

The Audit Findings for Bromsgrove District Council

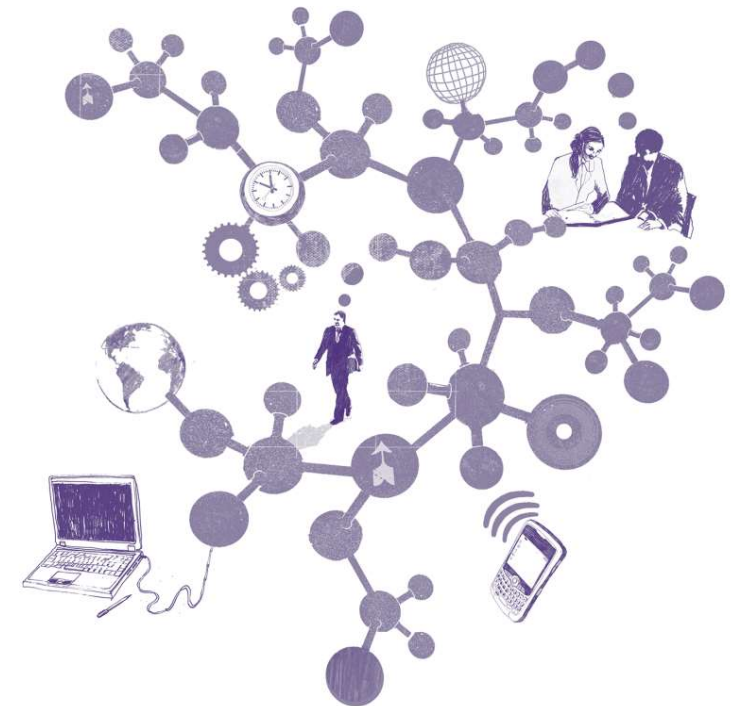
Year ended 31 March 2017

September 2017

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14 September 2017

Dear Members of the Audit, Standards and Governance Committee

Audit Findings for Bromsgrove District Council for the year ending 31 March 2017

This Audit Findings report highlights the key findings arising from the audit that are significant to the responsibility of those charged with governance (in the case of Bromsgrove District Council, the Audit, Standards and Governance Committee), to oversee the financial reporting process, 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 auditor we are responsible for performing the audit, in accordance with International Standards on Auditing (UK & Ireland) ('ISA (UK&I)'), 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 faithfully

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Section 1: Executive summary

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 received a full set of financial statements on 31 May. This meets the earlier statutory deadline of 31 May 2018. The accounts were better prepared than previous years, and were supported by good quality working papers. However, there were more amendments required to the draft accounts than we would expect.

We anticipate giving an unqualified opinion on the financial statements and a qualified Value for Money Conclusion.

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 2017. It is also used to report our audit findings to management and those charged with governance in accordance with the requirements of ISA (UK&I) 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 to consider other information published together with the audited financial statements (including the Annual Governance Statement (AGS) and Narrative Report), whether it is consistent with the financial statements, apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Group acquired in the course of performing our audit; or otherwise misleading.

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 year.

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 have not used any of these powers or duties.

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. We have not received any questions.

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 2017.

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

- review of the final version of the financial statements which includes the Prior Period Adjustment note;
- obtaining and reviewing the management letter of representation; and
- updating our post balance sheet events review, to the date of signing the opinion.

Key audit and financial reporting issues

Financial statements opinion

We have identified four adjustments affecting the group and Council's reported financial position (details are recorded in section two of this report). The draft financial statements for the year ended 31 March 2017 recorded net expenditure on cost of services for the group of £13.442m; the audited financial statements show net expenditure on cost of services of £13.329m. This change is primarily driven by changes made to non current assets and the impact on the Cost of Services. We have also recommended a number of adjustments to improve the presentation of the financial statements.

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

- There was an improvement in both the timeliness and quality of the draft financial statements compared to previous years, but further improvements in timeliness and a reduction in the number of issues identified are needed to meet the statutory deadline of 31 July from 2018.
- In preparation for the earlier deadline the Council needs to consider available resources within the finance team as the Chief Accountant will not be present for the 2017/18 financial year end, the Council is heavily reliant on a contractor, and while a permanent replacement for the Financial Services Manager has recently appointed, the person has yet to start working for the Council.
- The financial statements were well supported by working papers and responses to audit queries were generally prompt and efficient. This is an improvement on previous years. However, further improvement is still required to meet the early deadline in 2018 as there were delays in responding to a number of our questions.
- One asset was identified which was not in the ownership of the Council. This related to a 30% holding in a property. All other 30% holdings have been agreed to title deeds to ensure this error identified was isolated.

- The new revenues and benefits system was not recognised as an intangible asset and was omitted from the Balance Sheet. This had the effect of increasing both Intangible Assets and Cost of Services by £277k.
- Officers have enhanced the disclosure in relation to the CIPFA “Telling the Story” project. However, the revised disclosures are not fully compliant with the CIPFA Code.
- Officers did not provide the Pension Fund administrator with the required returns in order for them to prepare the pension fund figures for the actuary. The Pension Fund administrators therefore had to estimate what the figures would be. Officers have subsequently checked that the estimated figures are reasonable.
- The Housing Subsidy claim submitted to DwP is overstated by £92,905. This means that the income recognised in the accounts and the amount owed by DwP to the Council are overstated by the same amount.

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

We anticipate providing a unqualified audit opinion in respect of the financial statements (see Appendix B).

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. This includes if the Annual Governance Statement (AGS) and Narrative Report is misleading or inconsistent with the information of which we are aware from our audit.

Based on our review of the Council's Narrative Report and AGS we are satisfied that they are consistent with the audited financial statements. We are also satisfied that, after enhancements, the AGS meets the requirements set out in the CIPFA/SOLACE guidance and that the disclosures included in the Narrative Report are in line with the requirements of the CIPFA Code of Practice.

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:

- Journal authorisation;
- Asset valuation reports;
- IT access controls.

Further details are provided within section two of this report.

Value for Money

Our review of the Council's arrangements to secure economy, efficiency and effectiveness has highlighted the following issues which will give rise to a qualified VFM conclusion. There are weaknesses in:

- in year financial reporting; and
- Medium term financial sustainability.

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

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 2017. We will report the outcome of this certification work through a separate report to the Audit, Standards and Governance Committee which is due in January 2018.

The way forward

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 made a number of recommendations, which are set out in the action plan at Appendix A. Recommendations have been discussed and agreed with the 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 2017

Section 2: Audit findings

01. Executive summary

02. Audit findings

03. Value for Money

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05. Fees, non audit services and independence

06. Communication of audit matters

While the timeliness of the accounts production has improved, there were more errors in, and changes required to, the accounts than we would expect, especially for a council of this size. This means that more audit and officer time is required to address the errors, and undertake more testing where required. Improvements to the accuracy of the draft financial statements is required to meet the earlier audit completion deadline in 2018.

Materiality

In performing our audit, we apply the concept of materiality, following the requirements of ISA (UK&I) 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 £839,000 (being 2% of gross revenue expenditure in the previous year). We have considered whether this level remained appropriate during the course of the audit and have made no changes to our overall materiality.

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 because we would not expect that the accumulated effect of such amounts would have a material impact on the financial statements. We have defined the amount below which misstatements would be clearly trivial to be £41,000. This remains the same as reported in our audit plan.

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	Materiality level
Related party transactions	Due to the public interest in these disclosures. Individual misstatements will also be evaluated with reference to how material they are to the other party.	£20,000 but individual issues will be evaluated with reference to the other party as well.
Disclosures of officers' remuneration, salary bandings and exit packages in the notes to the financial statements	Due to public interest in these disclosures and the statutory requirement for them to be made.	£20,000

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; Judgments about materiality are made in light of surrounding circumstances, and are affected by the size or nature of a misstatement, or a combination of both; and Judgments about matters that are material to users of the financial statements are based on a consideration of the common financial information needs of users as a group. The possible effect of misstatements on specific individual users, whose needs may vary widely, is not considered. (ISA (UK&I) 320)

Audit findings against significant risks

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
<p>The revenue cycle includes fraudulent transactions</p> <p>Under ISA (UK&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"> • there is little incentive to manipulate revenue recognition; • opportunities to manipulate revenue recognition are very limited; and • the culture and ethical frameworks of local authorities, including Bromsgrove District Council, mean that all forms of fraud are seen as unacceptable. 	<p>Our audit work has not identified any issues in respect of revenue recognition.</p>
<p>Management over-ride of controls</p> <p>Under ISA (UK&I) 240 it is presumed that the risk of management over-ride of controls is present in all entities.</p>	<p>We have:</p> <ul style="list-style-type: none"> • reviewed the accounting estimates, judgments and decisions made by management. • reviewed the journal entry process. • selected unusual journal entries for testing back to supporting documentation. • reviewed any unusual significant transactions. 	<p>Our audit work has not identified any evidence of management over-ride of controls. In particular the findings of our review of journal controls and testing of journal controls and testing of journal entries has not identified any significant issues.</p> <p>However, our testing identified a weakness in the journal authorisation controls. There are no controls within the system to prevent unauthorised personnel approving journals.</p> <p>We set out later in this section of the report our work and findings on key accounting estimates and judgements.</p>

"Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, due to either 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 making the review of unusual significant transactions "the auditor shall treat identified significant related party transactions outside the entity's normal course of business as giving rise to significant risks." (ISA (UK&I) 550)

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
<p>CIES Disclosure Reconfiguration ('Telling the story') CIPFA has been working on the 'Telling the Story' project, for which the aim was to streamline the financial statements and improve accessibility to the user and this has resulted in changes to the 2016/17 Code of Practice.</p> <p>The changes affect the presentation of income and expenditure in the financial statements and associated disclosure notes. A prior period adjustment (PPA) to restate the 2015/16 comparative figures is also required.</p>	<p>We have:</p> <ul style="list-style-type: none"> documented and evaluated the process for the recording of the required financial reporting changes to the 2016/17 financial statements. reviewed the re-classification of the Comprehensive Income and Expenditure Statement (CIES) comparatives to ensure that they are in line with the Authority's internal reporting structure. reviewed the appropriateness of the revised grouping of entries within the Movement In Reserves Statement (MIRS). tested the classification of income and expenditure for 2016/17 recorded within the Cost of Services section of the CIES. tested the completeness of income and expenditure by reviewing the reconciliation of the CIES to the general ledger. tested the classification of income and expenditure reported within the new Expenditure and Funding Analysis (EFA) note to the financial statements. reviewed the new segmental reporting disclosures within the 2016/17 financial statements to ensure compliance with the CIPFA Code of Practice. 	<p>During the audit officers agreed to make some changes to the notes and disclosures in this area, in particular the inclusion of a Prior Period Adjustment note.</p> <p>While we are satisfied that the changes improve compliance with the Code requirements the disclosures still do not fully meet the requirements</p>
<p>Implementation of new revenues system (covering Housing Benefits, Council Tax and Business Rates) The Council has introduced a new revenues system in November 2016 (Civica Open revenues). This includes Housing Benefits, Council tax and Business rates modules.</p> <p>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.</p>	<p>We have:</p> <ul style="list-style-type: none"> confirmed that balances have been transferred completely and accurately to the new system. reviewed the project plan for the system implementation. reviewed control accounts for the relevant accounts affected by the system change. completed tests of data transfer. 	<p>We have completed our work as planned and have not identified any issues with the implementation of the new revenues system.</p> <p>However, we identified that the new system was not added to the Asset Register. Intangible Assets within the draft Balance Sheet were understated by £277k. This has been amended in the final version of the accounts.</p>

Audit findings against significant risks (continued)

Risks identified in our audit plan	Work completed	Assurance gained and issues arising
<p>Valuation of pension fund net liability The Council's pension fund asset and liability as reflected in its balance sheet represent a significant estimate in the financial statements.</p>	<p>We have:</p> <ul style="list-style-type: none"> • identified the controls put in place by management to ensure that the pension fund liability is not materially misstated. • assessed whether these controls were implemented as expected and whether they are sufficient to mitigate the risk of material misstatement. • reviewed the competence, expertise and objectivity of the actuary who carried out your pension fund valuation. • gained an understanding of the basis on which the valuation is carried out. • undertaken procedures to confirm the reasonableness of the actuarial assumptions made. • reviewed the consistency of the pension fund asset and liability and disclosures in notes to the financial statements with the actuarial report from your actuary. • obtained assurance from the external auditor of the Worcestershire County Council Pension Fund (WCCPF) regarding the relevant controls and processes in place at the WMPF in order that we can rely on the outputs from the WCCPF. 	<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>Whilst audit work has not identified any issues which indicate the pension net liability is materially misstated, we have identified an internal control weakness which has been included in section two of this report.</p> <p>The Council has not been completing its PCF1 returns to the administering authority (Worcestershire County Council). These are monthly payroll returns which include pension costs. This meant that the administering authority has had to estimate the year end position and required Bromsgrove's Finance Team carrying out additional work to assess the accuracy of this.</p>

Audit findings against other risks

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

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
Employee remuneration	<p>Payroll expenditure represents a significant percentage of the Council's gross expenditure.</p> <p>We identified the completeness of payroll expenditure in the financial statements as a risk requiring particular audit attention:</p> <ul style="list-style-type: none"> Employee remuneration accruals understated (Remuneration expenses not correct). 	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> walkthrough of your controls in place over payroll expenditure. reviewed the year-end reconciliation of your payroll system to the general ledger. trend analysis of the monthly payroll runs for the year. employee deductions testing for the year. 	<p>Our audit work has not identified any issues in respect of employee remuneration.</p>
Operating expenses	<p>Non-pay expenditure represents a significant percentage of the Council's gross expenditure. Management uses judgement to estimate accruals of un-invoiced non-pay costs.</p> <p>We identified the completeness of non- pay expenditure in the financial statements as a risk requiring particular audit attention:</p> <ul style="list-style-type: none"> Creditors understated or not recorded in the correct period (Operating expenses understated). 	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> walkthrough of your controls in place over operating expenditure. reviewed the completeness of subsidiary interfaces and control account reconciliations. obtained an understanding of the accruals process and tested a sample of accruals (and other creditors balances). cut off testing of a sample of payments after the year end. 	<p>Our audit work has not identified any issues in respect of operating expenses.</p>

"In respect of some risks, the auditor may judge that it is not possible or practicable to obtain sufficient appropriate audit evidence only from substantive procedures. Such risks may relate to the inaccurate or incomplete recording of routine and significant classes of transactions or account balances, the characteristics of which often permit highly automated processing with little or no manual intervention. In such cases, the entity's controls over such risks are relevant to the audit and the auditor shall obtain an understanding of them." (ISA (UK&I) 315)

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 Trust (Artrix)	Yes	Targeted	Valuation of Artrix building	Bromsgrove Arts Development Trust (Artrix)	Our audit work has not identified any issues in respect of the valuation of the Artrix building. However, an adjustment of £113k was required within the income and expenditure account to reflect the revaluation which is detailed on page 22.

A targeted response is defined as follows –


The group audit team has identified one or more potential risks of material misstatement and has determined that the 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 either an accounting balance, class of transactions or disclosures.

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>Revenue recognition</p>	<p>Revenue from the sale of goods is recognised when the Authority 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 flow to the Authority.</p> <p>Revenue from the provision of services is recognised when the Authority 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 Authority.</p> <p>Interest receivable on investments and payable on borrowings is 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.</p> <p>Where revenue and expenditure have 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 debts may not be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.</p> <p>Accruals will be made for items of income and expenditure in excess of £500, lower amounts will only be actioned at the request at the request of the relevant budget holder.</p>	<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 2016/17. • 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>



Assessment

● (Red) Marginal accounting policy which could potentially attract attention from regulators



● (Amber) Accounting policy appropriate but scope for improved disclosure

● (Green) Accounting policy appropriate and disclosures sufficient

Accounting policies, estimates and judgements (continued)

Accounting area	Summary of policy	Comments	Assessment
<p>Judgements and estimates</p>	<p>Key estimates and judgements include:</p> <ul style="list-style-type: none"> – Valuation of Property, Plant and Equipment – Provision for NNDR appeals 	<p>Valuation of property, plant and equipment</p> <p>The Council revalues its assets on a rolling basis over a three year period. We have undertaken the following:</p> <ul style="list-style-type: none"> • reviewed management's processes and assumptions for the calculation of the estimate; • reviewed the competence, expertise and objectivity of the valuation expert, the instructions issued to them and the scope of their work; and • tested the revaluations made during the year to ensure they are input correctly into the Council's asset register and financial statements. <p>The final valuations were not received from the valuer until the 27 July. This is too late for any changes to be incorporated into the financial statements. For 2018 the valuations will need to be received much earlier to allow the financial statements to be produced by the end of May.</p> <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 satisfied that this is the case. However, we asked officers to enhance the disclosures on asset valuations to show the year when different asset categories were last revalued. This is a CIPFA Code requirement.</p> <p>Business Rates Appeal Provision</p> <p>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.</p>	<p style="text-align: center;">  (Amber) </p> <p style="text-align: center;">  (Green) </p>

Accounting policies, estimates and judgements (continued)

Accounting area	Summary of policy	Comments	Assessment
Going concern	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 assessment and are satisfied with management's assessment that the going concern basis is appropriate for the 2016/17 financial statements.	 (Green)
Other accounting policies	Various	<p>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.</p> <p>Some amendments to accounting policies have been identified. These are summarised in the misclassification and disclosure changes section of the report.</p>	 (Amber)

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.	Matters in relation to fraud	We have previously discussed the risk of fraud with the Audit, Standards & 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.
2.	Matters in relation to related parties	From the work we carried out, we have not identified any related party transactions which have not been disclosed.
3.	Matters in relation to laws and regulations	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.
4.	Written representations	A standard letter of representation has been requested from the Council, including specific representations in respect of the Group which is included in the Audit, Standards & Governance Committee papers.
5.	Confirmation requests from third parties	We requested from management permission to send confirmation requests to banks and councils with whom the Council had investments or borrowing. This permission was granted and the requests were sent. All of these requests were returned with positive confirmation.
6.	Disclosures	We identified changes to a number of other disclosures in the financial statements which the Council has agreed to amend.
7.	Matters on which we report by exception	We have not identified any issues that we are required to report by exception in our audit opinion. We agreed a number amendments to improve the clarity of the disclosure within the Annual Governance Statement and Narrative Report.
8.	Specified procedures for Whole of Government Accounts	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. Work is not required as the Council does not exceed the threshold.

Internal controls

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 13 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.	 (Amber)	<p>IT systems review Grant Thornton IT specialists have carried out a review of IT controls. It was identified that there are an inappropriate number of staff with administrator rights within Active Directory.</p> <p>The number of staff with administrator rights within the Active Directory is not limited. There are 26 staff members with Administrator rights and 78 people are Domain Admins, which is excessive.</p> <p>This poses the risk that internal access to information assets and administrative functionality may not be restricted on the basis of legitimate business need. The excessive numbers heighten the risk concerned and hence the priority of this recommendation.</p>	<p>A review of the staff assigned administrator rights should be performed on a periodic basis to ensure that administrator level access is given on a needs only basis. Least privilege should be the guiding principle when granting all system access.</p> <p>The Agresso accounts should be removed as the system has been replaced this year.</p> <p><u>Management Response:</u> A review of administrator rights within active directory has been implemented. Date due for completion 21 July 2017</p> <p>Agresso is switched off and only accessed by a formal request from Finance.</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 (Red) – risk of significant misstatement
 Deficiency (Amber) – risk of inconsequential misstatement

"The purpose of an audit is for the auditor to express an opinion on the financial statements. Our audit included consideration of internal control 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. The matters being reported are limited to those deficiencies that the auditor has identified during the audit and that the auditor has concluded are of sufficient importance to merit being reported to those charged with governance." (ISA (UK&I) 265)

Internal controls (continued)

	Assessment	Issue and risk	Recommendations
2.	 (Red)	<p>Pension fund returns The Council has not been completing monthly pension returns to Worcestershire County Council. This meant that the year end figures provided to the actuary had to be estimated by County Council officers.</p> <p>There is a risk that the figures generated by the actuary could be inaccurate, leading to inaccurate disclosures in the accounts.</p>	<p>The Council should ensure that all necessary returns are made to the County Council on a timely basis.</p> <p><u>Management Response:</u> Agreed. Awaiting a fix from Frontier (software supplier) but will find a manual way of calculating if this is not available by the 30th September 2017.</p>
3.	 (Amber)	<p>Journal authorisation There are no controls within the system to prevent unauthorised personnel approving journals.</p> <p>There is a risk that journals are processed inappropriately and potentially could be fraudulently.</p>	<p>Parameters within the ledger should be reviewed to ensure that only those individuals set up to authorize journals can complete that process.</p> <p><u>Management Response:</u> Agreed. Preference is to remove the ability to create and post a journal but need to speak to the software producer (ABS).</p>
4.	 (Red)	<p>Asset Valuation reports The Council did not receive the final asset valuation report from Place Partnership until 27th July 2017. The values within the financial statements are based on draft reports.</p> <p>There is a risk that final valuations are not in accordance with instructions issued to the valuer which could result in amendments to asset values within the financial statements. For 2018 the draft accounts will need to be produced by 31 May.</p>	<p>The Council should ensure that final version of valuation reports are received promptly from Place Partnership and that these are the basis for asset valuation adjustments within the financial statements.</p> <p><u>Management Response:</u> Agreed. We will also look to change the valuation date to the 31st December to avoid delay and speed up closure.</p>

Internal controls – review of issues raised in prior year

	Assessment	Issue and risk previously communicated	Management update on actions taken to address the issue
1.	✓	<p>Shared Services Invoices 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>Recommendation 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>	<p>The process has been simplified as much as possible in terms of invoices now being raised centrally each quarter based on budget and then an actual adjustment is done at the year end which balances out the amount charged in year with the amount that should have been charged based on actuals.</p> <p>A review is being carried out about the charging structure for shared services but this is not related to the invoice process.</p>
2.	✓	<p>Time taken to receipt invoices Our 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>Recommendation 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>	<p>The payments team have currently been going through a transformation process to look at the way the service is delivered. This involves all invoices being received centrally by payments and that all invoices should have an order before processing.</p> <p>We have also been reviewing the way users of the ordering system use it and the information available to them to try and make it easier to use.</p>
3.	✓	<p>Ledger Structure 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>Recommendation The Council should look to simplify its ledger coding structure.</p>	<p>A review of the coding structure has been completed and expenditure codes have been reduced with a view that income codes will be reviewed within in the coming year.</p> <p>We are also reviewing the ledger structure to have a standard structure across both councils to make it easier for users of the system especially on the new budget monitoring system that we are implementing.</p> <p>A new approach has been taken with respect of getting the information for journal testing for 2016/17 and this has been more efficient than in previous years.</p>

Assessment

- ✓ Action completed
- ✗ Work is on going

Adjusted misstatements

A number of adjustments to the draft accounts 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 accounts 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 in detail below along with the impact on the key statements and the reported net expenditure for the year.

Detail	CIES £'000	Balance Sheet £'000	Impact on total net expenditure £000
<p>1 30% property charge</p> <p>As part of the agreement of title deeds we identified that for one item tested, where the Council owns a 30% charge of a dwelling, that this charge had been released in 2003 and as such should not be included within the assets of the Council. A Full review of all 30% holdings has been carried out and we are satisfied that this is the only adjustment required.</p>			
Other land and buildings		(52)	
CIES – PPE disposals	52		52
<p>2 The draft financial statements showed the Group Balance Sheet movement as £7.170m compared to the CIES movement of £7.057m, a difference of £113k. This difference has arisen as the group asset (Artrix centre) had a downward revaluation of £113k in the year which was reflected correctly in the Group Balance Sheet but the corresponding entries were omitted from the Group CIES, hence causing the imbalance.</p>			
CIES Cost of Service (Provide good things for me to do and visit)	20		20
Associates & Joint Ventures Accounted for on an equity basis	(6)		(6)
Surplus or Deficit on revaluation of PPE	99		99
Overall impact (c/f)	£165	(£52)	£165

Adjusted misstatements (continued)

Detail	Comprehensive Income and Expenditure Statement £'000	Balance Sheet £'000	Impact on total net expenditure £000
Overall impact (b/f)	£165	(£52)	£165
3 The Council implemented a new revenues and benefits system in year, but did not add this to the Intangible Asset register. As this was initially financed through revenue the impact is to also increase Net Cost of Services.			
Intangible Assets		277	
Expenditure on Net Cost of Services	(277)		(277)
4 The Housing Subsidy claim submitted to DwP is overstated by £92,905. This means that the income recognised in the accounts and the amount owed by DwP to the Council are overstated by the same amount.			
DwP debtor		(92)	
Income on Net Cost of Services	92		92
Overall impact	(£20)	£133	(£20)

Unadjusted misstatements

We have not identified any adjustments during the audit which have not been made within the final set of financial statements.

Impact of uncorrected misstatements in the prior year

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	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.
Overall impact	Dr £224	Cr £224	

As set out on page 22, this issue occurred again in 2016/17 with one property where the Council no longer had 30% ownership still being included in the accounts. All such properties have now been checked, and no other errors were identified.

Misclassifications and disclosure changes

We set out below details of other disclosure amendments made to the draft financial statements

	Reference	Commentary
1.	Narrative Report	A number of amendments were made to bring the Narrative Report up to date.
2.	Telling the Story	Enhanced disclosures have been made regarding the 2016/17 Code changes and in particular the addition of a Prior Period Adjustment note. However, the amended disclosures are still not fully compliant with the CIPFA Code.
3.	Note 14 Property, Plant and Equipment	A table stating the dates of valuation of properties within Plant, Property and Equipment has been added.
4.	Note 18 Financial Instruments	Amendments have been made to debtors and creditors disclosures to reflect the removal of statutory debts which are not classed as "Financial Instruments".

Misclassifications and disclosure changes (continued)

	Reference	Commentary
5.	Related parties	The draft related party note states that the Council discloses 'material' transactions. The Council has now amended this to state that they have considered the value of the transaction from both the Council's and related party perspective.
6.	Throughout financial statements	There were a number of typographical errors and formatting throughout the accounts which needed to be amended.
7.	Accounting policies	Our review of disclosures found the following required amendment: <ul style="list-style-type: none"> • Xvii) Materiality note has been amended • Xviii) overheads and support services refer to SEROP which is no longer applicable. This note has been updated • An accounting policy has been added for Assets Held for Sale • Note 1 – general principles state that the accounts are prepared under SERCOP which is no longer applicable.
8.	Note 2 – Accounting Standards That Have Been Issued but Have Not Yet Been Adopted	This note has been extended to refer to the specific standards.
9.	Note 4 - Assumptions	The references to 'bad debts' have been amended to 'impairment'.

Section 3: Value for Money

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 intend to issue a qualified Value for Money Conclusion. The Council has made some progress in the areas we identified as risks. Some risks have been addressed completely, for example, the reporting of the impact on reserves. Others are work in progress, for example, in-year financial reporting and savings tracking. Some areas however have made little tangible progress, for example, some of the schemes to address the long term financial challenge.

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 2016. AGN 03 identifies one single criterion for auditors to evaluate:

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

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 in and identified a number of significant risks in respect of specific areas of proper arrangements using the guidance contained in AGN03. We communicated these risks to you in our Audit Plan dated March 2017.

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.

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. In arriving at our conclusion, our main considerations were:

- In year financial reporting - We have previously identified that improvement is needed in reliable and timely financial reporting that supports the delivery of strategic purposes.
- Financial sustainability - We have previously identified that improvement is needed to planning finances effectively to support the sustainable delivery of strategic purposes and maintain statutory functions in the medium term.

We have also considered the further progress against the statutory recommendations we issued 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 on pages 31 to 33.

Overall conclusion

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

- except for the matters we identified in respect of in year financial reporting and financial sustainability, 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 management and have agreed recommendation for improvement as follows:

- All savings plans are appropriately supported by a business case, all aspects of the savings are identified, it is clear when the planned savings will be delivered and what needs to happen to realise the savings.
- Further improvements to the overall reporting of savings is needed, including a clear picture of planned savings to be delivered, progress to date, risk to full achievement and mitigating actions.
- Progress against the action plans supporting the delivery of the Council Plan needs to be monitored and reported on a quarterly basis to Cabinet.
- Priority is given by Cabinet to ensuring that the management restructure is progressed on a timely basis.
- The performance dashboard needs to be reported to Members and Officers on a regular basis.

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	Work to address	Findings and conclusions
<p>In year reporting to Members We have previously identified that improvement is needed in reliable and timely financial reporting that supports the delivery of strategic purposes. We have identified the following risks for in year reporting to Members.</p> <ul style="list-style-type: none"> • Is the current and forecast financial position clearly identified? • Is the delivery of savings to date and the risks to their achievement reported? • Are changes from the start point budget tracked through, and is the impact on balances and reserves clear? • Are budget variances identified and the reasons for the variance and mitigating actions explained in sufficient detail? 	<p>We have:</p> <ul style="list-style-type: none"> • reviewed the financial monitoring reports to determine whether any changes to the original budget are adequately explained to Members; • reviewed reporting to Members to determine whether the impact on reserves and balances is clear; • reviewed how the Council is monitoring the delivery of the Council Plan; and • monitored how the Council is implementing the "Cabinet Response to the Overview & Scrutiny Board Finance & Budget Working Group". 	<p>We concluded that there were continuing weaknesses in the Council's arrangements for Informed decision making – “Reliable and timely financial reporting that supports the delivery of strategic priorities”.</p> <p>Our 2014/15 statutory recommendations included the following: “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 have noted some improvements to reconciling budgets per monitoring reports to the originally agreed budget, but the supporting explanations need to be clearer. Reporting of savings has improved, but is still weak – it does not provide a clear picture of planned savings to be delivered, progress to date, risk to full achievement and mitigating actions. There is no RAG rating or similar.</p> <p>The updated MTFP is much clearer on the impact of proposals on General Fund balances.</p> <p>The revised Council Plan was agreed in 2016/17, but the action plans supporting this will not be in place until 2017/18. Officers have advised us that action plans have been developed and are now being agreed with Members. Delivery against these will then be monitored. We have not seen any evidence of this process and the arrangements were not embedded in 2016/17.</p> <p>We note that, with the exception of the management structure review, all other action plan recommendations were agreed for implementation by 1 April 2017.</p> <p>Overall, although we have seen progress since we issued our statutory recommendation, this is not yet sufficient to address the issues identified.</p>

Key findings

Significant risk	Work to address	Findings and conclusions
<p>Financial sustainability We have previously identified that improvement is needed to planning finances effectively to support the sustainable delivery of strategic purposes and maintain statutory functions. We have identified the following risks.</p> <ul style="list-style-type: none"> • How robust is the MTFP and how well developed are savings plans? • How is the performance dashboard for Members being implemented? 	<p>We have:</p> <ul style="list-style-type: none"> • reviewed how the Council is monitoring delivery of the Efficiency Plan; • examined how robust the MTFP is by testing a sample of individual schemes to determine whether they are worked through appropriately and realistic; • considered progress on the review of the management structure; and • reviewed how the performance dashboard for Members is being implemented. 	<p>We concluded that there were weaknesses in the Council's arrangements for sustainable resource deployment – “Planning finances effectively to support the sustainable delivery of strategic priorities and maintain statutory functions”, and Informed decision making – “Understanding and using appropriate cost and performance information (including, where relevant, information from regulatory/monitoring bodies) to support informed decision making and performance management”.</p> <p>We noted that the Overview & Scrutiny Finance and Budget Working Group reports and minutes refer to Members concerns that savings and income generation is not being achieved in line with the Efficiency Plan. They do not give any indication of how far adrift from plan the Council is or what action is being taken to bring it back into line. On the basis of the evidence provided we have to conclude that the monitoring of Efficiency Plan delivery is weak.</p> <p>We examined the business cases, decision making process and delivery of some of the major schemes in the MTFP.</p> <ul style="list-style-type: none"> • The £528,000 Leisure Centre savings is adequately supported by a business case, and good progress has been made in delivering this. The new leisure centre is due to open in October 2017, and savings are projected to exceed the original plan. • The £120,000 Revenues and Benefits savings has a business case in place, but this does not clearly support all aspects of the savings identified. It is not clear when the planned savings will be delivered. We understand that since our review the savings target has been revised to £90,000 and are being delivered. • The £275,000 Alternative Delivery Model savings is not supported by clear and detailed delivery plans. The £130,000 delivery for 2017/18 is at risk and there is nothing in place to address this. <p>The MTFP should only include savings which have been agreed by Members and these plans should have a robust business case to support them. One of the existing Member led groups would be well placed to agree business plans before they are included in the MTFP.</p>

Key findings

Significant risk	Work to address	Findings and conclusions
<p>Financial sustainability We have previously identified that improvement is needed to planning finances effectively to support the sustainable delivery of strategic purposes and maintain statutory functions. We have identified the following risks.</p> <ul style="list-style-type: none"> • How robust is the MTFP and how well developed are savings plans? • How is the performance dashboard for Members being implemented? 	<p>We have:</p> <ul style="list-style-type: none"> • reviewed how the Council is monitoring delivery of the Efficiency Plan; • examined how robust the MTFP is by testing a sample of individual schemes to determine whether they are worked through appropriately and realistic; • considered progress on the review of the management structure; and • reviewed how the performance dashboard for Members is being implemented. 	<p>Implementation of the management structure review has been slow. This puts at risk the delivery of the savings of £81,000 due to be delivered in 2018/19.</p> <p>Although Members now have better access to information, this is limited to numeric measures and does not include, the impact on people or services. More work needs to be completed on this.</p>

Section 4: Other statutory powers and duties

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04. Other statutory powers and duties

05. Fees, non audit services and independence

06. Communication of audit matters

We have not used any statutory powers in 2016/17. While progress has been made to address the recommendations we made in 2014/15, in some areas there is still work to do.

Other statutory powers and duties

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.

	Issue	Commentary
1.	Public interest report	<ul style="list-style-type: none">We have not identified any matters that would require a public interest report to be issued.
2.	Written recommendations	<ul style="list-style-type: none">We have not made any written recommendations that the Group is required to respond to publicly. We have provided an update on progress in addressing the 2014/15 statutory recommendations on pages 36 and 37.
3.	Application to the court for a declaration that an item of account is contrary to law	<ul style="list-style-type: none">We have not used this duty.
4.	Issue of an advisory notice	<ul style="list-style-type: none">We have not used this duty.
5.	Application for judicial review	<ul style="list-style-type: none">We have not used this duty.

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 four recommendations under section 11 (3) of the Audit Commission Act 1998 (this Act has now been superseded) to which we required a formal response. We have provided an update below.

	Recommendation	Progress update
1.	<p>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.</p> <p>In order to achieve this the Council should:</p> <ul style="list-style-type: none"> - 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. 	<p>In 2016/17 we have seen a significant improvement in the timeliness of the production of the financial statements. We received the financial statements on 31 May. However, we comment on page 6 “There was an improvement in both the timeliness and quality of the draft financial statements compared to previous years, but further improvements in timeliness and a reduction in the number of issues identified are needed to meet the statutory deadline of 31 July from 2018.”</p> <p>We further comment on page 6 “In preparation for the earlier deadline the Council needs to consider available resources within the finance team as the Chief Accountant will not be present for the 2017/18 financial year end, the Council is heavily reliant on a contractor, and while a permanent replacement for the Financial Services Manager has recently appointed, the person has yet to start working for the Council.”</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"> • the financial statements are compiled directly from the ledger • the entries in the accounts are supported by good quality working papers 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 (Finance and Resources) • provides additional training, where necessary, to ensure all staff involved in the accounts production process have the necessary skills and information; • the production of the financial statements is monitored through regular reporting to Directors and the Audit Board. 	<p>See comments above.</p>

	Recommendation	Progress update
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>We comment on page 31 “The updated MTFP is much clearer on the impact of proposals on General Fund balances.</p> <p>The revised Council Plan was agreed in 2016/17, but the action plans supporting this will not be in place until 2017/18. Officers have advised us that action plans have been developed and are now being agreed with Members. Delivery against these will then be monitored. We have not seen any evidence of this process and the arrangements were not embedded in 2016/17.</p> <p>We note that, with the exception of the management structure review, all other action plan recommendations were agreed for implementation by 1 April 2017.</p> <p>Overall, although we have seen progress since we issued our statutory recommendation, this is not yet sufficient to address the issues identified.”</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 comment on page 31 “We have noted some improvements to reconciling budgets per monitoring reports to the originally agreed budget, but the supporting explanations need to be clearer. Reporting of savings has improved, but is still weak – it does not provide a clear picture of planned savings to be delivered, progress to date, risk to full achievement and mitigating actions. There is no RAG rating or similar.”</p>

Section 5: Fees, non-audit services and independence

01. Executive summary

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04. Other statutory powers and duties

05. Fees, non audit services and independence

06. Communication of audit matters

We have yet to finalise our audit fee.

We have no independence issues to report.

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

Fees

	Proposed fee £	Final fee £
Council audit	48,680	TBC
Grant certification	7,545	TBC
Total audit fees (excluding VAT)	56,225	TBC

The final fees for the year have yet to be confirmed pending discussions with officers and agreement by Public Sector Audit Appointments Ltd (PSAA).

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'.

Independence and ethics

- Ethical Standards and ISA (UK&I) 260 require us to give you timely disclosure of matters relating to our independence.
- 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 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.
- For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the group. The table below summarises all non-audit services which were identified.

Fees for other services

Service	Fees £
Audit related services:	
• None	Nil
Non-audit services:	
CFO insights (to be confirmed)	7,500 (estimated)

Independence and non-audit services

We have considered whether non-audit services might be perceived as a threat to our independence as the group's auditor and have ensured that appropriate safeguards are put in place.

	Service provided to	Fees (£)	Threat?	Safeguard
CFO insights – a data analytics tool through subscription (to be confirmed).	Bromsgrove District Council	7,500 (Estimated)	None	This fee is for one year only, and does not involve any members of the audit team.
	TOTAL	£7,500		

Section 6: Communication of audit matters

01. Executive summary

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06. Communication of audit matters

Audit matters have been communicated appropriately.

Communication to those charged with governance

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.

This document, The Audit Findings, outlines those key issues and other matters arising from the audit, which we consider should be communicated in writing rather than orally, 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, or emphasis of matter		✓
Unadjusted misstatements and material disclosure omissions		✓
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

A. Action Plan

B. Audit Opinion

A. Action plan

Financial Statements

Rec no.	Recommendation	Priority	Management response	Implementation date and responsibility
1.	<p>IT Systems review</p> <p>A review of the staff assigned administrator rights should be performed on a periodic basis to ensure that administrator level access is given on a needs only basis. Least privilege should be the guiding principle when granting all system access.</p> <p>The Agresso accounts should be removed as the system has been replaced this year.</p>	Amber	<p>A review of administrator rights within active directory has been implemented. Date due for completion 21st July 2017</p> <p>Agresso is switched off and only accessed by a formal request from Finance.</p>	<p>21st July 2017</p> <p>Completed.</p>
2.	<p>Pension fund returns</p> <p>The Council should ensure that all necessary returns are made to the County Council on a timely basis.</p>	Red	<p>Agreed. Awaiting a fix from Frontier (software supplier) but will find a manual way of calculating if this is not available by the 30th September 2017</p>	<p>30th September 2017</p> <p>Business Support</p>
3.	<p>Journal authorisation</p> <p>Parameters within the ledger should be reviewed to ensure that only those individuals set up to authorize journals can complete that process.</p>	Amber	<p>Agreed. Preference is to remove the ability to create and post a journal but need to speak to the software producer (ABS).</p>	<p>31st December 2017</p> <p>Financial Services Manager</p>
4.	<p>Asset valuation reports</p> <p>The Council should ensure that final version of valuation reports are received promptly from Place Partnership and that these are the basis for asset valuation adjustments within the financial statements.</p>	Red	<p>Agreed. We will also look to change the valuation date to the 31st December to avoid delay and speed up closure.</p>	<p>30th October 2017</p> <p>Chief Accountant</p>

Assessment

- High (Red)
- Medium (Amber)

A. Action plan (continued)

Value for Money

Rec no.	Recommendation	Priority	Management response	Implementation date and responsibility
5.	All savings plans are appropriately supported by a business case, all aspects of the savings are identified, it is clear when the planned savings will be delivered and what needs to happen to realise the savings.	Red	Business case framework agreed to be used for development and presentation of business cases for 2018/19. This will include detailed calculations of planned saving and the rationale for the proposal.	November 2017 Executive Director of Finance and Resources
6.	Further improvements to the overall reporting of savings is needed, including a clear picture of planned savings to be delivered, progress to date, risk to full achievement and mitigating actions.	Red	Reporting is currently under review using templates from best practice councils as identified by the auditors. This is to be used for quarter 2 to improve capturing and reporting to members.	November 2017 Executive Director of Finance and Resources
7.	Progress against the action plans supporting the delivery of the Council Plan needs to be monitored and reported on a quarterly basis to Cabinet.	Amber	Officers are in discussion with members as to the most appropriate mechanism for reporting . Overview and Scrutiny have requested updates on the council plan actions.	October 2017 Head of Transformation
8.	Priority is given by Cabinet to ensuring that the management restructure is progressed on a timely basis.	Red	Proposals to be developed by Senior Management Team to be presented to Cabinet in late 2017.	December 2017 Chief Executive
9.	The performance dashboard needs to be reported to Members and Officers on a regular basis.	Amber	We will be undertaking a review of the dashboard in line with changes to our thinking as the organisation continues to change and transform. We will be reporting performance to Members at both Councils in line with the Corporate Performance Strategy – this will commence in November 2017.	November 2017 Head of Transformation

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 2017 under the Local Audit and Accountability Act 2014 (the "Act"). The financial statements comprise the Group and Authority Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Group Comprehensive Income and Expenditure Statement, the Balance Sheet, the Group Balance Sheet, the Cash Flow Statement, the Group Cash Flow Statement, the Collection Fund Statement 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 2016/17.

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 Authority's 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 of Finance and Resources and auditor

As explained more fully in the Statement of Responsibilities, the Executive Director of 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 2016/17, 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, the Code of Audit Practice published by the National Audit Office on behalf of the Comptroller and Auditor General (the "Code of Audit Practice") 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 of 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 2017 and of the Authority's and Group's expenditure and income for the year then ended; and
- the financial statements have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 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 for the financial year for which the financial statements are prepared is consistent with the 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: Framework (2016)' published by CIPFA and SOLACE; or
- we have reported a matter in the public interest under section 24 of the Act in the course of, or at the conclusion of the audit; or
- we have made a written recommendation to the Authority under section 24 of the Act in the course of, or at the conclusion of the audit; or
- we have exercised any other special powers of the auditor under the Act.

We have nothing to report in respect of the above matters.

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

Respective responsibilities of the Authority and auditor

The Authority is responsible for putting in place proper arrangements for securing 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 for securing economy, efficiency and effectiveness in its 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 issued by the Comptroller and Auditor General in November 2016, 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 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 2017.

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 has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

Basis for qualified conclusion

In considering the Authority's arrangements for securing efficiency, economy and effectiveness in its use of resources we identified the following matters:

In year reporting to Members

The Authority's in year budgetary monitoring reports to Members do not adequately explain changes to the originally agreed budget. Reporting of savings is weak, and does not provide a clear picture of planned savings to be delivered, progress to date, risk to full achievement and mitigating actions. There is no risk assessment on the deliverability of schemes. Reports to

Members do not give any indication of progress with delivery of the Authority's Efficiency Plan or actions being taken to bring it back into line.

This matter is evidence of weaknesses in proper arrangements for informed decision making – reliable and timely financial reporting that supports the delivery of strategic priorities.

Financial Sustainability

The Authority updated its Medium Term Financial Plan (MTFP) covering the period to 31 March 2021, in February 2017 in line with its annual planning process. The updated MTFP includes savings which have not been agreed by Members and not all savings plans included have a robust business case to support them.

This matter is evidence of weaknesses in proper arrangements for sustainable resource deployment – Planning finances effectively to support the sustainable delivery of strategic priorities and maintain statutory functions. It is also evidence of weaknesses in Informed decision making – Understanding and using appropriate cost and performance information (including, where relevant, information from regulatory/monitoring bodies) to support informed decision making and performance management.

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 2016, except for the effects of the matters described in the Basis for qualified conclusion paragraphs above, we are satisfied that, in all significant respects, the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2017.

Certificate

We certify that we have completed the audit of the financial statements of the Authority in accordance with the requirements of the Act and the Code of Audit Practice.

Richard Percival

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

The Colmore Building
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XX September 2017



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