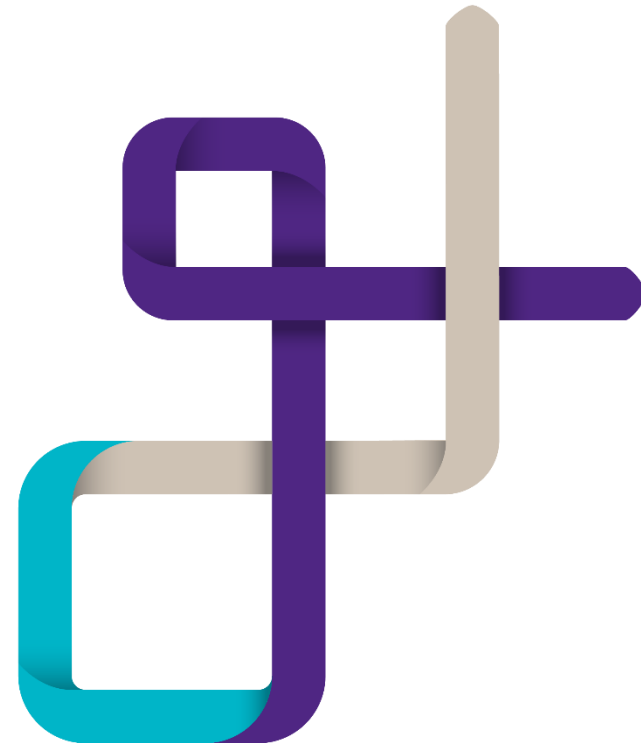


Audit Findings

Year ending 31 March 2018

Bromsgrove District Council

18 July 2018



Contents



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Section	Page
1. Headlines	3
2. Financial statements	4
3. Value for money	14
4. Independence and ethics	18
Appendices	
A. Action plan	19
B. Follow up of prior year recommendations	20
C. Audit adjustments	24
D. Fees	26
E. Audit Opinion	27

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

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Headlines

This table summarises the key issues arising from the statutory audit of Bromsgrove District Council ('the Council') and the preparation of the group Council's financial statements for the year ended 31 March 2018 for those charged with governance.

Financial Statements	<p>Under the International Standards of Auditing (UK) (ISAs), we are required to report whether, in our opinion:</p> <ul style="list-style-type: none">the group and Council's financial statements give a true and fair view of the group's and Council's financial position and of the group and Council's expenditure and income for the year, andhave been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting and prepared in accordance with the Local Audit and Accountability Act 2014. <p>We are also required to report whether other information published together with the audited financial statements (including the Statement of Accounts, Annual Governance Statement (AGS) and Narrative Report), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.</p>	<p>Our audit work was completed on site during May, June and July. Our findings are summarised on pages 4 to 13. We have not identified any adjustments to the financial statements that have resulted in an amendment to the Statement of Comprehensive Income and Expenditure. Audit adjustments are detailed in Appendix C. We have also raised recommendations for management as a result of our audit work in Appendix A. Our follow up of recommendations from the prior year's audit are detailed in Appendix B.</p> <p>Subject to outstanding queries being resolved, we anticipate issuing an unqualified audit opinion following the Full Council meeting on 24 July 2018, as detailed in Appendix E. These outstanding items include:</p> <ul style="list-style-type: none">receipt of management representation letter;completing testing in a number of areas; andreview of the final set of financial statements. <p>We have concluded that the other information published with the financial statements, which includes the Statement of Accounts, Annual Governance Statement and Narrative Report, are consistent with our knowledge of your organisation and with the financial statements we have audited.</p>
Value for Money arrangements	<p>Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion:</p> <ul style="list-style-type: none">the Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources ('the value for money (VFM) conclusion')	<p>We have completed our risk based review of the Council's value for money arrangements. We have concluded that Bromsgrove District Council has proper arrangements to secure economy, efficiency and effectiveness in its use of resources.</p> <p>We therefore anticipate issuing an unqualified value for money conclusion, as detailed in Appendix E. Our findings are summarised on pages 14 to 17.</p>
Statutory duties	<p>The Local Audit and Accountability Act 2014 ('the Act') also requires us to:</p> <ul style="list-style-type: none">report to you if we have applied any of the additional powers and duties ascribed to us under the Act; andcertify the closure of the audit	<p>We have not exercised any of our additional statutory powers or duties.</p> <p>We have completed the majority of work under the Code and expect to be able to certify the completion of the audit when we give our audit opinion.</p>

Acknowledgements

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.

Summary

Overview of the scope of our audit

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

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

Audit approach

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

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

Key messages

Officers produced the financial statements in advance of the deadline and, if we are able to conclude the audit by the end of July as planned, that will represent a significant improvement on the timescale achieved last year. However, our audit identified a higher number of relatively minor amendments than we would expect. A number of the working papers initially supplied did not provide the requisite assurance, or could not be agreed to the financial statements. While officers responded very positively to our questions the Council needs to ensure that next year sufficient time is allowed for a robust and thorough quality review of the accounts and working papers before they are presented for audit.

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

- there was one adjustments to the Balance Sheet, which did not affect the Net Assets figure;
- there are no unadjusted misstatements;
- the Narrative Report was enhanced and expanded in order to meet the Code requirements;

- a number of changes were made to the detailed note on Property, Plant & Equipment (Note 14) in order to ensure correct disclosure and values for asset categories;
- pension fund disclosures were amended to show the correct sensitivity analysis, as required by the Code, and to correct typographical errors;
- the cash and cash equivalent figures were amended to disaggregate the debit and credit balances, rather than netting them off;
- in the Collection Fund, the Rateable Value of businesses was initially recorded as £70,884k which was not agreed to the Valuation report. This has now been amended to £67,167k as in Valuation report;
- the financial statements were submitted before the deadline;
- officers responded to questions in a timely manner; and
- officers have made a number of minor changes to the financial statements to correct typographical errors.

Conclusion

We have substantially completed our audit of your financial statements and subject to outstanding queries being resolved, we anticipate issuing an unqualified audit opinion following the Audit, Standards and Governance Committee meeting on 24 July 2018, as detailed in. These outstanding items include:

- receipt of management representation letter;
- completing testing in property, plant and equipment and employee remuneration; and
- review of the final set of financial statements.

Our approach to materiality

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

Materiality calculations remain the same as reported in our audit plan - £0.842m (PY £0.839m), which equates to 2% of your gross expenditure for the prior year. We have set a separate lower materiality level for the disclosure note on senior manager's remuneration. In view of the sensitivity of this note to the reader of the accounts, we have set a materiality level of £100k. We are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. Clearly trivial has been set at £42k (PY £41k).

Going concern

Our responsibility

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

Going concern commentary

Management's assessment process

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

The Council has a sound income stream through Council Tax (£8.5m) and Business Rates (£1.2m). It has delivered a balanced budget year on year and has a realistic Medium Term Financial Plan.

The Council also has usable, non earmarked reserves of £4.8m.

Auditor commentary

This is reasonable as the Council has a realistic Medium Term Financial Plan and sufficient reserves to cover any short term unexpected need. It would be considered a going concern even if it demised and the services transferred to another body. Our Informing the Audit Risk Assessment report, presented to Audit, Standards and Governance Committee on 15 March, shows on pages 15 to 16 the arrangements in place to demonstrate that the Council is a going concern.

Work performed

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

Auditor commentary

We have nothing to report in relation to Going Concern.

Significant audit risks

Risks identified in our Audit Plan

Commentary

1

Improper revenue recognition

Under ISA 240 (UK) there is a presumed risk that revenue may be misstated due to the improper recognition of revenue. This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.

Auditor commentary

Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the Council, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:

- there is little incentive to manipulate revenue recognition
- opportunities to manipulate revenue recognition are very limited
- the culture and ethical frameworks of local authorities, including Bromsgrove District Council, mean that all forms of fraud are seen as unacceptable.

Therefore we do not consider this to be a significant risk for Bromsgrove District Council.

2

Management override of controls

Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities.

We identified management override of controls as a risk requiring special audit consideration.

Auditor commentary

We have undertaken the following work in relation to this risk:

- gained an understanding of the accounting estimates, judgements applied and decisions made by management and considered their reasonableness
- obtained a full listing of journal entries, identified and tested unusual journal entries for appropriateness
- evaluated the rationale for any changes in accounting policies or significant unusual transactions.

Our audit work has not identified any issues in respect of management override of controls.

Significant audit risks

Risks identified in our Audit Plan

Commentary

3

Valuation of property, plant and equipment

The Council revalues its land and buildings on a five year rolling basis to ensure that carrying value is not materially different from fair value. This represents a significant estimate by management in the financial statements.

We identified the valuation of land and buildings revaluations and impairments as a risk requiring special audit consideration

Auditor commentary

We have undertaken the following work in relation to this risk:

- reviewed management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work
- considered the competence, expertise and objectivity of any management experts used
- discussed with the valuer the basis on which the valuation was carried out and challenged the key assumptions
- reviewed and challenged the information used by the valuer to ensure it was robust and consistent with our understanding
- tested revaluations made during the year to ensure they were input correctly into the Council's asset register
- evaluated the assumptions made by management for those assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value.

Our audit work identified a number of changes to the disclosure of property, plant and equipment, but these did not affect the net book value as reported in the accounts. Our work in this area is incomplete at the time of writing this report.

4

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.

We identified the valuation of the pension fund net liability as a risk requiring special audit consideration.

Auditor commentary

We have undertaken the following work in relation to this risk:

- identified the controls put in place by management to ensure that the pension fund liability is not materially misstated. We also assessed whether these controls were implemented as expected and whether they were sufficient to mitigate the risk of material misstatement
- evaluated the competence, expertise and objectivity of the actuary who carried out your pension fund valuation. We also gained an understanding of the basis on which the valuation was carried out
- undertook procedures to confirm the reasonableness of the actuarial assumptions made
- checked the consistency of the pension fund asset and liability and disclosures in notes to the financial statements with the actuarial report from your actuary.

Our audit work identified a number of changes to the pension fund disclosures, but these did not affect the net liability as reported in the accounts.

Reasonably possible audit risks

Risks identified in our Audit Plan

Employee remuneration

Payroll expenditure represents a significant percentage (31%) of the Council's operating expenses.

As the payroll expenditure comes from a number of individual transactions and an interface with sub-systems there is a risk that payroll expenditure in the accounts could be understated. We therefore identified completeness of payroll expenses as a risk requiring particular audit attention.

Commentary

Auditor commentary

We have undertaken the following work in relation to this risk:

- evaluated the Council's accounting policy for recognition of payroll expenditure for appropriateness
- gained an understanding of the Council's system for accounting for payroll expenditure and evaluated the design of the associated controls
- obtained the year-end payroll reconciliation and ensured the amount in the accounts can be reconciled to the ledger and through to payroll reports
- performed substantive analytical procedures for the year.

Our audit work to date has not identified any significant issues in respect of the risk identified. However, our work in this area is incomplete at the time of writing this report.

Operating expenses

Non-pay expenses on other goods and services also represents a significant percentage (52%) of the Council's operating expenses. Management uses judgement to estimate accruals of un-invoiced costs.

We identified completeness of non- pay expenses as a risk requiring particular audit attention.

Auditor commentary

We have undertaken the following work in relation to this risk:

- evaluated the Council's accounting policy for recognition of non-pay expenditure for appropriateness
- gained an understanding of the Council's system for accounting for non-pay expenditure and evaluated the design of the associated controls
- tested non-pay payments made in April to ensure they have been charged to the appropriate year.


Our audit work has not identified any significant issues in respect of the risk identified.

Matters discussed with management




This section provides commentary on the significant matters we discussed with management during the course of the audit.

Significant matter	Commentary	Auditor view
Early payment of pension contributions	<p>The Council has made an early payment of £6.6m to the Worcestershire Pension Fund as deficit payment funding 2017-20. The advantage of this is that it provided an ongoing revenue saving to the Council.</p> <p>We discussed the need for officers to demonstrate that they had satisfied themselves the legality of the process, to correctly account for the payment and to ensure there is sufficient prominence within the accounts.</p>	<p>We are satisfied that the Council is satisfied that the early payment is compliant with Regulations and is appropriately reflected in the financial statements.</p>
Consideration of pension guarantees	<p>We discussed with officers the need to consider the accounting treatment of any guarantees that the Council may have with the pension fund in relation to staff that have transferred to another employer.</p> <p>Officers contacted the Worcestershire Pension Fund to confirm the position and considered the likelihood of any arrangement being activated. They concluded that there is a low risk.</p>	<p>We are satisfied that officers have made appropriate enquiries concerning potential pension guarantees and that their view that there is a low risk of any arrangement being activated is reasonable.</p>



Accounting policies

Accounting area	Summary of policy	Comments	Assessment
Revenue recognition	<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 £5,000, lower amounts will only be actioned 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 2017/18. • Adequacy of disclosure of accounting policy. Our review has not highlighted any issues which we wish to bring to your attention. 	<p> (Green)</p>




Assessment

-  Marginal accounting policy which could potentially be open to challenge by regulators
-  Accounting policy appropriate but scope for improved disclosure
-  Accounting policy appropriate and disclosures sufficient

Accounting policies

Accounting area	Summary of policy	Comments	Assessment
Judgements and estimates	<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 five 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 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.</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, and those not yet lodged 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. Overall we are satisfied with the approach taken and that the provision is not materially misstated.</p>	<p> (Green)</p>
Other critical policies		<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> (Green)</p>

Assessment

-  Marginal accounting policy which could potentially be open to challenge by regulators
-  Accounting policy appropriate but scope for improved disclosure
-  Accounting policy appropriate and disclosures sufficient

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 Audit evidence and explanations	All information and explanations requested from management was provided.
⑧ Significant difficulties	We have not encountered any significant difficulties with accounts closedown, production of draft accounts and working papers. We have made a recommendation that time be allowed for a robust and thorough quality review of the financial statements and supporting working papers before they are presented for audit.

Other responsibilities under the Code

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

Issue	Commentary
① Other information	<p>We are required to give an opinion on whether the other information published together with the audited financial statements (including the Statement of Accounts, Annual Governance Statement (AGS) and Narrative Report), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.</p> <p>No inconsistencies have been identified/Inconsistencies have been identified but have been adequately rectified by management. We plan to issue an unqualified opinion in this respect – refer to Appendix E.</p>
② Matters on which we report by exception	<p>We are required to report on a number of matters by exception in a numbers of areas:</p> <ul style="list-style-type: none"> • If the Annual Governance Statement does not meet the disclosure requirements set out in the CIPFA/SOLACE guidance or is misleading or inconsistent with the other information of which we are aware from our audit • If we have applied any of our statutory powers or duties <p>We have nothing to report on these matters.</p>
③ Specified procedures for Whole of Government Accounts	<p>We are required to carry out specified procedures (on behalf of the NAO) on the Whole of Government Accounts (WGA) consolidation pack under WGA group audit instructions.</p> <p>Work is not required as the Council does not exceed the threshold.</p>
④ Certification of the closure of the audit	<p>We intend to certify the closure of the 2017/18 audit of Bromsgrove District Council in the audit opinion, as detailed in Appendix E.</p>

Value for Money

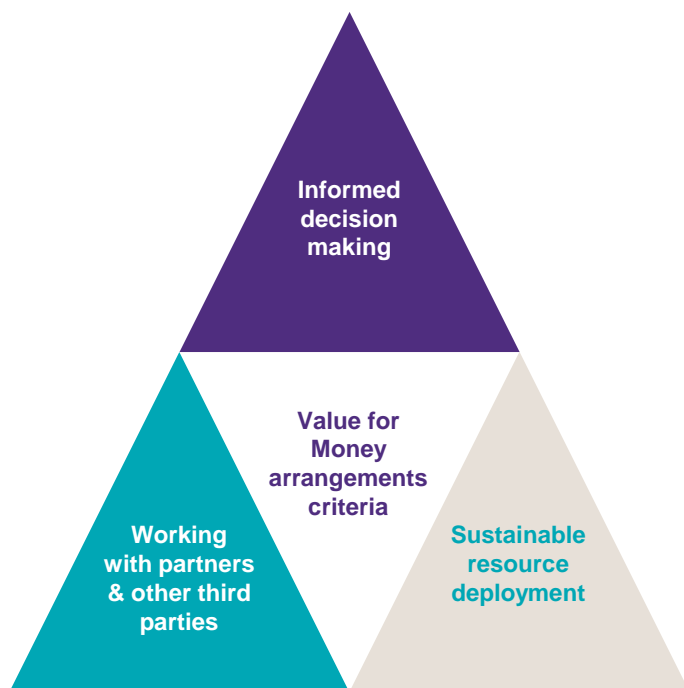
Background to our VFM approach

The NAO issued its guidance for auditors on Value for Money work for 2017/18 in November 2017. The guidance states that for local government bodies, auditors are required to give a conclusion on whether the Council has proper arrangements in place.

The guidance identifies one single criterion for auditors to evaluate:

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

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



Risk assessment

We carried out an initial risk assessment in and identified two 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 1 March 2018.

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.

The main focus of auditor's value for money work is financial sustainability. The scope of the work does not cover, for example, whether goods or services have been procured to achieve best value for money, or whether services provided by councils offer good value for money.

Value for Money

Our work

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

We have focused our work on the significant risks that we identified in the Council's arrangements. In arriving at our conclusion, our main considerations were:

- financial sustainability; and
- in year financial reporting to Members.

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 16 and 17.

Overall conclusion

Based on the work we performed to address the significant risks, we concluded that the Council had proper arrangements in all significant respects to ensure it delivered value for money in its use of resources.

The text of our report, which confirms this can be found at Appendix E.

Significant difficulties in undertaking our work

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

Significant matters discussed with management

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

Key findings

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

	Significant risk	Findings	Conclusion
<p>1 Financial sustainability</p> <p>How robust is the MTFP and how well developed are savings plans?</p> <p>We have previously identified that improvement is needed to planning finances effectively to support the sustainable delivery of strategic purposes and maintain statutory functions.</p> <p>We said we would follow up recommendations from our 2016/17 Audit Findings Report to determine whether sufficient progress has been made in addressing our recommendations:</p> <p>1) 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;</p> <p>2) Priority is given by Cabinet to ensuring that the management restructure is progressed on a timely basis.</p>	<p>1) The MTFP to 2020/21 shows that significant savings are required. There is also a planned use of balances of £1.6 million and potential income from the Investment Strategy of up to £2.0 million.</p> <p>We tested seven different savings schemes to assess whether improvements have been made to the identification and timing of savings delivery. While there are not formal business cases for other than the biggest schemes (the new Leisure Centre for example), the level of benchmarking and analysis is appropriate for smaller savings. A robust approach has been taken to reducing the budget by adopting a zero based approach. Review of the minutes of the Finance and Budget Working Group indicates robust discussion on the MTFP and budget, with Members clearly understanding the scale of the challenge and that action is needed. The additional level of scrutiny this Group provides around financial issues is extremely useful in providing challenge to officers.</p> <p>While there is no financial impact on the current MTFP, the Council Acquisition and Investment Strategy is proposing borrowing £20m from PWLB to finance investments within the Bromsgrove District Council area. Officers will need to prepare a paper for Members that assesses the impact of the revised Statutory Investment Guidance on their plans. In particular, the Guidance is clear that: “Authorities must not borrow more than or in advance of their needs purely in order to profit from the investment of the extra sums borrowed.” [paragraph 46, Statutory Guidance on Local Authority Investment].</p> <p>2) The management restructure has not progressed, mainly due to issues with Redditch Borough Council’s senior management arrangements. This makes any joint restructuring very difficult. In addition, Leaders of both Bromsgrove DC and Redditch BC wanted to see the outcome of the LGA Peer Review before making any decisions.</p> <p>The LGA Peer Review highlighted the need to “define a new shared culture from the bottom up” and “establish a single workforce and reduce duplication and time spent navigating two structures and systems of governance”. The management review is an essential part of responding to this challenge.</p>	<p>Auditor view</p> <p>The approach adopted is proportionate for the savings involved. While the Council has sufficient reserves and balances to ensure any slippage in the MTFP can be covered, Officers and Members need to ensure that the pace of change to a long-term financially sustainable Council, without the need to use balances, is sufficient to allow an appropriate level of balances to be maintained.</p> <p>Should the Council decide to proceed with the Acquisition and Investment Strategy a paper will be needed which clearly sets out how the Council is complying with the Statutory Investment Guidance.</p> <p>The management restructure has not progressed due to issues with Redditch Borough Council’s management arrangements. As this is a joint restructuring we have concluded that there are valid reasons for this delay. It is however important that the restructure is now progressed as part of the wider response to the issues identified in the LGA Peer Review.</p> <p>Management response</p> <p>Officers are reviewing the investment strategy to ensure the new guidance is addressed.</p> <p>Budget assumptions to be considered earlier to ensure sufficient time and information given to members for decision making.</p>	

Significant risk	Findings	Conclusion
<p>2 In year financial reporting to Members</p> <p>How informative is in year financial reporting to Members?</p> <p>We have previously identified that improvement is needed in reliable and timely financial reporting that supports the delivery of strategic purposes.</p> <p>We said we would follow up recommendations from our 2016/17 Audit Findings Report to determine whether sufficient progress has been made in addressing our recommendations:</p> <p>3) Further improvement to the overall reporting of savings, including a clear picture of planned savings to be delivered, progress to date, risk to full achievement and mitigating actions;</p> <p>4) Monitoring of progress against the actions plans supporting the delivery of the Council Plan and quarterly reporting to Cabinet.</p>	<p>3) Savings are reported against the Efficiency Plan monitoring report in a one page summary. As such it does not contain much detail, but Members are able to ask questions or see more detail if they wish. Our work demonstrated that Service Managers and accountants have worked together to reduce budgets or increase income projections where appropriate. There are no business cases to support this, but we have seen email correspondence and workings to support the figures we have tested. The work undertaken is proportionate for the type and amount of savings. We discussed with Officers that, as time moves on, it may now be more appropriate to monitor and report savings and income generation against the MTFP, rather than the Efficiency Plan, as this is more current.</p> <p>4) Corporate Performance is now presented bi-monthly using a new format. The first report was presented to Cabinet on 7 March 2018. The report is very comprehensive and thorough, an is also easily understandable. This report notes the strategic measures that are currently used to understand the purpose 'keep my place safe and looking good'. These are reported, along with others relevant to the strategic purpose. The Council is now adequately reporting progress against the Council Plan and the key indicators for each strategic purpose to Cabinet.</p>	<p>Auditor view</p> <p>Savings reporting continues to improve. The high level figures presented to Members are underpinned by appropriate levels of information and analysis. However, in reporting against the Efficiency Plan officers are reporting against old measures, which are difficult to reconcile to the latest MTFP. It would be more transparent and provide Members with better assurance that the MTFP is on track, if savings and income generation were reported against the MTFP.</p> <p>The Council is now adequately reporting progress against the Council Plan and the key indicators for service areas to Cabinet.</p> <p>Management response</p> <p>Monitoring statements to be enhanced for 2018/19 to include savings plans against the MTFP.</p>

Independence and ethics

Independence and ethics

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

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

Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in December 2017 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

Details of fees charged are detailed in Appendix D.

Audit and Non-audit services

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council. The following non-audit services were identified.


Service	£	Threats	Safeguards
Audit related			
None			
Non-audit related			
CFO insights – a data analytics tool through subscription (to be confirmed).	£7,500 (estimated)	None	This fee is for one year only, and does not involve any members of the audit team.

The amounts detailed are fees agreed to-date for audit related and non-audit services to be undertaken by Grant Thornton UK LLP in the current financial year. All services have been approved by management.

None of the services provided are subject to contingent fees.

Action plan

We have identified one recommendation for the Council as a result of issues identified during the course of our audit. We have agreed our recommendations with management and we will report on progress on these recommendations during the course of the 2018/19 audit. The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

Assessment	Issue and risk	Recommendations
1	 While the financial statements were presented for audit by 31 May, there is scope to improve the quality of the statements and the supporting working papers.	Officers should ensure that sufficient time is built into the financial statements production process to allow for a robust and thorough quality review of both the statements and supporting working papers. Management response <ul style="list-style-type: none"> <li data-bbox="1058 605 1131 625">• [...]

Controls

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

Follow up of prior year recommendations (Financial Statements)

We identified the following issues in the audit of Bromsgrove District Council's 2016/17 financial statements, which resulted in nine recommendations being reported in our 2016/17 Audit Findings report. We are pleased to report that management have implemented eight of our recommendations, with one (Management restructure) still to be completed.

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
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>	<p>Management response</p> <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>Audit finding</p> <p>A review of IT access rights has been undertaken within EFIN. Agresso is switched off and can only be accessed via formal request from finance.</p> <p>Of the nine SuperUsers only seven have admin rights. This number is still a little high, but there is scope to review this if and when the new ledger system is introduced.</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>	<p>Management response</p> <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> <p>Audit finding</p> <p>Manual monthly pension returns are calculated and agreed back to the payroll system before being sent to Worcestershire County Council. This has been in operation since October 2017 but all returns show the figures to date so no estimations are required.</p>

Assessment

- ✓ Action completed
- X Not yet addressed

Follow up of prior year recommendations (Financial Statements)

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
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>	<p>Management response</p> <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> <p>Audit finding</p> <p>There is no change to this. Personnel who can approve a journal can also post their own journal. We therefore reflected this in our testing approach.</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>	<p>Management response</p> <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> <p>Audit finding</p> <p>The Council received a draft valuation report as at December 2017 and a formal report as at 31 March 2018.</p>

Assessment

- ✓ Action completed
- X Not yet addressed

Follow up of prior year recommendations (Value for Money)

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
1 ✓	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.	<p>Management response</p> <p>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.</p> <p>November 2017</p> <p>Executive Director of Finance and Resources</p> <p>Audit finding</p> <p>See Page 16.</p>
2 ✓	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.	<p>Management response</p> <p>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.</p> <p>November 2017</p> <p>Executive Director of Finance and Resources</p> <p>Audit finding</p> <p>See Page 17.</p>
3 ✓	Progress against the action plans supporting the delivery of the Council Plan needs to be monitored and reported on a quarterly basis to Cabinet.	<p>Management response</p> <p>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.</p> <p>October 2017</p> <p>Head of Transformation</p> <p>Audit finding</p> <p>See Page 17.</p>

Assessment

- ✓ Action completed
- X Not yet addressed

Follow up of prior year recommendations (Value for Money)

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
4 X	Priority is given by Cabinet to ensuring that the management restructure is progressed on a timely basis.	<p>Management response</p> <p>Proposals to be developed by Senior Management Team to be presented to Cabinet in late 2017. December 2017 Chief Executive</p> <p>Audit finding</p> <p>See Page 16.</p>
5 ✓	The performance dashboard needs to be reported to Members and Officers on a regular basis.	<p>Management response</p> <p>We will be undertaking a review of the dashboard in line with changes to our thinking as the organisation continues to change and transform.</p> <p>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</p> <p>Audit finding</p> <p>Performance is now reported to Cabinet through the use of the online Measures Dashboard, supported by a bi-monthly report.</p>

Assessment

- ✓ Action completed
- X Not yet addressed

Audit Adjustments

We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management.

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	Comprehensive Income and Expenditure Statement £'000	Balance Sheet £' 000	Impact on total net expenditure £'000
1 Cash & Cash Equivalents shown within Net Current Assets as £8,000. However, this nets off debit and credit balances. Hence, the Cash & Cash Equivalents within current assets should show a total of £314,027, with the debit bank balances of £305,537 being shown under current liabilities.	0	Dr. Current Assets 306 Cr. Current Liabilities 306	0
Overall impact	£0	£0	£0

Misclassification and disclosure changes

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

Disclosure omission	Detail	Auditor recommendations	Adjusted?
Note 36 - Defined Benefit Pension Schemes	The sensitivity note has been amended to show the impact of the different changes on the overall liability, rather than the impact on the total service cost for the next year.	The note has been amended.	✓
Narrative Report	The Narrative Report presented for audit did not comply with the Code requirements.	The Narrative Report has been enhanced to comply with the Code and to expand on the financial challenges the Council faces.	✓
Collection Fund	The Rateable Value of businesses was initially recorded as £70,884k which was not agreed to the Valuation report. This has now been amended to £67,167k as in Valuation report.	The note has been amended to show the correct rateable value.	✓

Audit Adjustments

Misclassification and disclosure changes (continued)

Disclosure omission	Detail	Auditor recommendations	Adjusted?
Property, Plant & Equipment (PPE) (Note 14)	<p>1) Vehicles, Plant & Equipment (VPE) – Cost or Valuation - the derecognition disposals figure is shown as (£799k). This should be split:</p> <ul style="list-style-type: none"> • Derecognition disposals = (£436k) • Derecognition other = (£361k) <p>2) VPE – Depreciation & Impairment - the derecognition disposals figure is shown as £725k. This should be split</p> <ul style="list-style-type: none"> • Derecognition disposals = £309k • Derecognition other = £415k <p>3) £400k relating to Operational Land is categorised under additions instead of reclassifications/transfers.</p> <p>4) £4,454k expenditure in year on Assets Under Construction (AuC) was incorrectly shown in PPE note as Buildings additions. £4,454k should be moved from additions under land & buildings and entered as additions under AUC.</p>	The Note has been amended for these issues.	✓

Impact of unadjusted misstatements

There are no adjustments identified during the 2017/18 audit which have not been made within the final set of financial statements.

Fees

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

Audit Fees

	Proposed fee (£)	Final fee (£)
Council Audit	48,680	TBC
Grant Certification	8,260	TBC
Total audit fees (excluding VAT)	£56,940	TBC

The final audit fee has yet to be agreed pending completion of our work. Our fees for grant certification cover only housing benefit subsidy certification, which falls under the remit of Public Sector Audit Appointments Limited. This work will be completed in November. Fees in respect of other grant work, such as reasonable assurance reports, are shown under 'Fees for other services'.

Non Audit Fees

Fees for other services	Fees (£)
Audit related services:	
None	
Non-audit services:	7,500 (estimated)
CFO insights (TBC)	
	£7,500 (estimated)

Audit opinion

We anticipate we will provide the Group with an unmodified audit report

Independent auditor's report to the members of Bromsgrove District Council

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Bromsgrove District Council (the 'Authority') and its subsidiary (the 'group') for the year ended 31 March 2018 which 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 notes to the financial statements, including a summary of significant accounting policies. 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 2017/18.

In our opinion the financial statements:

- give a true and fair view of the financial position of the group and of the Authority as at 31 March 2018 and of the group's expenditure and income and the Authority's expenditure and income for the year then ended;
- have been prepared properly in accordance with the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2017/18; and
- have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the group and the Authority in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Who we are reporting to

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 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.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Executive Director of Finance and Resources' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Executive Director of Finance and Resources has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the group's or the Authority's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Other information

The Executive Director of Finance and Resources is responsible for the other information. The other information comprises the information included in the Statement of Accounts set out on pages **[**xx to xx**]**, other than the group and Authority financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge of the group and Authority obtained in the course of our work including that gained through work in relation to the Authority's arrangements for securing value for money through economy, efficiency and effectiveness in the use of its resources or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Other information we are required to report on by exception under the Code of Audit Practice

Under the Code of Audit Practice published by the National Audit Office on behalf of the Comptroller and Auditor General (the Code of Audit Practice) we are required to consider whether the Annual Governance Statement does not comply with the 'Delivering Good Governance in Local Government: Framework (2016)' published by CIPFA and SOLACE or is misleading or inconsistent with the information of which we are aware from our audit. We are not required to consider whether the Annual Governance Statement addresses all risks and controls or that risks are satisfactorily addressed by internal controls.

We have nothing to report in this regard.

Opinion on other matter required by the Code of Audit Practice

In our opinion, based on the work undertaken in the course of the audit of the financial statements and our knowledge of the Authority gained through our work in relation to the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources, the other information published together with the financial statements in the Statement of Accounts for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

Under the Code of Audit Practice we are required to report to you if:

- we have reported a matter in the public interest under section 24 of the Local Audit and Accountability Act 2014 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 Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we have exercised any other special powers of the auditor under the Local Audit and Accountability Act 2014.

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

Responsibilities of the Authority, the Executive Director of Finance and Resources and Those Charged with Governance for the financial statements

As explained more fully in the Statement of the Authority's and Chief Financial Officer's Responsibilities for the Statement of Accounts set out on page 9, the Authority is required to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the Executive Director of Finance and Resources. 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 2017/18, which give a true and fair view, and for such internal control as the Executive Director of Finance and Resources determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Executive Director of Finance and Resources is responsible for assessing the group's and the Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the group or the Authority lacks funding for its continued existence or when policy decisions have been made that affect the services provided by the group or the Authority.

The Audit, Standards and Governance Committee is Those Charged with Governance.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Report on other legal and regulatory requirements - Conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

Conclusion

On the basis of our work, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in November 2017, we are satisfied that *the Authority* put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2018.

Responsibilities of the Authority

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.

Auditor's responsibilities for the review of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 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.

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in November 2017, as to whether in all significant respects 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 this criterion as that 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 2018.

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 be satisfied that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

Report on other legal and regulatory requirements - Certificate

We certify that we have completed the audit of the financial statements of the Authority in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice.

Richard Percival

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

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24 July 2018



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