken and there was also some turnover of key finance staff. Whilst the Bromsgrove ledger was implemented on time, poor project planning and backfill arrangements directly contributed to wider financial control and operational issues across both councils.

The Executive Director of Finance has accepted that there are underlying operational and management issues that need to be addressed. Lessons are being learned and the Executive Director of Finance has discussed with us her outline plans for improving financial management arrangements. The Council needs to address the adequacy of budgetary control which may also involve strengthening delegated budget holding arrangements, which will have an authority-wide impact.

The accounts were prepared late and subsequently had to be restated following questions that we submitted to finance officers relating to large unexplained variances in the revenue accounts. The quality of many of the working papers and prepared audit trail to support the accounts was inadequate with no reference to the tailored working papers request document prepared by ourselves earlier in the year.

We experienced difficulty in obtaining audit trails for some of our testing because of the lack of operating knowledge of the new financial ledger and problems obtaining information from the 'old' ledger.

As a result of the magnitude of the problems encountered in relation to the audit of the Council's accounts for the year ended 31 March 2014/15, and in addition, due to the slow progress made in relation to previous year's audit recommendations, which covered poor budget preparation and monitoring, we have made a recommendation to the Council under section 11(3) of the Audit Commission Act 1998 (the Act). The recommendation is contained in the audit findings section of this report.

Under section 11 of the Act, the Council is required to respond formally to our recommendation. The Executive Director of Finance must prepare a report that summarises the Council's response. As soon as is practicable after the meeting we will need to be provided with a draft notice summarising the decisions. The notice, once we have approved it, must be published in a local newspaper circulating in the Council's area, subject to the exceptions in relation to confidential issues contained in section 12(3) of the Act.

Recommendation made under section 11(3) of the Audit Commission Act 1998 :

The Council should put in place robust arrangements for:

- the production of the 2015/16 financial statements, which meet statutory requirements and international financial reporting standards. In order to achieve this the Council should:
 - ensure sufficient resources and specialist skills are available to support the accounts production
 - introduce appropriate project management skills to the production of the financial statements

- **Page 10** develop a comprehensive project plan for the preparation of the accounts which ensures that:
 - the financial statements are compiled directly from the ledger
 - the entries in the accounts are supported by good quality working paper which are available at the start of the audit
 - the financial statements and working papers have been subject to robust quality assurance prior to approval by the Executive Director of Finance provide additional training, where necessary, to ensure all staff involved in the accounts production process have the necessary skills and information;
 - monitor the production of the financial statements through regular reporting to Directors and the Audit Board.

- put in place robust arrangements to ensure that:
 - budget preparation processes are based on sound assumptions which enable an accurate forecast to be made of budget out-turn, including realistic assessments of demand factors, service and demographic changes as well as sound assumptions around turnover and vacancy rates
- budget monitoring processes are timely to enable an accurate forecast to be made in-year of the likely year-end outturn and action to be taken, where necessary, to address budget variances.

The way forward

In addition to the formal recommendation above, we have made a number of more detailed recommendations, which are set out in the action plan in Appendix A.

Acknowledgment

We would like to take this opportunity to record our appreciation for the assistance provided by the finance team and other staff during our audit.

Grant Thornton UK LLP
September 2015

Section 2: Audit findings

01. Executive summary

02. Audit findings

03. Value for Money

04. Fees, non-audit services and independence

05. Communication of audit matters

We expect to give an unqualified opinion on the accounts by the statutory deadline

Audit findings

In this section we present our findings in respect of matters and risks identified at the planning stage of the audit and additional matters that arose during the course of our work. We set out on the following pages the work we have performed and the findings arising from our work in respect of the audit risks we identified in our audit plan, presented to the Audit Board in March 2015. We also set out the adjustments to the financial statements arising from our audit work and our findings in respect of internal controls.

Changes to Audit Plan

There are some changes to the audit plan:

- additional testing was undertaken around operating expenses (reviewed our risk assessment and increased our sampling) because of our assessed risks around the restatement of the accounts.
- our analytical review work was more detailed than originally planned, seeking explanations for unexpected variances between years in gross income and gross expenditure in the first draft of accounts received.
- our risk assessment around welfare benefits changed, meaning that we were able to test a judgmental sample for opinion purposes

The volume of changes to the accounts and difficulty obtaining adequate working papers has meant that some procedures have had to be repeated with updates to the accounts. The audit has taken significantly longer than planned.

Audit opinion

Our proposed audit opinion is set out in Appendix B.

Audit findings against significant risks

"Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, either due to size or nature, and that therefore occur infrequently. Judgmental matters may include the development of accounting estimates for which there is significant measurement uncertainty" (ISA (UK&I) 315).

In this section we detail our response to the significant risks of material misstatement which we identified in the Audit Plan. As we noted in our plan, there are two presumed significant risks which are applicable to all audits under auditing standards.

| | Risks identified in our audit plan | Work completed | Assurance gained and issues arising |
|---------|--|---|--|
| Page 13 | <p>1. Improper revenue recognition</p> <p>Under ISA (UK&I) 240 there is a presumed risk that revenue may be misstated due to improper recognition</p> | <ul style="list-style-type: none"> • review and testing of revenue recognition policies • testing of material revenue streams • review of unusual significant transactions | <p>In our audit plan we stated that we had rebutted the presumed assumption of the risk of fraud in revenue recognition and therefore we did not consider it to be a significant risk.</p> <p>Revenue streams are material and so audit procedures were completed as described.</p> <p>Our audit work has not identified any issues in respect of revenue recognition.</p> |
| | <p>2. Management override of controls</p> <p>Under ISA (UK&I) 240 there is a presumed risk of management over-ride of controls</p> | <ul style="list-style-type: none"> • review of accounting estimates, judgements and decisions made by management • testing of journal entries • review of unusual significant transactions | <p>Our audit work has not identified any evidence of management override of controls. In particular the findings of our review of journal controls and testing of journal entries has not identified any significant issues.</p> <p>We set out later in this section of the report our work and findings on key accounting estimates and judgments.</p> |

Audit Findings against other risks identified

The auditor should evaluate the design and determine the implementation of the entity's controls, including relevant control activities, over those risks for which, in the auditor's judgment, it is not possible or practicable to reduce the risks of material misstatement at the assertion level to an acceptably low level with audit evidence obtained only from substantive procedures (ISA 315).

In this section we outline the other risks of material misstatement which we have identified as a result of our planning.

| Other risks | Description | Audit Approach | Assurance gained and issues arising |
|-----------------------------------|--|---|---|
| Operating expenses Page 14 | Creditors understated or not recorded in the correct period (Operating expenses understated) | Work completed: <ul style="list-style-type: none"> Documentation of our understanding of the accruals process Cut off testing of purchase orders and goods received notes (both before and after year end) Review of the completeness of the reconciliations to the purchasing system. Testing for unrecorded liabilities | <p>Our work here is substantially complete.</p> <p>Amendments made to the gross income and expenditure within the financial statements have resulted in further testing being required for us to obtain sufficient audit assurance.</p> <p>The further testing required, including the testing of recharges is on-going.</p> |
| Employee remuneration | Employee remuneration accruals understated (Remuneration expenses not correct) | Work completed: <ul style="list-style-type: none"> Review of the completeness of the payroll reconciliation to ensure that information from the payroll system can be agreed to the ledger and financial statements Sample of payments made in April and May to ensure payroll expenditure is recorded in the correct year Carry out a monthly trend analysis of payments made through the payroll system. Agree a sample of payroll costs to contracts of employment/manager confirmation and ensure the employer costs have been accurately calculated | <p>Our audit work has not identified any material issues in respect of employee remuneration.</p> <p>As part of our work on payroll we undertake a reconciliation from the 'Gross to Net' reports generated by the payroll sub system and the general ledger. We would expect there to be reconciling items such as not staff costs paid via the purchase ledger of the treatment of salary sacrifice schemes. To support this we request the reconciliation as part of our working paper requirements. There is an unreconciled difference of £153k. We are satisfied this difference would not cause a material error in the accounts</p> |

Other risks identified

The auditor should evaluate the design and determine the implementation of the entity's controls, including relevant control activities, over those risks for which, in the auditor's judgment, it is not possible or practicable to reduce the risks of material misstatement at the assertion level to an acceptably low level with audit evidence obtained only from substantive procedures (ISA 315).

In this section we outline the other risks of material misstatement which we have identified as a result of our planning.

| Other risks | Description | Audit Approach | Assurance gained and issues arising |
|---|--|---|---|
| <p>Welfare Expenditure</p> <p style="writing-mode: vertical-rl; transform: rotate(180deg);">Page 15</p> | <p>Welfare benefit expenditure improperly computed</p> | <ul style="list-style-type: none"> • Agree benefit expenditure for each type of benefit to the benefits system • Reconcile benefit expenditure to the final subsidy claim • We will carry out testing in accordance with the methodology required to certify the Housing Benefit subsidy claim | <p>We walked through the welfare cycle and judged that the system did not constitute a reasonable possible risk. As a result we were able to modify our planned approach to obtaining assurance over this material expenditure stream, for opinion purposes. Here, we took a judgmental sample of benefits claims and assessed their accuracy against the requirements of the HB counts methodology. Whilst some errors were identified, we extrapolated these and judged that they did not present a risk of material misstatement to the accounts.</p> <p>We are currently waiting for evidence regarding assurance regarding Module 5, Software Diagnostics. This module gives assurance that all software updates have been implemented prior to the Housing Benefit claim being completed.</p> |

Audit Findings against other risks identified

We have identified a number of risks that are relevant to this financial year and have planned substantive procedures, as this is judged the most effective way to address the risks.

| Other risks | Description of issue in audit plan | Audit plan | Assurance gained and issues arising |
|--|--|---|---|
| <p><i>Valuation of Bromsgrove Council House</i></p> <p style="writing-mode: vertical-rl; transform: rotate(180deg);">Page 16</p> | <p>It was expected that in June 2015 the Council House would cease to be operational as the remaining staff transfer to the Parkside development. Whilst this is after the year end we consider that this may have implications for the 2014/15 accounts due to the significant value of the asset. As a minimum a disclosure to the accounts will be required.</p> <p>The Council house will cease to be classified as an operational asset and as such it will need to be revalued. This valuation could be significantly different to its current carrying value in the accounts of the authority.</p> <p>The asset life of the asset used as a basis of depreciation and the need for a significant impairment will be other considerations.</p> | <ul style="list-style-type: none"> Review of valuations, which will include a review of impairments, and the basis of those valuations from the professional valuer Review of the Terms of engagement regarding the professional valuer | <ul style="list-style-type: none"> Parkside is currently incomplete, so the Council House remains in use. It is reflected in the accounts as an operational asset, although the useful life of the asset has been reduced to 1 year. This has resulted in a significant charge to the Council's revenue account to reflect the depreciation charge in year. This has been adjusted out through note 7 so that there is no overall impact on the Council out-turn. The Council has assumed that the residual value of the building is nil as it will be marketed as a building site rather than as a property. The site is in use and not currently being marketed for sale. Classifying it as an operational asset appears reasonable. When the site is marketed it seems likely that the value will be substantially different to that currently included as the land book value. The Council will need to consider appropriate disclosure in the 2015/16 accounts. We have recommended a disclosure in the accounts due to the distortion in the corporate costs line of the comprehensive income and expenditure. A similar adjustment has been made for the Dolphin Leisure Centre which is expected to be replaced by a new centre within the next 2 years. Similar disclosure is recommended. |
| <p><i>Payroll Manager</i></p> | <p>A payroll manager is not currently in post. In our assessment of the payroll system, this is highlighted as a 'new risk' to us in terms of the operation system. Payroll costs are a significant item of expenditure in the accounts and therefore, in our judgement, it is necessary to undertake additional procedures to have comfort on the operation of the payroll system for the full financial year.</p> | <p>Further work planned:</p> <ul style="list-style-type: none"> Review of payroll reconciliation for the period where the Payroll Manager is not in post Review of exception reporting and the follow up of any exceptions identified Trend analysis of payroll costs and the investigation of any unexpected variances | <p>Trend analysis of payroll provided us with assurance that employee costs are not materially misstated.</p> <p>We are satisfied that exception reports were prepared and reviewed.</p> <p>In our July update to Audit Board we reported that payroll reconciliations were not routinely completed, which is a standard control. The year end reconciliation was available for audit and no issues were arising from our review.</p> |

Audit Findings against other risks identified (cont.)

We have identified a number of risks that are specific to this financial year and have planned substantive procedures, as this is judged the most effective way to address the risks. We have not judged these to be significant risks and therefore have undertaken specific procedures to address the specific risk identified.

| Other risk | Description | Planned substantive audit procedures | Assurance gained and issues arising |
|---|--|--|---|
| <p><i>Parkside Development</i></p> <p style="writing-mode: vertical-rl; transform: rotate(180deg);">Page 17</p> | <p>In the 13/14 financial statements there was a nominal amount in the books reflecting the ownership of the current building. Parkside will be almost complete at the year end and the Council will pay for 50% of the building costs which are currently being managed by the County Council. This raises a number of accounting issues:</p> <ol style="list-style-type: none"> 1) The valuation to be reflected in the 14/15 financial statements. The accounting treatment should be consistent with that of the County Council 2) If there is a significant difference between the cost and valuation when the offices are occupied then this could be an 'Event After the Balance Sheet Date' | <ul style="list-style-type: none"> • Review of valuations and the basis of those valuations from the professional valuer • Review of the Terms of engagement regarding the professional valuer • Consistency check with County Council auditors | <p>At the date of the Audit plan there was an expectation that Parkside would be operational and thus the asset would have been revalued on becoming operational.</p> <p>Parkside is not likely to be completed and occupied for some time. Officers have assured us that there are no direct financial consequences to the Council for this delay (other than the continuing running costs of the Council House)</p> <p>The valuation and disclosure of the asset in the accounts has been agreed as appropriate.</p> <p>We have carried out a consistency check with the County Council Auditor.</p> |
| <p><i>Implementation of new ledger</i></p> | <p>The authority is introducing a new general ledger system. The go live date is 17th February. This is a substantial project for the finance team. As this is occurring part way through the year, all of the transactions from the old system will need to be accurately transferred to the new system to ensure that the information on which the accounts are based is complete and reflects the entire financial year. Clear audit trails will still need to be available to allow us to test complete populations.</p> <p>We had recommended that internal audit should be involved in testing the adequacy of the data transfer and to provide the Council with assurance that the project was on track and that the new system is implemented and operating as intended. This recommendation has not been acted upon.</p> | <ul style="list-style-type: none"> • Agreement that balances have transferred accurately and completely from the 'old' ledger to new by review of the opening and closing trial balance • IT tests of data transfer. | <ul style="list-style-type: none"> • Additional procedures were undertaken at the interim audit stage to ensure that opening balances were transferred completely and accurately to the new financial system. • Our progress report to the last Audit Board summarised the impact that problems with the implementation and upgrade of the ledger across the two councils had on operational matters. • We are disappointed that the recommendations in the prior year AFR were not heeded. There was not a proper project plan for implementation of the ledger and internal audit work was limited. Inadequate backfill resulted in a number of routine controls not being undertaken which directly contributed to the delay in accounts production and impacted on the quality of supporting working papers. • Assurance has not been provided to the Audit Board that the ledger is now fully operational and working as intended. |

Group audit scope and risk assessment

ISA 600 requires that as Group auditors we 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 | Significant? | Level of response required under ISA 600 | Risks identified | Planned audit approach | Assurance gained and matters arising. |
|--|--------------|--|------------------------------|---|---|
| Bromsgrove Arts Development Trust (Artrix) | Yes | Targeted | Valuation of Artrix Building | <p>Reliance on an expert in relation to the Artrix valuation.</p> <p>Confirmation from Bromsgrove Arts Development Trustees in relation to income and expenditure transactions.</p> | The Council requested a revaluation of the Artrix building this year. The Council has used this valuation within the financial statements |

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Targeted – the group audit team identified one or more potential risks of material misstatement and has determined that audit procedures at the component level are needed to respond to the risk(s). The group audit team selects this approach whenever sufficient appropriate audit evidence for the audit of the group can be obtained by performing audit procedures that respond to the identified risk(s). Audit procedures being targeted by auditing either an account balance, class of transactions or disclosures

Significant matters discussed with management

| | Significant matter | Commentary |
|----|--|--|
| 1. | Discussions or correspondence with management regarding accounting practices, the application of auditing standards, the application of auditing standards, or fees for audit or other services. | <p>We have discussed the difficulties experienced in completing the audit with the Executive Director of Finance. She was kept fully informed about progress in the course of our work. She has also discussed with us her initial plans for improving things going forward and we will continue to keep apprised of events during the coming year.</p> <p>Assumptions around the audit are changed compared with those when the fee was set, and thus there will be an impact on the audit fee. This will initially be discussed with The Executive Director of finance and agreed with Public Sector Appointments, prior to being shared with members.</p> |

Accounting policies, estimates & judgements

In this section we report on our consideration of accounting policies, in particular revenue recognition policies, and key estimates and judgements made and included with the Council's financial statements.

| Accounting area | Summary of policy | Comments | Assessment |
|-----------------------------------|---|--|---|
| <p>Revenue recognition</p> | <ul style="list-style-type: none"> Revenue from the sale of goods is recognised when the Council transfers the significant risks and rewards of ownership to the purchaser and it is probable that economic benefits or service potential associated with the transaction will follow to the Council. Revenue from the provision of services is recognised when the Council can measure reliably the percentage of completion of the transaction and it is probable that economic benefits or service potential associated with the transaction will flow to the Council. Interest receivable on investments and payable on borrowings accounted for respectively as income and expenditure on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract. Where revenue or expenditure has been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Where it is doubtful that debts will be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected. Accruals will be made for items of income and expenditure in excess of £500, lower amounts will only be actioned at the request of the relevant budget holder | <p>We have considered the:</p> <ul style="list-style-type: none"> Appropriateness of the Council's policies under International Financial Reporting Standards, as adopted through the Code of Practice on Local Authority Accounting for 2014/15 Adequacy of disclosure of accounting policy. Our review has not highlighted any issues which we wish to bring to your attention | <p style="text-align: center;">● green</p> |




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Agenda Item 3

Assessment

- Marginal accounting policy which could potentially attract attention from regulators
- Accounting policy appropriate but scope for improved disclosure
- Accounting policy appropriate and disclosures sufficient

Accounting policies, estimates & judgements continued

| Accounting area | Summary of policy | Comments | Assessment |
|----------------------------------|--|--|--|
| Estimates and judgements | <p>Key estimates and judgements include:</p> <ul style="list-style-type: none"> • useful life of capital equipment • pension fund valuations and settlements • Revaluations • Impairments • Provisions • Valuation of investments • Jointly controlled operation (WRS) • Group relationship (ARTRIX) | <ul style="list-style-type: none"> • The accounting policies are based on the CIPFA standard, tailored for local circumstances. • The disclosures in note 4 explain the impact on the accounts if the assumptions made differ. • The disclosures are reasonable | <p> green</p> |
| Going concern | <p>The Directors have a reasonable expectation that the services provided by the Council will continue for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.</p> | <p>Directors have not undertaken a formal going concern review to support the going concern assumption on which the accounts are prepared.</p> | <p> green</p> |
| Other accounting policies | <p>We have reviewed the Council's policies against the requirements of the CIPFA Code and accounting standards.</p> | <p>Our review of accounting policies has not highlighted any issues which we wish to bring to your attention</p> | <p> green</p> |

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Assessment

- Marginal accounting policy which could potentially attract attention from regulators
- Accounting policy appropriate and disclosures sufficient

- Accounting policy appropriate but scope for improved disclosure

Agenda Item 3

Other communication requirements

We set out below details of other matters which we are required by auditing standards to communicate to those charged with governance.

| | Issue | Commentary |
|----|--|--|
| 1. | Matters in relation to fraud | <ul style="list-style-type: none"> We have previously discussed the risk of fraud with the Audit Board. We have not been made aware of any incidents in the period and no other issues have been identified during the course of our audit. |
| 2. | Matters in relation to laws and regulations | <ul style="list-style-type: none"> We are not aware of any significant incidences of non-compliance with relevant laws and regulations, not already referred to within this report. |
| 3. | Written representations | <ul style="list-style-type: none"> A letter of representation has been requested from the Council. This will be incorporated within cabinet papers when the accounts are submitted for approval. |
| 4. | Disclosures | <ul style="list-style-type: none"> The Council has used the CIPFA model for the format of the accounts. Local disclosures are very limited and additional disclosures were requested in relation to the large movements on the face of the comprehensive income and expenditure account and in relation to the additional post balance sheet provisions for business rates appeals. Whilst the accounts are compliant with the minimum requirements of the CIPFA code (SORP) the collection fund in particular would benefit from more detail around the level of arrears etc. which is the norm in most council accounts. The financial foreword should more closely reflect the good practice as outlined in the SORP – i.e. telling the story of the accounts and future pressures. |
| 5. | Matters in relation to related parties | <ul style="list-style-type: none"> We are not aware of any related party transactions which have not been disclosed |
| 6. | Confirmation requests from third parties | <ul style="list-style-type: none"> We requested from management permission to send confirmation requests to the Council's banks that hold investments and bank accounts and then direct confirmations were obtained. |

Internal controls



The purpose of an audit is to express an opinion on the financial statements.

Our audit included consideration of internal controls relevant to the preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control. We considered and walked through the internal controls for Employee Remuneration and Operating Expenses as set out on page [..] above.



The matters that we identified during the course of our audit are set out in the table below. These and other recommendations, together with management responses, are included in the action plan attached at Appendix A.

OR

The controls were found to be operating effectively and we have no matters to report to the Cabinet

| Page 23 | Assessment | Issue and risk | Recommendations |
|---------|--|--|--|
| 1. |  <p>Amber</p> | <ul style="list-style-type: none"> We highlighted in our progress report that not all payroll reconciliations were completed on a routine basis. This is the most fundamental reconciliation and should be completed monthly. As at June these had been brought up to date. | <ul style="list-style-type: none"> There should be a schedule of what the key reconciliations are and the frequency of completion. This should be monitored. |
| 2. |  <p>Amber</p> | <ul style="list-style-type: none"> We reported that not all the IT control weaknesses identified in the prior year had been addressed. | <ul style="list-style-type: none"> Whilst none of the controls identified were judged to be significant and thus presenting a risk of material misstatement, the Audit Board should monitor the implementation of internal and external audit recommendations |

Assessment

-  Significant deficiency – risk of significant misstatement
-  Deficiency – risk of inconsequential misstatement

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.

Internal controls – review of issues raised in prior year

| | Assessment | Issue and risk previously communicated | Update on actions taken to address the issue |
|----|------------|--|--|
| 1. | ✓ | A part of our review of the AGS, we noted some areas of the constitution that were out of date. This included financial regulations, Fraud and corruption policy , whistleblowing policy, and the published members allowances scheme. | <ul style="list-style-type: none"> Financial regulations are dated 2006 and are in the process of being updated. There is no reference to whistleblowing or fraud policies on the council website or in the constitution. Officers have confirmed that these have not been brought up to date. Members allowance scheme has been disclosed this year. |
| 2. | ✓ | At our interim audit, we highlighted that we had identified some weakness in IT controls. Whilst we did not judge these as 'significant' and thus do not impact on our procedures, we have yet to receive a response to that report. | <ul style="list-style-type: none"> We have received responses to our report this year. Some matters have yet to be addressed and this should be monitored |
| 3. | ✓ | Bank reconciliation: the reconciliation was overly complicated and included unnecessary processes | <ul style="list-style-type: none"> Reconciliation process is unchanged |

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Assessment

- ✓ Action completed
- X Not yet addressed

Adjusted misstatements

A number of adjustments to the draft financial statements have been identified during the audit process. We are required to report all non-trivial misstatements to those charged with governance, whether or not the financial statements have been adjusted by management. The table below summarises the adjustments arising from the audit which have been processed by management.

Impact of adjusted misstatements

All adjusted misstatements are set out below along with the impact on the primary statements and the reported financial position.

| | Detail | Comprehensive Income and Expenditure Account £'000 | Balance Sheet £'000 | Impact on total net expenditure £000 |
|--------------|--|---|-------------------------|--|
| 1 Page 25 | <p>Misallocation of gross income and expenditure The draft financial statements for the year ended 31 March 2015 recorded net expenditure of £16.983m. The draft accounts were restated and there have been a large number of adjustments on the face of the comprehensive income and expenditure account, balance sheet and supporting notes. These adjustments are too numerous to list here. Overall the audited financial statements show net expenditure of £18.620m. The overall changes in gross income and gross expenditure as a result of the restatement and other changes are: Gross expenditure increase 4,023 Gross income increase 2,386 The draft reported a £341k increase to general fund balances and the final draft £530k.</p> | | | |
| 2 | <p>Property plant and equipment- Included within Operating Land and Buildings additions as part of the draft financial statements was £1.6m relating to Town Centre Enhancements. This does not give rise to an asset of the Authority and has been amended within the financial statements as REFCUS</p> | £1,633k increase in expenditure | £1,633k decrease in PPE | £1,633k increase in expenditure |

Adjusted misstatements

A number of adjustments to the draft financial statements have been identified during the audit process. We are required to report all non-trivial misstatements to those charged with governance, whether or not the financial statements have been adjusted by management. The table below summarises the adjustments arising from the audit which have been processed by management.

Impact of adjusted misstatements

All adjusted misstatements are set out below along with the impact on the primary statements and the reported financial position.

| Detail | Comprehensive Income and Expenditure Account £'000 | Balance Sheet £'000 | Impact on total net expenditure £000 |
|--|---|------------------------|---|
| 3 Page 26 Property plant and equipment –disposals Asset disposals were not included within the draft financial statements although disposal proceeds were present. Further review has been carried out an asset disposals of £85k amended in note 12 (PPE). Assets have been fully depreciated hence the overall effect on the net book value of assets is nil. | n/a | n/a | n/a |

Adjusted misstatements

A number of adjustments to the draft financial statements have been identified during the audit process. We are required to report all non-trivial misstatements to those charged with governance, whether or not the financial statements have been adjusted by management. The table below summarises the adjustments arising from the audit which have been processed by management.

Impact of adjusted misstatements

All adjusted misstatements are set out below along with the impact on the primary statements and the reported financial position.

| | Detail | Comprehensive Income and Expenditure Account £'000 | Balance Sheet £'000 | Impact on total net expenditure £000 |
|--------------|--|--|------------------------------|---|
| 4 Page 27 | <p>Property, plant and equipment An adjustment has been required in order for the asset register to agree to the financial statements. The adjustment required does not impact upon the net book value but does impact on the gross cost and depreciation cells.</p> <p>Opening cost has been increased by £577k and opening depreciation by the same amount.</p> | n/a | n/a | n/a |
| 5 | <p>Creditor balances The creditor balances have been reallocated. Following review of the supporting working papers it was identified that some balances had been misclassified across the creditor headings</p> | n/a | n/a | n/a |
| 6 | <p>Provisions Provisions have been increased by £637k in relation to GP surgeries. There has also been reduction in the levy the Council pays over as a result of this change</p> | £637k decrease in Taxation and Non-Specific Grant Income | £637k increase in provisions | £637k increase in total net expenditure |

Misclassifications & 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.

| | Adjustment type | Value £'000 | Account balance /note reference | Impact on the financial statements |
|---|-----------------|----------------|--|--|
| 1 | Disclosure | | Explanatory Foreword | Enhanced disclosures within the foreword which agrees to figures stated within the primary financial statements. |
| 2 | Disclosure | | Throughout financial statements | There have been a high number of disclosure amendments including cross referencing of notes, typographical errors and personalisation of the financial statements. |
| 3 | Disclosure | | Note 3 – critical Judgements | Enhancement of disclosures |
| 4 | Disclosure | | Note 4 - Assumptions Made About the Future and Other Major Sources of Estimation Uncertainty | Enhancement of disclosures regarding business rate appeals |
| 5 | Disclosure | | Note 29 -Amounts Reported for Resource Allocation Decisions | Amendments to note following reallocation of gross income and expenditure. |

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Section 3: Value for Money

01. Executive summary

02. Audit findings

03. Value for Money

04. Fees, non-audit services and independence

05. Communication of audit matters

Value for Money

Value for money conclusion

The Code of Audit Practice 2010 (the Code) describes the Council's responsibilities to put in place proper arrangements to:

- secure economy, efficiency and effectiveness in its use of resources;
- ensure proper stewardship and governance; and
- review regularly the adequacy and effectiveness of these arrangements.

We are required to give our VfM conclusion based on two criteria specified by the Audit Commission which support our reporting responsibilities under the Code.

These criteria are:

The Council has proper arrangements in place for securing financial resilience - the Council has robust systems and processes to manage effectively financial risks and opportunities, and to secure a stable financial position that enables it to continue to operate for the foreseeable future.

The Council has proper arrangements for challenging how it secures economy, efficiency and effectiveness - the Council is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.

Key findings

Securing financial resilience

We have undertaken a review which considered the Council's arrangements against the three expected characteristics of proper arrangements as defined by the Audit Commission:

- Financial governance;
- Financial planning; and
- Financial control.

Our findings are similar to last year's. The Council is financially resilient with good levels of general fund balances. Identified and unidentified savings have been reported as delivered along with an increase to general fund balances of over £500k. These balances will partly be applied to support the borrowing costs of the new leisure centre and the Council house. Balances are adequate to provide resilience with the uncertainty around future grant funding. The Council plans to make further savings in the medium term.

There is however significant scope to improve further both budget setting and financial monitoring. Particular problems were experienced in the finance department this year which contributed to the delay in the production of the accounts and the need to make material changes.

Challenging economy, efficiency and effectiveness

We have considered the Council's arrangements to challenge economy, efficiency and effectiveness against the following themes:

- Prioritising resources
- Improving efficiency & productivity

The Council is continuing its programme of service reviews which it expects will improve services and make savings through efficiencies and improved focus. A Council plan was developed in 2013 which set out priority themes. Budgets and savings are developed around these. There are currently no agreed plans underpinning these priorities, making it difficult to assess the links between budget and strategic planning. The absence of a performance management system with monitoring and reporting of service measures makes it difficult for us, or the public to assess the quality of Bromsgrove's services. Similar observations were made in the prior year Annual Audit Letter.

Overall VfM conclusion

On the basis of our work, and having regard to the guidance on the specified criteria published by the Audit Commission, we are satisfied that in all significant respects the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2015.

We set out below our detailed findings against six risk areas which have been used to assess the Council's performance against the Audit Commission's criteria. We summarise our assessment of each risk area using a red, amber or green (RAG) rating, based on the following definitions:

| | |
|--------------|---|
| Green | Adequate arrangements |
| Amber | Adequate arrangements, with areas for development |
| Red | Inadequate arrangements |

The table below and overleaf summarises our overall rating for each of the themes reviewed:

| Theme | Summary findings | RAG rating | | | | | | | | | | | | |
|--|---|------------|--------|---------|--------|---------|--------|---------|---------|---------|--------|---------|--------|---------------------|
| <p>Key indicators of performance</p> <p>Page 31</p> | <p>Compared with similar councils, Bromsgrove District Council has good levels of unallocated reserves at £4.2m. The Audit commission has benchmarked the levels of general fund balances against other similar councils. Based on last year's balances (at £3.7m), Bromsgrove DC was in the top 20% of councils for this indicator. The council also has earmarked reserves of £2.9m compared with the prior year of £2.7m. There are plans to use general fund balances to fund the interest costs of the leisure centre until it becomes operational when it is budgeted that it will be self financing.</p> <p>Collection rates of council tax have remained consistent over the last 3 years</p> <table border="0"> <tr> <td>2014/15</td> <td>98.29%</td> </tr> <tr> <td>2013/14</td> <td>98.5 %</td> </tr> <tr> <td>2012/13</td> <td>98.7 %</td> </tr> </table> <p>Collection rates for NDR have declined this year. With the changes to the arrangements for distribution of business rates in 2013 there is more risk associated with business rates income.</p> <table border="0"> <tr> <td>2014/15</td> <td>95.98 %</td> </tr> <tr> <td>2013/14</td> <td>98.4 %</td> </tr> <tr> <td>2012/13</td> <td>97.3 %</td> </tr> </table> <p>Performance against budget: revenue and capital</p> <p>In 2014 /15 the Council increased balances by £540k, compared with £650k in the previous year. The budget was set with no planned increases in general fund balances. Capital expenditure was £6.6m against a budget of £11.8m. the main areas of capital expenditure was on town centre enhancements and Parkside.</p> <p>Overall the level of balances provide the Council with financial resilience in the next few years of uncertainty around government financing.</p> | 2014/15 | 98.29% | 2013/14 | 98.5 % | 2012/13 | 98.7 % | 2014/15 | 95.98 % | 2013/14 | 98.4 % | 2012/13 | 97.3 % | <p>Green</p> |
| 2014/15 | 98.29% | | | | | | | | | | | | | |
| 2013/14 | 98.5 % | | | | | | | | | | | | | |
| 2012/13 | 98.7 % | | | | | | | | | | | | | |
| 2014/15 | 95.98 % | | | | | | | | | | | | | |
| 2013/14 | 98.4 % | | | | | | | | | | | | | |
| 2012/13 | 97.3 % | | | | | | | | | | | | | |

| Theme | Summary findings | RAG rating |
|--|---|---------------------|
| <p>Strategic financial planning</p> | <p>The Council has in place a medium term financial plan. Budgeting, in particular the 'additional pressures' and savings have been grouped and considered under the council corporate themes as outlined in the Council plan.</p> <p>The Council is planning to draw on general fund reserves to support spending over the life of the plan. In 2017/18 there is over £700k reliance on balances, however we would expect that the Council will develop further savings plans to meet this gap over the next budget review cycle. Despite this planned use of balances, the level of balances is forecast to be above the minimum level of balances set by the Council.</p> <p>In practice, the council has a track record of adding to general fund balances and increasing earmarked reserves and thus we have no concerns that the council will have insufficient levels of balances over the lifetime of the plan, unless there are significant unanticipated grant reductions.</p> <p>As part of the assessment we are required to consider the links between the budget and the council strategic plans. As reported last year, the Council sets out the core priorities for the Council in the Council Plan. However this is not translated into an actual plan with priorities and actions. This therefore makes it difficult to demonstrate that the financial plans are linked with the Council strategic priorities and plans.</p> | <p>Amber</p> |
| <p>Financial governance</p> | <p>The Council has delegated budget arrangements. This means that budget holders, supported by key accountants are involved in setting, and managing the budget including the savings incorporated into the base budget. The out-turn reported to cabinet was not significantly different to that forecast at Q3. However changes to the accounts have increased the underspend. It is intended that the reporting module of the new financial ledger will improve the information available to budget holders and facilitate better management of budgets.</p> <p>As reported in previous years, we consider that budget reporting could be significantly improved by better linking of outturn reporting with the original and revised budget and savings plans. Current accounting practice around use of earmarked reserves and support service recharges should be reviewed. Our concern remains that there may be aspect of the base budget that should have been stripped out such as vacancies that are not going to be filled and inevitably lead to underspends. It is therefore difficult for officers to demonstrate how all savings and underspends relate to planned actions, fortuitous events or 'underlying underspends' within base budgets. This then impacts on budget setting going forward. In 2014/15 unexpected underspends were to some extent stripped out of the revised budget, which may be a reason why outturn was closer to forecast</p> <p>The links between the capital programme also should be better developed. For example, slippage in the capital programme and the reduced need to borrow and consequential reduced interest costs should have been forecast at Q1 rather than being a reason for the outturn variance.</p> <p>The reporting of Q1 (April to June) 2015/16 will go to the September cabinet and is in a new format to fit with corporate themes. It is important that the reports are timely, profiled spend to the year end and highlights risks to the overall financial position to enable decisions to be made to manage the financial position.</p> | <p>Amber</p> |

| Theme | Summary findings | RAG rating |
|--|--|---------------------|
| <p>Financial governance (cont.)</p> | <p>A new financial ledger was implemented in February 2015, 1 month before the year end. In the accounts section of this report we highlight that problems with the ledger implementation and staff turnover across the two councils resulted in a delay in the production of the accounts. The accounts were not available by the statutory deadline.</p> <p>The accounts presented were restated in August when it became apparent that different assumptions had been made in preparing the accounts compared with the prior year, in particular around accounting for recharges and housing benefits. The restatement was material.</p> <p>Had the accounts not been produced late and there had been adequate time for review, then the misstatement would have been evident and rectified before being presented for audit.</p> <p>Other material changes have been made to the accounts in the course of the audit.</p> <p>Whilst the problems in the accounts production can be attributed to it being an exceptional year, better project planning and earlier intervention could have meant that some of the problems could have been mitigated.</p> <p>The restructured finance team is not yet operating as an effective joint finance team and it is clear that there are underlying issues that need to be resolved.</p> | <p>Red</p> |
| <p>Prioritising resources</p> | <p>The Council has a programme of savings and service reviews that are changing how services are provided and delivered. It is planning to provide a new leisure centre which will inevitably lead to improved leisure services for the residents. There has been considerable capital investment in the town centre and Parkside which it is hoped will contribute to regeneration of the town centre. Other regeneration plans are being considered.</p> <p>Budgets are allocated against the strategic priorities. The savings targets and unavoidable costs are allocated against these as part of the budget setting process.</p> <p>The service review approach adopted involves challenging how services are provided and front line staff and service users are involved in the review.</p> <p>We have seen no evidence of post implication review of service changes, or assessment of any unintended impacts on activities and increased spending or capacity gaps in other departments, partners or other bodies</p> | <p>Amber</p> |

We set out below our detailed findings against six risk areas which have been used to assess the Council's performance against the Audit Commission's criteria. We summarise our assessment of each risk area using a red, amber or green (RAG) rating, based on the following definitions:

| Theme | Summary findings | RAG rating |
|---|---|---------------------|
| <p>Improving efficiency & productivity</p> | <p>The Council has a programme of savings and service reviews that are changing how services are provided and delivered. It is planned to provide a new leisure centre which will inevitably lead to improved leisure services for the residents. There has been considerable capital investment in the town centre and Parkside which it is hoped will contribute to regeneration of the town centre. Other regeneration plans are being considered.</p> <p>The Council has not yet developed its outcome measures to underpin the Council plan. There is currently no performance management information routinely reported (other than around customer services which is reported to audit committee) It is therefore difficult to assess efficiency and productivity of council services. It is not possible to assess the impact of service changes or savings on service quality as there is no reporting.</p> <p>The planning service entered special measures this year due to the delay in processing large applications.</p> <p>The Council does not benchmark its costs against other councils. Audit Commission indicators suggest that the council is not a high spending council.</p> | <p>Amber</p> |

Section 4: Fees, non-audit services and independence

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Fees, non-audit services and independence

We confirm below our final fees charged for the audit.

Fees

| | Per Audit plan £ | Actual fees £ |
|--|---------------------|------------------|
| Council audit | 48,680 | tbc |
| Grant certification on behalf of Audit Commission | 8,760 | tbc |
| Total audit fees | 57,440 | tbc |

As referred to in this report, more work was needed to complete the audit than was planned when we agreed the audit fee.

Additional procedures were undertaken due to the implementation of the ledger mid year. These were anticipated and referred to in the audit plan.

The accounts audit was protracted because working papers were inadequate in some places, there was some difficulty accessing staff as contractors had been used to prepare the accounts, audit trails were difficult due to new system issues and finally restated accounts meant that additional procedures were required.

We have yet to complete the audit of the Housing Benefits Subsidy. Initial testing has highlighted a number of errors in the initial sampling which will mean additional testing is required, in line with grant requirements.

Our final audit fee will need to be agreed with officers and Public Sector Appointments (PSAA) and will then be included in the Annual Audit Letter.

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 Standards and therefore we confirm that we 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 Auditing Practices Board's Ethical Standards.

Section 5: Communication of audit matters

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Communication of audit matters to those charged with governance

International Standard on Auditing ISA (UK&) 260, as well as other (UK&I) ISAs, prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table opposite.

The Audit Plan outlined our audit strategy and plan to deliver the audit, while this Audit Findings report presents the key issues and other matters arising from the audit, together with an explanation as to how these have been resolved.

Respective responsibilities

The Audit Findings Report has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission (www.audit-commission.gov.uk).

We have been appointed as the Council's independent external auditors by the Audit Commission, the body responsible for appointing external auditors to local public bodies in England. As external auditors, we have a broad remit covering finance and governance matters.

Our annual work programme is set in accordance with the Code of Audit Practice (the Code) issued by the Audit Commission and includes nationally prescribed and locally determined work. Our work considers the Council's key risks when reaching our conclusions under the Code.

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 communication plan | Audit Plan | Audit Findings |
|--|------------|----------------|
| Respective responsibilities of auditor and management/those charged with governance | ✓ | |
| Overview of the planned scope and timing of the audit. Form, timing and expected general content of communications | ✓ | |
| Views about the qualitative aspects of the entity's accounting and financial reporting practices, significant matters and issues arising during the audit and written representations that have been sought | | ✓ |
| Confirmation of independence and objectivity | ✓ | ✓ |
| A statement that we have complied with relevant ethical requirements regarding independence, relationships and other matters which might be thought to bear on independence. | ✓ | ✓ |
| Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged | | |
| Details of safeguards applied to threats to independence | | |
| Material weaknesses in internal control identified during the audit | | ✓ |
| Identification or suspicion of fraud involving management and/or others which results in material misstatement of the financial statements | | ✓ |
| Compliance with laws and regulations | | ✓ |
| Expected auditor's report | | ✓ |
| Uncorrected misstatements | | ✓ |
| Significant matters arising in connection with related parties | | ✓ |
| Significant matters in relation to going concern | | ✓ |
| Matters in relation to the Group audit, including: Scope of work on components, involvement of group auditors in component audits, concerns over quality of component auditors' work, limitations of scope on the group audit, fraud or suspected fraud | ✓ | ✓ |

Appendices

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Appendix A: Action plan

| Rec No. | Recommendation | Priority | Management response | Implementation date & responsibility |
|---------|---|----------|---------------------|--------------------------------------|
| Page 40 | <p>Accounts production would be improved by ensuring that:</p> <ul style="list-style-type: none"> • there is a clear and robust closedown timetable which is made available to all staff involved with the accounts closedown, including those outside of the finance function. • individual tasks are allocated to specific staff who are responsible for delivery • working papers are clearly prepared, referenced and have description of contents (and cross referenced to our working papers request) | high | | |
| | <p>Quality of the accounts would be improved by having</p> <ul style="list-style-type: none"> • a detailed and evidenced review of the financial statements by senior finance staff • reasonableness checks, addition checks and review of all policies and disclosures made prior to accounts being submitted to audit | high | | |
| | <p>The audit process would be improved by ensuring that:</p> <ul style="list-style-type: none"> • annual leave of key financial staff is limited during peak periods including when the accounts are being prepared and when the audit is taking place. • staff are aware of each others roles and can backfill where colleagues may be unavailable | medium | | |

Appendix A: Action plan

| Rec No. | Recommendation | Priority | Management response | Implementation date & responsibility |
|---------|--|----------|---------------------|--------------------------------------|
| Page 41 | <p>Budget setting and monitoring would be improved by:</p> <ul style="list-style-type: none"> Greater clarity and honesty over the underlying budget requirement at a budget holder level and changes in assumptions communicated more accurately to those preparing in-year reports Improved information available to budget holders to facilitate more active delegated budgetary control. This was envisaged with the new ledger reporting modules. The culture that achieving a previously unidentified underspend is a success needs to be discouraged with greater focus on accurate forecasting by budget holders. More timely reporting to members so that reports can inform decisions rather than them being purely for information Better trail between the original budget to the in year reports – through review of current practices around allocating earmarked reserves, support service recharges and capital charges. | high | | |
| | <p>Out turn reporting would be improved by:</p> <ul style="list-style-type: none"> The financial foreword to the accounts should tell the story of the year and the risks and how they are being managed going forward. This should be in line with good practice recommended by CIPFA. Improved understanding over underspends i.e how much is attributable to in-year events, to active changes such as service reviews, planned savings and how much is down to issues in relation to original budget assumptions. These issues can result in poor assumptions in budget setting. | | | |

Appendix A: Action plan

| Rec No. | Recommendation | Priority | Management response | Implementation date & responsibility |
|---------|---|----------|---------------------|--------------------------------------|
| Page 42 | <p>Operational effectiveness of the financial services team would be improved by:</p> <ul style="list-style-type: none"> Improved project planning through the main cycles of work – to include milestones (budget setting, reporting and closedown) These cycles need to be speeded up. Greater sharing of skills and tasks across the 2 councils – currently they are still operating in silos with differing practices in place for each council in some areas (as demonstrated by some working papers/ reconciliations being available for one council but not the other). A stronger performance framework with underperforming staff being identified and effectively managed. Those with potential need to be given more opportunity and success recognised. There should be more of a professional culture developed in the team. | | | |
| | <p>The benefits of review should be recognised:</p> <ul style="list-style-type: none"> Formal post implementation assessment of service reviews or other changes should be routine. These are important to establish whether the envisaged benefits are being achieved, both performance and financial, and for lessons to be learned to inform future reviews. Greater priority should be given to having in place a fully operational performance framework. Currently measures of success of reviews and day to day operations of the council appear to be anecdotal rather than specific, measurable and is not communicated to the tax payer. A post implementation review of the ledger implementation is recommended. | | | |

Appendix B: Audit opinion (DRAFT)

We anticipate we will provide the Council with an unmodified/modified audit report

INDEPENDENT AUDITOR’S REPORT TO THE MEMBERS OF Bromsgrove District Council

We have audited the financial statements of Bromsgrove District Council for the year ended 31 March 2015 under the Audit Commission Act 1998. The financial statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement, the Collection Fund and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2014/15.

This report is made solely to the members of Bromsgrove District Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the Chief Financial Officer and auditor

As explained more fully in the Statement of the Chief Financial Officer’s Responsibilities, the Chief Financial Officer is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2014/15, and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards also require us to comply with the Auditing Practices Board’s Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the Authority’s circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Chief Financial Officer; and the overall presentation of the financial statements.

In addition, we read all the financial and non-financial information in the explanatory foreword to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements: give a true and fair view of the financial position of Bromsgrove District Council as at 31 March 2015 and of its expenditure and income for the year then ended; and have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2014/15 and applicable law.

Opinion on other matters

In our opinion, the information given in the explanatory foreword for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we report by exception

We report to you if we designate under section 11 of the Audit Commission Act 1998 any recommendation as one that requires the Authority to consider it at a public meeting and to decide what action to take in response. On 18 September we issued our Audit Findings Report. Here we make recommendations concerning the improvements the Council needs to make in preparing its financial statements and strengthening its budgeting arrangements, under section 11.

Agenda Item 3

Conclusion on the Authority’s arrangements for securing economy, efficiency and effectiveness in the use of resources

Respective responsibilities of the Authority and the auditor

The Authority is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

We are required under Section 5 of the Audit Commission Act 1998 to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires us to report to you our conclusion relating to proper arrangements, having regard to relevant criteria specified by the Audit Commission in October 2014.

We report if significant matters have come to our attention which prevent us from concluding that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority’s arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Scope of the review of arrangements for securing economy, efficiency and effectiveness in the use of resources

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission in October 2014, as to whether the Authority has proper arrangements for:
 securing financial resilience; and
 challenging how it secures economy, efficiency and effectiveness.

The Audit Commission has determined these two criteria as those necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2015.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to form a view on whether, in all significant respects, the Authority had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Conclusion

On the basis of our work, having regard to the guidance on the specified criteria published by the Audit Commission in October 2014, we are satisfied that, in all significant respects, Bromsgrove District Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2015.

Certificate

We certify that we have completed the audit of the financial statements of Bromsgrove District Council in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission.

Phil Jones

for and on behalf of Grant Thornton UK LLP, Appointed Auditor
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September 2015



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