

# The Audit Findings for Bromsgrove District Council

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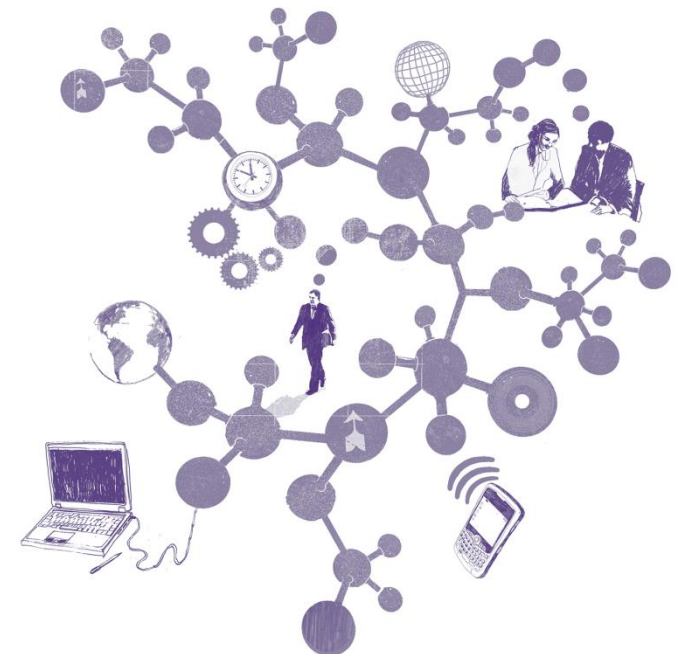
**Year ended 31 March 2016**

September 2016

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September 2016

**Audit for Bromsgrove District Council for the year ending 31 March 2016**

Dear Members of the Audit, Standards and Governance Committee

This Audit Findings report highlights the key findings arising from the audit for the benefit of those charged with governance (in the case of Bromsgrove District Council, the Audit, Standards and Governance Committee), as required by International Standard on Auditing (UK & Ireland) 260, the Local Audit and Accountability Act 2014 and the National Audit Office Code of Audit Practice. Its contents have been discussed with officers.

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 and giving a value for money conclusion. 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

Richard Percival  
Engagement lead

**Chartered Accountants**

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# Section 1: Executive summary

**01. Executive summary**

02. Audit findings

03. Value for Money

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06. Communication of audit matters

## Purpose of this report

This report highlights the key issues affecting the results of Bromsgrove District Council ('the Council') and the preparation of the group and Council's financial statements for the year ended 31 March 2016. 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 (UK & Ireland) 260, and the Local Audit and Accountability Act 2014 ('the Act').

Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion, the Council's financial statements give a true and fair view of the financial position of the Council and its income and expenditure 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 consider other information published together with the audited financial statements, whether it is consistent with the financial statements and in line with required guidance.

We are required to carry out sufficient work to satisfy ourselves on whether the Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources ('the value for money (VFM) conclusion').

Auditor Guidance Note 7 (AGN07) clarifies our reporting requirements in the Code and the Act. We are required to provide a conclusion whether in all significant respects, the Council has put in place proper arrangements to secure value for money through economic, efficient and effective use of its resources for the relevant period.

The Act also details the following additional powers and duties for local government auditors, which we are required to report to you if applied:

- a public interest report if we identify any matter that comes to our attention in the course of the audit that in our opinion should be considered by the Council or brought to the public's attention (section 24 of the Act);

- written recommendations which should be considered by the Council and responded to publicly (section 24 of the Act);
- application to the court for a declaration that an item of account is contrary to law (section 28 of the Act);
- issue of an advisory notice (section 29 of the Act); and
- application for judicial review (section 31 of the Act)

We are also required to give electors the opportunity to raise questions about the accounts and consider and decide upon objections received in relation to the accounts under sections 26 and 27 of the Act.

## Introduction

In the conduct of our audit we have not had to alter or change our audit approach, which we communicated to you in our Audit Plan dated March 2016, and our amendment to the plan dated May 2016.

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

- awaiting further confirmations from the valuer on the assets not revalued in year and the underlying assumptions used to value the ex Council House
- review of the final version of the financial statements
- obtaining and reviewing the management letter of representation
- review of revised versions of the Annual Governance Statement and
- updating our post balance sheet events review, to the date of signing the opinion
- Whole of Government Accounts
- consideration of the wording of the qualified VFM conclusions by our legal and technical teams.

## Key audit and financial reporting issues

### Financial statements opinion

The draft financial statements for the year ended 31 March 2016 recorded net expenditure of £13.356 million. Whilst we have not made any adjustments to this we did identify one issues that would impact, if adjusted (see page 23) . We have also made a number of adjustments to improve the presentation and classification of income and expenditure within the financial statements.

Subject to the receipt of the final documentation and completion of our final checks we anticipate issuing an unqualified opinion on the financial statements (a copy of the opinion will be provided to members at the committee meeting)

In previous years we have commented on the qualitative aspects of the Trusts financial statement production, in particular the number of errors and delays in and the quality of working papers. We issued statutory recommendations at the conclusion of our 2014/15 audit which included improving arrangements for the production of the accounts.

Revised arrangements were put in place by the Executive Director of Finance and Resources for 2015/16 to improve the quality of the financial statements and supporting working papers. These arrangements

- ensured the accounts were submitted in advance of the 30<sup>th</sup> June 2016 deadline
- improved the quality of the accounts presented for audit and the timeliness of and quality of many of the working papers.
- ensured queries were resolved quickly to maximise an efficient year end audit.

Overall arrangements have improved, but further improvements in the efficiency of accounts production are needed to meet the revised statutory deadline in 2018.

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

### Other financial statement responsibilities

As well as an opinion on the financial statements, we are required to give an opinion on whether other information published together with the audited financial statements is consistent with the financial statements. We are required to report 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 information of which we are aware from our audit.

The significant governance issues were not adequately explained in the draft version of the Council's Annual Governance Statement. We agreed with the Executive Director of Finance and Resources that amendments would be made to give more information regarding the responses to our statutory recommendations.

## 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.

### Findings

We draw your attention in particular to control issues identified in relation to:

- Shared services invoices
- time between receipt of invoices and recording on the ledger.
- complexity of the ledger.

Further details are provided within section two of this report.

## Other statutory powers and duties

We have not identified any issues that have required us to apply our statutory powers and duties under the Act in 2015/16.

At the end of the 2014/15 audit we issued four recommendations under the section 11 of the Audit Commission Act 1998. These were

- 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.
- The Council should develop a comprehensive project plan for the preparation of the accounts
- The Council should put in place robust arrangements for the preparation of its budget
- The Council should ensure that 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

Our overall view is that whilst some improvements have been made since we issued them further progress is needed. The key actions we expect the Council to take to address our recommendations are:

- the Council should continue with the progress it has made in the financial statements production to ensure it can meet the earlier closedown and audit timetables in 2018.
- the Council should ensure the reporting of the annual budget and MTFS to Members is improved, specifically to include the impact on reserves and balances
- the Council should ensure improvements are made to the clarity and consistency of the in year reporting of the budget to enable accurate forecasts to be made in-year of the likely year-end outturn and action to be taken, where necessary, to address budget variances.

Further details of our work on other statutory powers and duties is set out in section four of this report.

## Value for Money

We are proposing to issue a qualified 'except for' value for money conclusion. We have therefore concluded that there are weaknesses in the Councils arrangements for:

- reliable and timely financial reporting that supports the delivery of strategic purposes; and
- planning finances effectively to support the sustainable delivery of strategic purposes and maintain statutory functions
- Given the issues identified were subject to s11 recommendation in 2014/15 we have also considered whether appropriate governance arrangements are in place. Given the lack of progress around the financial reporting recommendation we have concluded that this is a failure in governance arrangements.

Further detail of our work on Value for Money are set out in section three of this report.

## Grant certification

In addition to our responsibilities under the Code, we are required to certify the Council's Housing Benefit subsidy claim on behalf of the Department for Work and Pensions. At present our work on this claim is in progress and is not due to be finalised until 30 November 2016. We will report the outcome of this certification work through a separate report to Audit, Standards and Governance Committee.

## Matters arising

Matters arising from the financial statements audit and our review of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources have been discussed with the Executive Director of Finance and Resources. We have also discussed issues arising from the implementation of our 2014/15 statutory recommendations.

We have made a number of recommendations, which are set out in the action plan at Appendix A. Recommendations have been discussed and agreed with the Executive Director of Finance and Resources and the finance team.

## **Matters arising**

Matters arising from the financial statements audit and our review of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources have been discussed with the Executive Director of Finance and Resources. We have also discussed issues arising from the implementation of our 2014/15 statutory recommendations.

We have made a number of recommendations, which are set out in the action plan at Appendix A. Recommendations have been discussed and agreed with the Executive Director of Finance and Resources and the finance team.

## **Acknowledgement**

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 2016**



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## Section 2: Audit findings

01. Executive summary

**02. Audit findings**

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# Materiality

In performing our audit, we apply the concept of materiality, following the requirements of International Standard on Auditing (UK & Ireland) (ISA) 320: Materiality in planning and performing an audit. The standard states that 'misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements'.

As we reported in our audit plan, we determined overall materiality to be £672,000 (being 1.5 % of gross revenue expenditure). We identified that expenditure was lower than forecast at our interim visit and that led us to revise our overall materiality to £629,000.

We also set an amount below which misstatements would be clearly trivial and would not need to be accumulated or reported to those charged with governance. This is because we would not expect the accumulated effect of such amounts to have a material impact on the financial statements. We have defined the amount below which misstatements would be clearly trivial to be £31,000. Our assessment of the value of clearly trivial matters has been adjusted to reflect our revised materiality calculation.

As we reported in our audit plan, we identified the following items where we decided that separate materiality levels were appropriate. These remain the same as reported in our audit plan.

Balance/transaction/disclosure	Explanation
Cash and cash equivalents	Although the balance of cash and cash equivalents is immaterial, all transactions made by the Council affect the balance and it is therefore considered to be material by nature.
Disclosures of officers' remuneration, salary bandings and exit packages in notes to the statements	Due to public interest in these disclosures and the statutory requirement for them to be made.
Disclosure of auditors' remuneration in notes to the statements	Due to public interest in these disclosures and the statutory requirement for them to be made.
Related Parties	Due to public interest in these disclosures and the statutory requirement for them to be made

# 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, or reported to you during the course of our audit. 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
1.	<p><b>The revenue cycle includes fraudulent transactions</b></p> <p>Under ISA (UK&amp;I) 240 there is a presumed risk that revenue may be misstated due to the improper recognition of revenue.</p> <p>This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.</p>	<p>Having considered the risk factors set out in ISA240 and the nature of the revenue streams at Bromsgrove District Council, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:</p> <ul style="list-style-type: none"> <li>• there is little incentive to manipulate revenue recognition</li> <li>• opportunities to manipulate revenue recognition are very limited; and</li> <li>• the culture and ethical frameworks of local authorities, including Bromsgrove District Council, mean that all forms of fraud are seen as unacceptable.</li> </ul>	<p>Our audit work has not identified any issues in respect of revenue recognition.</p>
2.	<p><b>Management over-ride of controls</b></p> <p>Under ISA (UK&amp;I) 240 it is presumed that the risk of management over-ride of controls is present in all entities.</p>	<p>Our work has included</p> <ul style="list-style-type: none"> <li>• review of entity controls</li> <li>• testing of journal entries</li> <li>• review of accounting estimates, judgements and decisions made by management</li> <li>• review of unusual significant transactions.</li> </ul>	<p>Our audit work did not identify any issues in respect of journals.</p> <p>Our testing of journals did take a considerable time. This is because the Council struggled to produce reports with the required information. This is in part due to the overly complex ledger structure and we have included a recommendation on this.</p>

## Audit findings against significant risks (continued)

We have also identified the following significant risks of material misstatement from our understanding of the entity. We set out below the work we have completed to address these risks.

	Risks identified in our audit plan	Work completed	Assurance gained and issues arising
3.	<p><b>Production of the 2015/16 financial statements</b> Due to the issues identified in the audit of the 2014/15 financial statements we issued statutory recommendations to strengthen the production process for 2015/16.</p>	<p>We have</p> <ul style="list-style-type: none"> <li>examined the accounts closedown process and the controls in place to ensure materially accurate accounts are produced</li> <li>had regular and early discussions with the finance team on the key accounting issues such as the valuation of Parkside and classification of investment properties</li> </ul>	<p>The draft accounts were submitted by the 30<sup>th</sup> June 2016 deadline.</p> <p>The quality and timeliness of the working papers supporting the accounts was better than the previous year and the resolution of queries was more efficient. There are, however, some areas that continue to be problematic.</p> <p>The Council needs to continue with this progress to ensure it can meet the earlier closedown and audit timetables in 2018.</p>
4.	<p><b>Valuation of Parkside</b> During 2015/15 the Council moved into the refurbished Parkside. The Council has paid for 50% of the refurbishment costs which were managed by the County Council. For 2015/16 the financial statements should reflect this as an operational asset and be valued accordingly. The accounting treatment should be consistent with that of the County Council.</p>	<ul style="list-style-type: none"> <li>We will examine the controls in place to ensure materially accurate valuation is produced</li> <li>Examine title deeds and other legal documentation</li> <li>Review the instructions to the valuer</li> <li>Agree the value included in the financial statements to the valuers report</li> </ul>	<p>Our audit work has not identified any issues in respect of the valuation of Parkside within the financial statements.</p>
5	<p><b>Valuation of Bromsgrove Council Offices</b> As at the year end the Councils old offices will be classified as a surplus asset. The new accounting standard IFRS 13 will apply and the land and buildings will need to be revalued. This valuation could be significantly different to its current carrying value.</p>	<ul style="list-style-type: none"> <li>We will examine the controls in place to ensure materially accurate valuation is produced</li> <li>Review the instructions to the valuer</li> <li>Agree the value included in the financial statements to the valuers report</li> </ul>	<p>At the time of drafting, we had not completed our work in this area. We are seeking written confirmation from the valuer that his fair value valuations complies with IFRS13 requirements.</p>

## Audit findings against significant risks continued

	Risks identified in our audit plan	Work completed	Assurance gained and issues arising
6.	<p><b>Valuation of pension fund net liability</b></p> <p>The Council's pension fund asset and liability as reflected in its balance sheet represent significant estimates in the financial statements.</p>	<p>We have completed the following:</p> <ul style="list-style-type: none"> <li>• Documentation of the key controls that were put in place by management to ensure that the pension fund liability was not materially misstated.</li> <li>• Walkthrough of the key controls to assess whether they were implemented as expected and mitigate the risk of material misstatement in the financial statements.</li> <li>• Review of the competence, expertise and objectivity of the actuary who carried out the Council's pension fund valuation.</li> <li>• Gaining an understanding of the basis on which the IAS 19 valuation was carried out, undertaking procedures to confirm the reasonableness of the actuarial assumptions made.</li> <li>• Review of the consistency of the pension fund asset and liability and disclosures in notes to the financial statements with the actuarial report from your actuary.</li> </ul>	<p>A firm of consulting actuaries (Mercers) is engaged to provide the Council with expert advice about the assumptions to be applied when valuing pension liabilities. These assumptions cover areas such as mortality rates, inflation and future increases in salaries and pensions.</p> <p>We have reviewed</p> <ul style="list-style-type: none"> <li>• the assumptions used by the actuary and are satisfied that they are reasonable.</li> <li>• the competency expertise and objectivity of the actuary</li> <li>• The controls in place to ensure the liability is not materially misstated.</li> </ul> <p>We also reviewed consistency of the disclosures and officers made a number of minor amendments to these.</p>

# Audit findings against other risks

In this section we detail our response to the other risks of material misstatement which we identified in our Audit Plan. Recommendations, together with management responses are attached at appendix A.

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
<b>Operating expenses</b>	Creditors related to core activities understated or not recorded in the correct period	<p><b>We have :</b></p> <ul style="list-style-type: none"> <li>• conducted a walkthrough of the key controls for this system</li> <li>• Undertaken a search for unrecorded liabilities by reviewing payments after the year end</li> <li>• reviewed the Council's accruals process and test according (including goods receipted)</li> <li>• Tested a sample of GRNI's to identify unaccrued items.</li> </ul>	<p>Our audit work has not identified any issues in respect of the completeness of 2015/16 operating expenditure.</p> <p>We did identify an issue in relation to the prior year. Our testing identified an invoice for £4,000 that was received in February 2015 but was recorded in the 2016/16 ledger. We undertook further analysis and concluded that this error did not indicate a risk of a material misstatement.</p> <p>This issue did, however highlight a control weakness in the timeliness between receipt of invoices by the Council and their inclusion on the ledger.</p>
<b>Employee remuneration</b>	Employee remuneration and benefits obligations and expenses understated	<p><b>We have :</b></p> <ul style="list-style-type: none"> <li>• conducted a walkthrough of the key controls for this system.</li> <li>• completed a trend analysis on employee remuneration covering the period up to April 2015 - March 2016.</li> <li>• reviewed the reconciliation of the payroll system to the general ledger</li> </ul>	<p>We have largely completed our work in this area. We are awaiting the responses to a small number of queries and will provide Members with a verbal update at the Committee meeting.</p> <p>At the time of drafting, there were no issues that we need to bring to Members' attention.</p>


# Group audit scope and risk assessment

ISA (UK&I) 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	Work completed	Assurance gained & issues raised
Bromsgrove Arts Development Group (Artrix)	Yes	<ul style="list-style-type: none"> <li>Targeted</li> </ul>	<ul style="list-style-type: none"> <li>Valuation of Artrix Building</li> </ul>	<ul style="list-style-type: none"> <li>Reliance on an expert in relation to the Artrix valuations.</li> <li>Received confirmed form Bromsgrove Arts Development Trustees in relation to income and expenditure.</li> </ul>	The Artrix Assets have been included at an appropriate valuation in the financial statements.

# Accounting policies, estimates and 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><b>Revenue recognition</b></p>	<ul style="list-style-type: none"> <li>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.</li> <li>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.</li> <li>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.</li> <li>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.</li> <li>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</li> </ul>	<p>We have considered the:</p> <ul style="list-style-type: none"> <li>Appropriateness of the Council's policies under International Financial Reporting Standards, as adopted through the Code of Practice on Local Authority Accounting for 2015/16</li> <li>Adequacy of disclosure of accounting policy. Our review has not highlighted any issues which we wish to bring to your attention</li> </ul>	<p style="text-align: center;">   <b>Green</b> </p>

**Assessment**

● Marginal accounting policy which could potentially attract attention from regulators  
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● Accounting policy appropriate but scope for improved disclosure

● Accounting policy appropriate and disclosures sufficient



# Accounting policies, estimates and 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><b>Judgements and estimates</b></p>	<p>Key estimates and judgements include:</p> <ul style="list-style-type: none"> <li>Valuation of PPE</li> <li>Valuation of investment Properties</li> </ul>	<p><b>Valuation of property, plant and equipment</b></p> <p>The Council revalues its assets on a rolling basis over a five year period. We have undertaken the following</p> <ul style="list-style-type: none"> <li>review of management's processes and assumptions for the calculation of the estimate</li> <li>Review of the competence, expertise and objectivity of the valuation expert, the instructions issued to them and the scope of their work</li> <li>Testing of revaluations made during the year to ensure they are input correctly into the Council's asset register and financial statements</li> </ul> <p>The Code requires that the Council ensures that the carrying value at the balance sheet date is not materially different from current value. We are awaiting confirmation from the valuer of his consideration of the assets not revalued in year.</p> <p><b>Valuation of Investment Properties</b></p> <p>During 2015/16 the Council review is investment properties. It was identified that these assets were not held solely for rental income or capital appreciation and when reviewed against the councils strategic purposes other reasons existed for holding the assets and reclassified these as operational assets. As these assets never fully met the definition of investment properties they were incorrectly disclosed in the prior year. The Council have considered this, and concluded that it did not result in a material misstatement and have adjusted in year.</p>	<p>Awaiting information</p> <p style="text-align: center;">● Green</p>

**Assessment**




● Marginal accounting policy which could potentially attract attention from regulators  
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● Accounting policy appropriate but scope for improved disclosure

● Accounting policy appropriate and disclosures sufficient

# Accounting policies, estimates and 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
<b>Judgements and estimates</b>	Key estimates and judgements include: <ul style="list-style-type: none"> <li>Provisions</li> </ul>	<b>Business Rates Appeal Provision</b> The Council has made a provision for the Business Rate appeals that have been received but not settled at year end. The Council's estimate is based on the likelihood of various types of claims having to be settled and the estimated value of the settlement. The Council's provision follows the same basis as in the previous year and overall we are satisfied with the approach taken and that the provision is not materially misstated.	 Green
<b>Going concern</b>	The Executive Director of Finance and Resources, has a reasonable expectation that the services provided by the Council will continue for the foreseeable future. Members concur with this view. For this reason, the Council continue to adopt the going concern basis in preparing the financial statements.	We have reviewed the Council's forecast financial position for 12 months from the date of our proposed opinion (30 <sup>th</sup> September 2016 for this purpose). We have concluded that there are sufficient General Fund balances to cover an under delivery of savings in this period.	 Green
<b>Other accounting policies</b>	Various	We have reviewed the Council's policies against the requirements of the CIPFA Code of Practice. The Council's accounting policies are appropriate and consistent with previous years.	 Green

**Assessment**

# Other communication requirements

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	Commentary
1.	<b>Matters in relation to fraud</b>	<ul style="list-style-type: none"> <li>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.</li> </ul>
2.	<b>Matters in relation to related parties</b>	<ul style="list-style-type: none"> <li>From the work we carried out, we have not identified any related party transactions which have not been disclosed</li> </ul>
3.	<b>Matters in relation to laws and regulations</b>	<ul style="list-style-type: none"> <li>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.</li> </ul>
4.	<b>Written representations</b>	<ul style="list-style-type: none"> <li>A letter of representation has been requested from the Council, including specific representations in respect of the Group.</li> </ul>
5.	<b>Confirmation requests from third parties</b>	<ul style="list-style-type: none"> <li>We requested from management permission to send confirmation requests to Barclays, Bank of Scotland, HSBC, Nationwide and Santander. This permission was granted and the requests were sent. All of these requests were returned with positive confirmation.</li> </ul>
6.	<b>Disclosures</b>	We identified changes to a number of other disclosures in the financial statements which the Council have agreed to amend.
7.	<b>Matters on which we report by exception</b>	<p>We have not identified any issues that we are required to report by exception in our audit opinion.</p> <p>We agreed a number amendments to improve the clarity of the disclosure within the Annual Governance Statement and Narrative Report.</p> <ul style="list-style-type: none"> <li>The draft Annual Governance Statement did not adequately explain the significant governance issues with respect to our statutory recommendations.</li> <li>The draft narrative report did not provide an adequate commentary of the Council's financial position and the key financial event in the year.</li> </ul>
8.	<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>We noted that these were submitted after the deadline of the 12<sup>th</sup> August 2016. The only work required is to confirm that the Council does not exceed the threshold.</p>

# 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 14 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.

	Assessment	Issue and risk	Recommendations
1.		<p><b>Shared Services Invoices</b></p> <p>Throughout our testing we identified a large number of invoices in relation to the shared service agreements with Redditch Borough Council. Invoices are raised and received quarterly for the first three quarters based on the estimated cost and the final invoice on the actual costs. There are a high volume of invoices generated and it is both time consuming and resource intensive to process these.</p>	<p>The Council should investigate whether alternative methods of agreeing the re-charges is more efficient, particularly as they look to produce the financial statements in a shorter timescales.</p>
2.		<p><b>Time taken to receipt invoices</b></p> <p>Out testing of expenditure identified an invoice that took over seven weeks to be receipted in the general ledger. Discussions with officers revealed that is not uncommon for it to take this length of time. This increases the risk for invoices being missed and delays in their payment.</p>	<p>The Council should ensure that invoices are received only within creditor payments to ensure timely inclusion on the ledger. This will reduce time to payment and reduce the need for manual accruals.</p>
3		<p><b>Ledger Structure</b></p> <p>Our testing of journals took considerable time. This is because the Council struggled to produce reports with the required information. This is in part due to the overly complex ledger structure.</p>	<p>The Council should look to simplify its ledger coding structure.</p>

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**

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

# Internal controls – review of issues raised in prior year

	Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
1.	✓	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.	Payroll reconciliations were up-to-date, when we carried out our interim and final audit visits.
2.	✓	We reported that not all the IT control weaknesses identified in the prior year had been addressed	Our IT controls review has identified four low risks issues. We have received a management response to our recommendation in respect of these issues.

**Assessment**

- ✓ Action completed
- X Not yet addressed

## Misclassifications and disclosure changes

We did not identify any misstatement that required adjustment in the financial statement. All the error found were in relation misclassifications or disclosure notes. 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	Impact on the financial statements
1 Disclosure	262	Note 30, Exit Packages.	Amendment required to disclosure of exit packages for both RBC ad BDC.
2 Disclosure	N/A	Note 36, Defined Benefit Pensions	Various amendments to better reflect the Mercers report.
3 Misclassification	387	Note 32.,Grants	Disabled facilities grant was included in both credited to services and capital grants. £387k removed from credited to services. This adjustment also impacted on the segmental analysis (Note 28) and the CIES – other housing services (adjustment between income and expenditure)
4 Disclosure	418	Note 12, PPE	Adjustment to both the gross cost and gross depreciation of disposals to reflect supporting working papers.
5 Disclosure		Note 6	Post Balance Sheet Event note included in relation to Brexit
6 Disclosure	N/A	various	Various amendments to correct typographical error and references to notes
7 Misclassification	288	CIES – environmental services	Amendment required between income and expenditure to reflect supporting working papers
8 Disclosure	N/A	Group accounts	Amendment to Group CIES to reflect £127k group charge to culture Various amendments made to note 16 to reflect supporting working papers

## Unadjusted misstatements

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

Detail	Comprehensive Income and Expenditure Statement £'000	Balance Sheet £'000	Reason for not adjusting
1 Whilst reviewing the asset listing the valuer identified three assets that are included within Operational buildings that are not owned by the Council. These assets do however have a charge against the property. Legal services have tried to look into the charges that give rise to the interest but this will take some time to resolve with the land registry.	DR 224	CR 224	It is not material for 2015/16. Further work will be undertaken to ascertain the legal status of these assets/charges and whether these should be long term debtors or whether the charge had a limited life and has now ceased to be chargeable
<b>Overall impact</b>	<b>DR 224</b>	<b>CR 224</b>	

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## Section 2: Value for Money

01. Executive summary

02. Value for Money

03. Audit Findings

04. Fees, non-audit services and independence

05. Communication of audit matters



## Background

We are required by section 21 of the Local Audit and Accountability Act 2014 (the Act) and the NAO Code of Audit Practice (the Code) to satisfy ourselves that the Council has put in place 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. The Act and NAO guidance state that for local government bodies, auditors are required to give a conclusion on whether the Council has put proper arrangements in place.

In carrying out this work, we are required to follow the NAO's Auditor Guidance Note 3 (AGN 03) issued in November 2015. AGN 03 identifies one single criterion for auditors to evaluate:

*In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.*

AGN03 provides examples of proper arrangements against three sub-criteria but specifically states that these are not separate criteria for assessment purposes and that auditors are not required to reach a distinct judgement against each of these.

## Risk assessment

We carried out an initial risk assessment and identified the following significant risks, that we would investigate. We communicated these in our audit progress report which we presented to the Audit, Standards and Governance Committee meeting on the 16<sup>th</sup> June 2016.

We identified risks in respect of specific areas of proper arrangements using the guidance contained in AGN03.

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 carried out further work only in respect of the significant risks we identified from our initial and ongoing risk assessment. Where our consideration of the significant risks determined that arrangements were not operating effectively, we have used the examples of proper arrangements from AGN 03 to explain the gaps in proper arrangements that we have reported in our VFM conclusion. We have also considered progress against the s11 recommendations issues in 2014/15.

## Significant qualitative aspects

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 risks that we identified in the Council's arrangements. Our main considerations were:

- The financial outturn
- Medium Term Financial Strategy and budget setting
- Corporate Plan and monitoring of service performance.

We have also considered progress against the s11 recommendations issues in 2014/15. We have set out more detail on the risks we identified, the results of the work we performed and the conclusions we drew from this work below.

## Findings

### Corporate Plan and performance monitoring

We considered the consistent use of the six strategic purposes and the new corporate dashboard introduced in January 2016 were sufficient to demonstrate that the Council understands and is using performance information to support informed decision making and performance management

### Financial Outturn and MTFS

We found that Council has good arrangements at an officer level to manage the budgets. However our key concerns are around the sufficiency of information reported to Members to support them in making key decision making. As in previous years we have found the in year reporting and the budget setting report unclear and difficult to interpret.

We have therefore concluded that there are weaknesses in the Councils arrangements for:

- reliable and timely financial reporting that supports the delivery of strategic purposes; and
- planning finances effectively to support the sustainable delivery of strategic purposes and maintain statutory functions

Given the issues identified were subject to s11 recommendation in 2014/15 we have also considered whether appropriate governance arrangements are in place. Given the lack of progress around the financial reporting recommendation we have concluded that this is a failure in governance arrangements.

### **Overall conclusion**

Based on the work we performed to address the significant risks, we concluded that:

- except for the matter we identified in respect of the reporting financial reporting, financial planning and governance arrangements the Council had proper arrangements in all significant respects.

We therefore propose to give a qualified 'except for' conclusion on your arrangements for securing economy, efficiency and effectiveness in your use of resources. The text of our proposed report can be found at Appendix B.

### **Recommendations for improvement**

We discussed findings arising from our work with officers and agreed that work is still required to address the s11 recommendations in relation to budget setting and reporting,

Management's response to these can be found in the Action Plan at Appendix A.

## 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 and conclusions																							
<p><b>Financial Outturn</b> We identified during 2014/15 that the outturn position resulted in a large increase in the General fund balances which was not planned when the budget was set. It is not clear from the Council's management processes how this had been achieved.</p> <p>NAO Criteria: Reliable and timely financial reporting that supports the delivery of strategic purposes</p>	<p>The 2015/16 outturn position presented to Cabinet in July 2016 shows an underspend of £331,000 against a revised budget of £13.3 million. However this performance mask's significant movements in the budget during the year making it unclear how this outturn performance has been achieved. The table below sets out the changes to the budget and the forecast spend during the year.</p> <table border="1" data-bbox="758 496 1914 836"> <thead> <tr> <th></th> <th>Approved Budget (Feb 15) £000</th> <th>Q1 Monitoring £000</th> <th>Q2 Monitoring £000</th> <th>Q3 Monitoring £000</th> <th>Outturn £000</th> </tr> </thead> <tbody> <tr> <td>Budgeted Net Service Expenditure</td> <td>11,323</td> <td>14,241</td> <td>14,417</td> <td>14,613</td> <td>13,297</td> </tr> <tr> <td>Forecast Outturn</td> <td>N/A</td> <td>N/A</td> <td>14,349</td> <td>14,371</td> <td>13,383</td> </tr> </tbody> </table> <p>We were able to obtain explanations for these movements. They relate to the treatment of capital charges, utilisation of reserves and additional non budgeted income. However, these movements are not explained in the reporting to Cabinet.</p> <p>We found that Council has good arrangements at an officer level to manage the budgets but the in year reporting to Members is inconsistent and difficult to follow. We have therefore concluded that there are weaknesses in the Council's arrangements to demonstrate it can produce reliable and timely financial reporting that supports the delivery of strategic purposes.</p>							Approved Budget (Feb 15) £000	Q1 Monitoring £000	Q2 Monitoring £000	Q3 Monitoring £000	Outturn £000	Budgeted Net Service Expenditure	11,323	14,241	14,417	14,613	13,297	Forecast Outturn	N/A	N/A	14,349	14,371	13,383
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Forecast Outturn	N/A	N/A	14,349	14,371	13,383																			

Significant risk	Findings and conclusions																															
<p><b>MTFS and budget setting</b> We identified during the 2014/15 audit that the budget preparation processes could be strengthened and should be 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</p> <p>NAO Criteria: Planning finances effectively to support the sustainable delivery of strategic purposes and maintain statutory functions</p>	<p>The Councils MTFS has been updated during the year, in line with the annual planning process. The updates include expected and known changes to government funding arrangements, spending pressures and identified savings plans.</p> <p>The 2016/17 budget presented to Cabinet on 24th February 2016 showed a breakeven position which includes the utilisation £553k of reserves no longer required and further release of reserves of £296k. No further details of the use of reserves and balances are provided in the report. The budget also assumes savings of £401k which on review are largely smaller savings made from restructures, vacancies and other efficiencies. The 2017/18 and 2018/19 budgets show further identified savings and include utilisation of reserves and balances. See table below</p> <table border="1" data-bbox="741 535 1916 1039"> <thead> <tr> <th></th> <th>2016/17 £000</th> <th>2017/18 £1000</th> <th>2018/19 £000</th> </tr> </thead> <tbody> <tr> <td>Budget</td> <td>10,918</td> <td>11,556</td> <td>12,092</td> </tr> <tr> <td>Savings (included in above)</td> <td>-401</td> <td>-395</td> <td>-393</td> </tr> <tr> <td>Release of reserves no longer required (included in above)</td> <td>-553</td> <td>-421</td> <td>-222</td> </tr> <tr> <td>Release of reserves to fund shortfall (included in above)</td> <td>-296</td> <td>-317</td> <td>0</td> </tr> <tr> <td>Proposed use of balances</td> <td>0</td> <td>-500</td> <td>-500</td> </tr> <tr> <td>Shortfall</td> <td>0</td> <td>-626</td> <td>-1,721</td> </tr> </tbody> </table> <p>The Council has a number of options available and is considering further savings plans as part of the production of its Efficiency Plan in October 2016. Given the scale of the challenge the Council faces in 2017/18 and 2018/19 it will need to review the range and nature of non essential services and the level of balances it holds to ensure it can continue to deliver strategic purposes and maintain statutory functions.</p> <p>As in previous years our key concern is around the sufficiency of information reported to Members to support them in making key decision making key decision. The impact of the MTFS (on reserves and balances) is unclear and difficult to interpret and does not enable Members to make decision to support the sustainable delivery of the Councils strategic purposes and maintain statutory functions</p>					2016/17 £000	2017/18 £1000	2018/19 £000	Budget	10,918	11,556	12,092	Savings (included in above)	-401	-395	-393	Release of reserves no longer required (included in above)	-553	-421	-222	Release of reserves to fund shortfall (included in above)	-296	-317	0	Proposed use of balances	0	-500	-500	Shortfall	0	-626	-1,721
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## Key findings

Significant risk	Findings and conclusions
<p><b>Corporate plan and monitoring of service performance</b></p> <p>The corporate plan was last updated in July 2013 and therefore may not address the current strategic purposes of the Council. There is also currently no performance management information routinely reported (other than around customer services which is reported to audit committee). It is not possible to assess the impact of service changes or savings on service quality or priorities as there is no reporting.</p> <p>NAO criteria: Understanding and using appropriate cost and performance information to support informed decision making and performance management</p>	<p>The Corporate Plan was plan last updated in 2013. The six strategic purposes in this document are clearly still in use by the Council. The Corporate Plan has been refreshed and presented to Cabinet on 7<sup>th</sup> September 2016 but the strategic purposes remain the same.</p> <p>Since January 2016 officers within the Council have utilised a corporate dashboard to monitor performance management information. The dashboard contains a range of performance indicators that have been developed by departments to support delivery of strategic purposes. The indicators are a combination of service performance and statutory targets and each indicator has a target owner responsible for providing commentary on performance. Six Members are currently trialling access to the dashboard with the intention of rolling out access to all Members in September 2016. The Overview and Scrutiny Committees will then be able to hold senior officers to account for service performance.</p> <p>There are currently no plans to produce a summary document for consideration by Cabinet or full Council. Whilst internally (officers and members) will have access to the performance information thought should be given to how to express service performance to the wider public and stakeholders.</p> <p>We have concluded that the arrangements in place are sufficient to demonstrate that the Council understands and is using performance information to support informed decision making and performance management.</p>

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## Section 4: Other statutory powers and duties

01. Executive summary

02. Audit findings

03. Value for Money

04. Other statutory powers and duties

05. Fees, non audit services and independence

06. Communication of audit matters

We set out below details of other matters which we, as auditors, are required by the Act and the Code to communicate to those charged with governance. In 2014/15 we issued 4 recommendations under section 11 (3) of the Audit Commission Act 1998 to which we required a formal response. Those responses and our assessment are below

	Recommendation	Follow up
1	<p>The Council should put in place robust arrangements for:</p> <ul style="list-style-type: none"> <li>• the production of the 2015/16 financial statements, which meet statutory requirements and international financial reporting standards.</li> </ul> <p>In order to achieve this the Council should:</p> <ul style="list-style-type: none"> <li>- ensure sufficient resources and specialist skills are available to support the accounts production</li> <li>- introduce appropriate project management skills to the production of the financial Statements.</li> </ul>	<p>We found that the Council had put in place improved arrangements for the production of its financial statements which met the statutory deadlines and international financial reporting standards. The arrangements in place included</p> <ul style="list-style-type: none"> <li>• A detailed project plan subject to review by the DoF</li> <li>• Specific in house training from CIPFA and attendance at a number of external events</li> <li>• Additional experienced external was brought in to support the finance team</li> </ul> <p>Whilst this is a significant achievement given the issue identified in the prior year the Council needs to continue with this progress to ensure it can meet the earlier closedown and audit timetables in 2018.</p>
2	<p>The Council should develop a comprehensive project plan for the preparation of the accounts which ensures that:</p> <ul style="list-style-type: none"> <li>• the financial statements are compiled directly from the ledger</li> <li>• the entries in the accounts are supported by good quality working papers which are available at the start of the audit</li> <li>• the financial statements and working papers have been subject to robust quality assurance prior to approval by the Executive Director (Finance and Resources)</li> <li>• provides additional training, where necessary, to ensure all staff involved in the accounts production process have the necessary skills and information;</li> <li>• the production of the financial statements is monitored through regular reporting to Directors and the Audit Board.</li> </ul>	<p>We found that the Council had developed a detailed project plan that ensured that</p> <ul style="list-style-type: none"> <li>• The financial statements were compiled directly from the ledger</li> <li>• Entries in the financial statements were supported by working papers which were available at the start of the audit.</li> <li>• Queries were dealt with in an efficient and timely way to support the delivery of the audit.</li> </ul> <p>Going forward the Council needs to ensure that new plans are developed to meet the new deadlines in place from 2018 and that the level of external support required is reduced.</p>

We set out below details of other matters which we, as auditors, are required by the Act and the Code to communicate to those charged with governance. In 2014/15 we issued 4 recommendations under section 11 (3) of the Audit Commission Act 1998 to which we required a formal response. Those responses and our assessment are below

	Recommendation	Follow up
3	<p>The Council should put in place robust arrangements to ensure that the 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</p>	<p>The Council has put in place improved arrangements for setting its annual budget. These include</p> <ul style="list-style-type: none"> <li>• Detailed 'bid' forms for every capital and revenue pressure, linked to the strategic purposes</li> <li>• Template forms for savings/additional income to identify where growth could be made</li> <li>• Use of planning information in relation to new homes bonus and council tax</li> <li>• A review of fees and charges.</li> </ul> <p>There are also changes in progress for the 2017/18 budget setting.</p> <p>As in previous years our key concern is around the sufficiency of information reported to Members to support them in making key decision making key decision. The impact of the MTFs is unclear and difficult to interpret and does not enable Members to make decision to support the sustainable delivery of the Councils strategic purposes and maintain statutory functions.</p>
4	<p>The Council should ensure that 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.</p>	<p>We found that Council has good arrangements at an officer level to manage the budgets. However the in year reporting to Members is inconsistent and difficult to follow. We have concluded that there are weaknesses in the Councils arrangements to demonstrate it can produce reliable and timely financial reporting that supports the delivery of strategic purposes.</p>



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## Section 5: Fees, non-audit services and independence

01. Executive summary

02. Audit findings

03. Value for Money

04. Other statutory powers and duties

**05. Fees, non audit services and independence**

06. Communication of audit matters

We confirm below our final fees charged for the audit and confirm there were no fees for the provision of non audit services.

### Fees

	Budget £	Actual £
Council audit	48,680	48,680
Additional fee for 2014/15 audit work *	TBC	9,150
Grant certification	8,760	TBC**
<b>Total audit fees (excluding VAT)</b>	<b>57,440</b>	<b>57,830</b>

### Grant certification

Our fees for grant certification cover only housing benefit subsidy certification, which falls under the remit of Public Sector Audit Appointments Limited.

Fees in respect of other grant work, such as reasonable assurance reports, are shown under 'Fees for other services'.

\*Due to the additional work required on the 2014/15 audit we have submitted a fee variation to PSAA of £9,150.

\*\* Our fees for grant certification cover only housing benefit subsidy certification, which falls under the remit of Public Sector Audit Appointments Limited. The deadline for completion of this work is the end of November 2016

### Fees for other services

Service	Fees £
Audit related services	0
Non-audit services	0

### 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 Auditing Practices Board'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.

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## Section 6: Communication of audit matters

01. Executive summary

02. Audit findings

03. Value for Money

04. Other statutory powers and duties

05. Fees, non audit services and independence

**06. Communication of audit matters**

# Communication to those charged with governance

International Standards on Auditing ISA (UK&I) 260, as well as other 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 Public Sector Audit Appointments Limited (<http://www.psa.co.uk/appointing-auditors/terms-of-appointment/>)

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 at the time of our appointment. 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 NAO (<https://www.nao.org.uk/code-audit-practice/about-code/>). 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		✓
Non compliance with laws and regulations		✓
Expected modifications to auditor's report		✓
Uncorrected misstatements		✓
Significant matters arising in connection with related parties		✓
Significant matters in relation to going concern		✓
Significant 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

# Appendix A: Action plan

## Priority

**High** - Significant effect on control system

**Medium** - Effect on control system

**Low** - Best practice

Rec No.	Recommendation	Priority	Management response	Implementation date & responsibility
1	The Council should continue with the progress it has made in the financial statements production to ensure it can meet the earlier closedown and audit timetables in 2018.	High		
2	The Council should ensure the reporting of the annual budget and MTFS to Members is improved, specifically to include the impact on reserves and balances	High		
3	The Council should ensure improvements are made to the clarity and consistency of the in year reporting of the budget to enable accurate forecasts to be made in-year of the likely year-end outturn and action to be taken, where necessary, to address budget variances.	High		

# Appendix A: Action plan

## Priority

**High** - Significant effect on control system

**Medium** - Effect on control system

**Low** - Best practice

Rec No.	Recommendation	Priority	Management response	Implementation date & responsibility
4	<p><b>Shared Services</b></p> <p>The Council should investigate whether alternative methods of agreeing the re-charges is more efficient, particularly as they look to produce the financial statements in a shorter timescales.</p>	Medium		
5	<p><b>Invoices</b></p> <p>The Council should ensure that invoices are received only within creditor payments to ensure timely inclusion on the ledger. This will reduce time to payment and reduce the need for manual accruals.</p>	Medium		
6	<p><b>Ledger Structure</b></p> <p>The Council should look to simplify its ledger coding structure.</p>	Medium		

# Appendix B: Audit opinion

**We anticipate we will provide the Group with an unmodified opinion on the financial statements and a qualified VFM conclusion**

## **INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF BROMSGROVE DISTRICT COUNCIL**

We have audited the financial statements of Bromsgrove District Council (the "Authority") for the year ended 31 March 2016 under the Local Audit and Accountability Act 2014 (the "Act"). The financial statements comprise the Group and Authority Movement in Reserves Statements, the Group and Authority Comprehensive Income and Expenditure Statements, the Group and Authority Balance Sheets, the Group and Authority Cash Flow Statements, 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 2015/16.

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Act and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the members those matters we are required to state to them in an auditor's report and for no other purpose. 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 Executive Director Finance and Resources and auditor**

As explained more fully in the Statement of the Executive Director Finance and Resources' Responsibilities, the Executive Director Finance and Resources 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 2015/16, which 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 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 and Group's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Executive Director Finance and Resources; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Narrative Report and the Annual Governance Statement 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:

- present a true and fair view of the financial position of the Authority and Group as at 31 March 2016 and of the Authority's and Group's expenditure and income for the year then ended; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16 and applicable law.

### **Opinion on other matters**

In our opinion, the other information published together with the audited financial statements in the Narrative Report and the Annual Governance Statement is consistent with the Group audited financial statements.



**Matters on which we are required to report by exception**

We are required to report to you if:

- in our opinion the Annual Governance Statement does not comply with the guidance included in 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007; or
- we issue a report in the public interest under section 24 of the Act; or
- we make a written recommendation to the Authority under section 24 of the Act; or
- we exercise any other special powers of the auditor under the Act.

We have nothing to report in these respects.

**Conclusion on the Authority's arrangements to secure value for money through economic, efficient and effective use of its resources**

**Respective responsibilities of the Authority and 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 20(1)(c) of the Act to be satisfied that the Authority has made 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 the Authority's arrangements to secure value for money through economic, efficient and effective use of its resources**

We have undertaken our review in accordance with the Code of Audit Practice prepared by the Comptroller and Auditor General as required by the Act (the "Code"), having regard to the guidance on the specified criteria issued by the Comptroller and Auditor General in November 2015, as to whether the Authority had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined these criteria as those necessary for us to consider under the Code in satisfying ourselves whether the Authority put in place proper arrangements to secure value for money through the economic, efficient and effective use of its resources for the year ended 31 March 2016.

We planned our work in accordance with the Code. 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 has put in place proper arrangements to secure value for money through economic, efficient and effective use of its resources.

**Basis for qualified conclusion**

In considering the Authority's arrangements for securing efficiency, economy and effectiveness we identified the following matters:

***Budget Reporting***

The Authority's reporting of performance against its budget throughout the year is unclear, with unexplained movements in the budget between months. Reports to Members during the year do not clearly explain the reasons for variances from budget or enable them to understand the key drivers of the Authority's financial performance.

This matter is evidence of weaknesses in proper arrangements for understanding and using appropriate and reliable financial and performance information to support informed decision making and performance management; and for reliable and timely financial reporting that supports the delivery of strategic priorities.

***Medium Term Financial Strategy (MTFS)***

The Authority updated its MTFS covering the period to 31 March 2019, in line with the annual planning process. However, the MTFS does not provide sufficient detail on the use of the Authority's reserves to enable Members to make informed decisions on the adequacy of its reserves and the sustainability of services.

This matter is evidence of weaknesses in proper arrangements for planning finances effectively to support the sustainable delivery of strategic purposes and maintain statutory functions.

***Governance Arrangements***

We made two written recommendations under section 11 of the Audit Commission Act 1998 in 2014/2015 in respect of the two issues raised above. As identified in the above paragraphs the Authority has not made sufficient progress in addressing our recommendations to improve the arrangements in place. This matter is evidence of weaknesses in proper arrangements for acting in the public interest, through demonstrating and applying the principles and values of sound governance.

**Qualified conclusion**

On the basis of our work, having regard to the guidance on the specified criteria issued by the Comptroller and Auditor General in November 2015, except for the effects of the matters described in the Basis for qualified conclusion paragraphs, we are satisfied that, in all significant respects, the Authority has put in place proper arrangements to secure value for money through economic, efficient and effective use of its resources for the year ended 31 March 2016.

**Certificate**

We certify that we have completed the audit of the accounts of the Authority in accordance with the requirements of the Act and the Code.

Richard Percival  
for and on behalf of Grant Thornton UK LLP, Appointed Auditor

Colmore Plaza  
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XX September 2016



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