

# The Annual Audit Letter for Bromsgrove District Council

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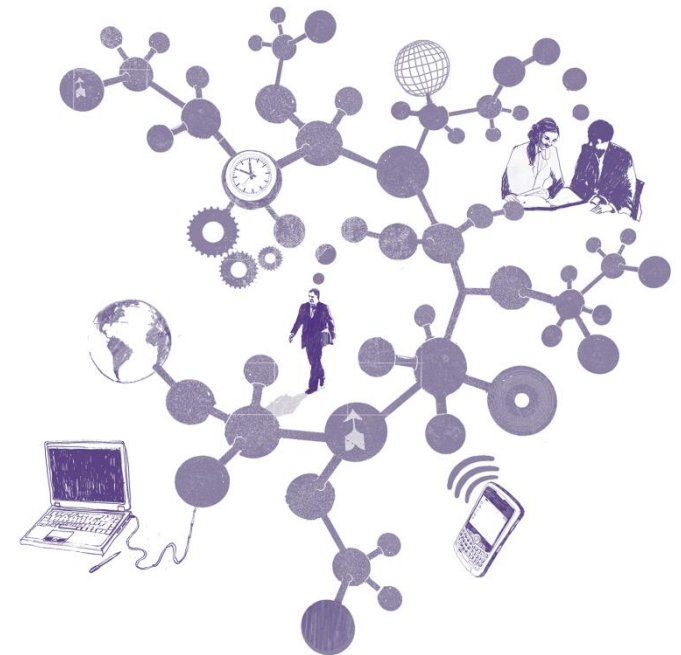
**Year ended 31 March 2017**

October 2017

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# Executive summary

## **Purpose of this letter**

Our Annual Audit Letter (Letter) summarises the key findings arising from the work we have carried out at Bromsgrove District Council (the Council) for the year ended 31 March 2017.

This Letter provides a commentary on the results of our work to the Council and its external stakeholders, and highlights issues we wish to draw to the attention of the public. In preparing this letter, we have followed the National Audit Office (NAO)'s Code of Audit Practice (the Code) and Auditor Guidance Note (AGN) 07 – 'Auditor Reporting'.

We reported the detailed findings from our audit work to the Council's Audit Standards and Governance Committee (as those charged with governance) in our Audit Findings Report on 14 September 2017.

## **Our responsibilities**

We have carried out our audit in accordance with the NAO's Code of Audit Practice, which reflects the requirements of the Local Audit and Accountability Act 2014 (the Act). Our key responsibilities are to:

- give an opinion on the Council's financial statements (section two)
- assess the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources (the value for money conclusion) (section three).

In our audit of the Councils financial statements, we comply with International Standards on Auditing (UK and Ireland) (ISAs) and other guidance issued by the NAO.

## **Our work**

### **Financial statements opinion**

We gave an unqualified opinion on the Council's financial statements on 21 September 2017.

While there was an improvement in both the timeliness and quality of the draft financial statements compared to previous years, 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. The Council needs to finalise available resources within the finance team as there are currently gaps which puts delivery at risk.

### **Value for money conclusion**

We were satisfied that the Council put in place proper arrangements to ensure economy, efficiency and effectiveness in its use of resources during the year ended 31 March 2017 except for the matters we identified and reported in our Audit Findings Report in respect of in year financial reporting and financial sustainability. We therefore qualified our value for money conclusion in our audit opinion on 21 September 2017.

### **Certificate**

We certified that we had completed the audit of the accounts of Bromsgrove District Council in accordance with the requirements of the Code on 21 September 2017.

### **Certification of grants**

We also carry out work to certify the Council's Housing Benefit subsidy claim on behalf of the Department for Work and Pensions. Our work on this claim is not yet complete and will be finalised by 30 November 2017. We will report the results of this work to the Audit, Standards and Governance Committee in our Annual Certification Letter.

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## **Working with the Council**

We would like to record our appreciation for the assistance and co-operation provided to us during our audit by the Council's staff.

### **Our work with you in 2016/17**

An efficient audit – we delivered the accounts audit before the deadline and in line with the timescale we agreed with you. Our audit team are knowledgeable and experienced in your financial accounts and systems. Our relationship with your team provides you with a financial statements audit that continues to finish ahead of schedule releasing your finance team for other important work. We completed our audit work and provided you with an agreed Audit Findings Report in early September. We reported in our Audit Findings Report the challenge the Council faces in completing the audit by the end of July, which is the new deadline from 2018.

Providing training – we provided your Officers with bespoke training on Housing Benefit certification, specifically tailored to their needs. We also provided final accounts production training.

Support outside of the audit – colleagues met with your officers to discuss options and ideas for ways of delivering some services in a different way.

The Council has subscribed to our CFO Insights service. This is an online software service offering that enables users to rapidly analyse, segment and visualise all the key data relating to the financial performance of a local authority. The financial data, revenue outturn and budget data for the current year and the previous year (and in time up to 10 years), is provided by CIPFA and the socio-economic data is drawn from Place Analytics. The data is contextualised using a range of socio-economic indicators enabling the LA to understand their relative performance.

**Grant Thornton UK LLP**  
**October 2017**

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# Audit of the accounts

## **Our audit approach**

### **Materiality**

In our audit of the Council's accounts, we applied the concept of materiality to determine the nature, timing and extent of our work, and to evaluate the results of our work. We define materiality as the size of the misstatement in the financial statements that would lead a reasonably knowledgeable person to change or influence their economic decisions.

We determined materiality for our audit of the Council's accounts to be £839,000, which is 2% of the Council's gross revenue expenditure in the previous year. We used this benchmark, as in our view, users of the Council's accounts are most interested in how it has spent the income it has raised from taxation and grants during the year.

We also set a lower level of specific materiality for Disclosures of officers' remuneration, salary bandings and exit packages and related party transactions .

We set a lower threshold of £20,000, above which we reported errors to the Audit, Standards and Governance Committee in our Audit Findings Report.

### **The scope of our audit**

Our audit involves obtaining enough evidence about the amounts and disclosures in the financial statements to give reasonable assurance they are free from material misstatement, whether caused by fraud or error. This includes assessing whether:

- the Council's accounting policies are appropriate, have been consistently applied and adequately disclosed;
- significant accounting estimates made by the Executive Director of Finance and Resources are reasonable; and
- the overall presentation of the financial statements gives a true and fair view.

We also read the narrative report and annual governance statement to check they are consistent with our understanding of the Council and with the accounts included in the Statement of Accounts on which we gave our opinion.

We carry out our audit in line with ISAs (UK and Ireland) and the NAO Code of Audit Practice. We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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

We identified key risks and set out overleaf the work we performed in response to these risks and the results of this work.

# Audit of the accounts

These are the risks which had the greatest impact on our overall strategy and where we focused more of our work.

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p><b>CIES Disclosure Reconfiguration ('Telling the story')</b>            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>To address this risk we:</p> <ul style="list-style-type: none"> <li>documented and evaluated the process for the recording of the required financial reporting changes to the 2016/17 financial statements.</li> <li>reviewed the re-classification of the Comprehensive Income and Expenditure Statement (CIES) comparatives to ensure that they were in line with the Authority's internal reporting structure.</li> <li>reviewed the appropriateness of the revised grouping of entries within the Movement In Reserves Statement (MIRS).</li> <li>tested the classification of income and expenditure for 2016/17 recorded within the Cost of Services section of the CIES.</li> <li>tested the completeness of income and expenditure by reviewing the reconciliation of the CIES to the general ledger.</li> <li>tested the classification of income and expenditure reported within the new Expenditure and Funding Analysis (EFA) note to the financial statements.</li> <li>reviewed the new segmental reporting disclosures within the 2016/17 financial statements to ensure compliance with the CIPFA Code of Practice.</li> </ul>	<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 were satisfied that the changes improved compliance with the Code requirements the disclosures still did not fully meet the requirements</p>
<p><b>Implementation of new revenues system (covering Housing Benefits, Council Tax and Business Rates)</b>            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>To address this risk we:</p> <ul style="list-style-type: none"> <li>confirmed that balances had been transferred completely and accurately to the new system.</li> <li>reviewed the project plan for the system implementation.</li> <li>reviewed control accounts for the relevant accounts affected by the system change.</li> <li>completed tests of data transfer.</li> </ul>	<p>We completed our work as planned and did not identify 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 was amended in the final version of the accounts.</p>

# Audit of the accounts

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p><b>Valuation of pension fund net liability</b>            The Council's pension fund asset and liability as reflected in its balance sheet represent a significant estimate in the financial statements.</p>	<p>To address this risk we:</p> <ul style="list-style-type: none"> <li>• identified the controls put in place by management to ensure that the pension fund liability is not materially misstated.</li> <li>• assessed whether these controls were implemented as expected and whether they are sufficient to mitigate the risk of material misstatement.</li> <li>• reviewed the competence, expertise and objectivity of the actuary who carried out your pension fund valuation.</li> <li>• gained an understanding of the basis on which the valuation is carried out.</li> <li>• undertook procedures to confirm the reasonableness of the actuarial assumptions made.</li> <li>• 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.</li> <li>• 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 could rely on the outputs from the WCCPF.</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>Whilst audit work did not identify any issues which indicated the pension net liability was materially misstated, we identified an internal control weakness which we reported in our Audit Findings Report 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 had to estimate the year end position and required Bromsgrove's Finance Team carrying out additional work to assess the accuracy of this.</p>

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# Audit of the accounts

## **Audit opinion**

We gave an unqualified opinion on the Council's accounts on 21 September 2017, in advance of the 30 September 2017 national deadline.

The Council made the accounts available for audit in line with the agreed timetable, and provided a good set of supporting working papers. 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.

## **Issues arising from the audit of the accounts**

We reported the key issues from our audit of the accounts of the Council to the Council's Audit, Standards and Governance Committee on 14 September 2017. In addition to the key audit risks reported above, we identified a number of issues and adjustments during our audit that we have asked the Council's management to address for the next financial year: Officers have prepared an action plan, addressing the recommendations we made. Officers will report progress to the Audit, Standards and Governance Committee.

## **Annual Governance Statement and Narrative Report**

We are required to review the Council's Annual Governance Statement and Narrative Report. It published them on its website with the draft accounts in line with the national deadlines.

Both documents were prepared in line with the relevant guidance and were consistent with the supporting evidence provided by the Council and with our knowledge of the Council.



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# Value for Money conclusion

## Background

We carried out our review in accordance with the NAO Code of Audit Practice (the Code), following the guidance issued by the NAO in November 2016 which specified the 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.*

## Key findings

Our first step in carrying out our work was to perform a risk assessment and identify the key risks where we concentrated our work.

The key risks we identified and the work we performed are set out in table 2 overleaf.

As part of our Audit Findings report agreed with the Council in September 2017, we agreed recommendations to address our findings. Officers have prepared an action plan, addressing the recommendations we made. Officers will report progress to the Audit, Standards and Governance Committee.

## Overall Vfm conclusion

We are satisfied that, in all significant respects, except for the matters we identified and reported in our Audit Findings Report in respect of in year financial reporting and financial sustainability, the Council had proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2017.

# Value for Money

**Table 2: Value for money risks**

Risk identified	Work carried out	Findings and conclusions
<p><b>In year reporting to Members</b> 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"> <li>• Is the current and forecast financial position clearly identified?</li> <li>• Is the delivery of savings to date and the risks to their achievement reported?</li> <li>• Are changes from the start point budget tracked through, and is the impact on balances and reserves clear?</li> <li>• Are budget variances identified and the reasons for the variance and mitigating actions explained in sufficient detail?</li> </ul>	<p>To address this risk we:</p> <ul style="list-style-type: none"> <li>• reviewed the financial monitoring reports to determine whether any changes to the original budget are adequately explained to Members;</li> <li>• reviewed reporting to Members to determine whether the impact on reserves and balances is clear;</li> <li>• reviewed how the Council is monitoring the delivery of the Council Plan; and</li> <li>• monitored how the Council is implementing the "Cabinet Response to the Overview &amp; Scrutiny Board Finance &amp; Budget Working Group".</li> </ul>	<p><b>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”.</b></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 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 are not yet in place. 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 saw progress since we issued our statutory recommendation, this was not sufficient to address the issues identified.</p>

# Value for Money

Table 2: Value for money risks (continued)

Risk identified	Work carried out	Findings and conclusions
<p><b>Financial sustainability</b> 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"> <li>• How robust is the MTFP and how well developed are savings plans?</li> <li>• How is the performance dashboard for Members being implemented?</li> </ul>	<p>To address this risk we:</p> <ul style="list-style-type: none"> <li>• reviewed how the Council is monitoring delivery of the Efficiency Plan;</li> <li>• examined how robust the MTFP is by testing a sample of individual schemes to determine whether they are worked through appropriately and realistic;</li> <li>• considered progress on the review of the management structure; and</li> <li>• reviewed how the performance dashboard for Members is being implemented.</li> </ul>	<p><b>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”.</b></p> <p>We noted that the Overview &amp; 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 concluded 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"> <li>• 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.</li> <li>• 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.</li> <li>• 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.</li> </ul> <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> <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>

# Appendix A: Reports issued and fees

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

## Fees

	Proposed fee £	Actual fees £	2015/16 fees £
Statutory audit of Council	48,680	TBC	48,680
Housing Benefit Grant Certification	7,545	TBC	8,760
<b>Total fees (excluding VAT)</b>	<b>56,225</b>	<b>TBC</b>	<b>57,440</b>

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

## Reports issued

Report	Date issued
Audit Plan	March 2017
Audit Findings Report	September 2017
Annual Audit Letter	October 2017

## Fees for other services

Service	Fees £
<b>Audit related services:</b> <ul style="list-style-type: none"><li>• None</li></ul>	Nil
<b>Non-audit services</b> <ul style="list-style-type: none"><li>• CFO insights</li></ul>	<b>4,313</b>

### Non-audit services

- For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council. The table above summarises all other services which were identified.
- We have considered whether other services might be perceived as a threat to our independence as the Council's auditor and have ensured that appropriate safeguards are put in place, as reported in our Audit Findings Report.



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