

# The Audit Findings for Bromsgrove District Council

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Year ended 31 March 2019

30 July 2019



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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 findings and other matters arising from the statutory audit of Bromsgrove District Council ('the Council') and the preparation of the group and Council's financial statements for the year ended 31 March 2019 for those charged with governance.

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<b>Financial Statements</b>	<p>Under International Standards of Audit (UK) (ISAs) and the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion, the group and Council's financial statements:</p> <ul style="list-style-type: none"><li>• give a true and fair view of the financial position of the group and Council and the group and Council's income and expenditure for the year; and</li><li>• have 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.</li></ul> <p>We are also required to report whether other information published together with the audited financial statements (including the 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 June and July. Our findings are summarised on pages 5 to 15. We have identified three adjustments to the financial statements. During the audit an ongoing legal case around pensions was resolved, affecting all bodies admitted to the Local Government Pension Scheme (LGPS), and other public sector schemes. This required the Council to obtain a further actuarial report. At the same time the actuary took the opportunity to update the value of the pension fund assets for further information received. For Bromsgrove District Council this has the effect of increasing the Council Gross Expenditure on Net Cost of Services by £1,151k. The Net Pension Fund Deficit increases by the same amount, but as the asset value has increased by £1,013k the overall effect is to increase the deficit by £138k. Audit adjustments are detailed in Appendix C.</p> <p>Our work is substantially complete and there are no matters of which we are aware that would require modification of our audit opinion (Appendix E) or material changes to the financial statements, subject to the following outstanding matters;</p> <ul style="list-style-type: none"><li>- final review of audit work by the Engagement Lead and consideration of the overall sufficiency of audit evidence;</li><li>- update of our subsequent events review to the date of sign off;</li><li>- receipt of management representation letter; and</li><li>- review of the final set of financial statements.</li></ul> <p>We have concluded that the other information to be published with the financial statements is consistent with our knowledge of your organisation and the financial statements we have audited.</p> <p>Our anticipated audit report opinion will be unmodified.</p>
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# Headlines

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## Value for Money arrangements

Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report if, in our opinion, the Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources ('the value for money (VFM) conclusion').

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. We therefore anticipate issuing an unqualified value for money conclusion, as detailed in Appendix E. Our findings are summarised on pages 16 to 18.

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## Statutory duties

The Local Audit and Accountability Act 2014 ('the Act') also requires us to:

- report to you if we have applied any of the additional powers and duties ascribed to us under the Act; and
- To certify the closure of the audit.

We have not exercised any of our additional statutory powers or duties. 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.

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## 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. We note however that the audit has been challenging to complete and further improvements are required to the quality of supporting information and to the timeliness and quality of responses to audit queries

# Summary

## Overview of the scope of our audit

This Audit Findings Report 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 auditor we are responsible for performing the audit, in accordance with International Standards on Auditing (UK) and the Code, 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).

We have not had to alter or change our audit plan, as communicated to you on 24 January 2019.

## Key messages

As reported last year, 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. In many instances the initial response was inadequate and necessitated additional audit time in raising further questions. We discussed this with the Deputy and Executive Director, and the quality of responses improved towards the end of our audit. As we reported last year, 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 Council also needs to continue with the internal quality review of proposed responses before they are sent to the audit team – a "right first time" approach.

Many of the changes we identified were repeated from last year. It is disappointing and time consuming to have to raise the same amendments in successive years. The Council needs to ensure that the template Statement of Accounts for 2019/20 start with the final audited 2018/19 Statement.

Recommendations for management as a result of our audit work are set out in Appendix A.

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

- there are no unadjusted misstatements;
- there was one adjustment to your primary statements, in relation to the McCloud case impacting on the Net Cost of Services and LGPS deficit;
- there was one adjustment to your primary statements, in relation to updated pension fund asset values impacting on the Net Cost of Services and LGPS deficit; and
- there were two adjustments arising from incorrect accounting for asset valuations.

# Summary

## 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, and are detailed below:

	Amount (£)	Qualitative factors considered
Materiality for the financial statements	850,000	<ul style="list-style-type: none"> <li>• Business environment – the Council operates in a stable, publicly funded environment</li> <li>• Control environment – no significant deficiencies identified.</li> </ul>
Performance materiality	510,000	<ul style="list-style-type: none"> <li>• No history of significant deficiencies but high number of deficiencies</li> <li>• History of a large number of immaterial misstatements.</li> </ul>
Trivial matters	42,000	<ul style="list-style-type: none"> <li>• Matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria.</li> </ul>
Specific materiality: - Senior officer remuneration	100,000	<ul style="list-style-type: none"> <li>• Public interest</li> </ul>

## 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 30 July 2019, as detailed in Appendix E. These outstanding items include:

- receipt of management representation letter; and
- review of the final set of financial statements.

# Significant findings – audit risks

Risks identified in our Audit Plan	Commentary
<p><b>1</b> The revenue cycle includes fraudulent transactions (rebutted)</p>	<p><b>Auditor commentary</b></p> <p>Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the Authority, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:</p> <ul style="list-style-type: none"> <li>• there is little incentive to manipulate revenue recognition</li> <li>• opportunities to manipulate revenue recognition are very limited</li> <li>• the culture and ethical frameworks of local authorities, including Bromsgrove District Council, mean that all forms of fraud are seen as unacceptable.</li> </ul> <p>Therefore we do not consider this to be a significant risk Bromsgrove District Council.</p> <p>Our audit work has not identified any issues in respect of revenue recognition.</p>
<p><b>2</b> Management override of controls</p>	<p><b>Auditor commentary</b></p> <p>To address this risk we have:</p> <ul style="list-style-type: none"> <li>• evaluated the design effectiveness of management controls over journals</li> <li>• analysed the journals listing and determine the criteria for selecting high risk unusual journals</li> <li>• tested unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration</li> <li>• gained an understanding of the accounting estimates and critical judgements applied made by management and consider their reasonableness with regard to corroborative evidence</li> <li>• evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions.</li> </ul> <p>Obtaining a journals listing which was complete and reconciled back to the financial statements took longer than planned and required officers to run a number of different reports.</p> <p>Our audit work has not identified any issues in respect of management override of controls.</p>

# Significant findings – audit risks

## Risks identified in our Audit Plan

## Commentary

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### Valuation of land and buildings

### Auditor commentary

To address this risk we have:

- evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work
- evaluated the competence, capabilities and objectivity of the valuation expert
- written to the valuer to confirm the basis on which the valuation was carried out
- challenged the information and assumptions used by the valuer to assess completeness and consistency with our understanding
- tested revaluations made during the year to see if they have been input correctly into the Authority'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 at year end.

We experienced significant difficulties in completing our work in this area. In particular:

- It was unclear how in-year depreciation had been calculated. When challenged, officers did not understand the workings either, and it took some time to resolve.
- The valuation report of the former Council Offices at Burcott Road contained two different valuation figures (£1.3m and £1.4m). Officers did not query this with the Valuer, opting to select one of the figures to use. We questioned whether the figure used was the correct one. The valuer stated the incorrect figure had been used, and the valuation was amended.
- We identified one further adjustment to the Property, Plant & Equipment note as a result of incorrect accounting for asset valuations.

Our audit work to date has not identified any other issues in respect of valuation of land and buildings. At the time of drafting this report our audit work was subject to completion and final Engagement Lead review.



# Significant findings – audit risks




	Risks identified in our Audit Plan	Commentary
4	Valuation of the pension fund net liability	<p><b>Auditor commentary</b></p> <p>To address this risk we have:</p> <ul style="list-style-type: none"> <li>• update our understanding of the processes and controls put in place by management to ensure that the Authority's pension fund net liability is not materially misstated and evaluate the design of the associated controls</li> <li>• evaluate the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work</li> <li>• assess the competence, capabilities and objectivity of the actuary who carried out the Authority's pension fund valuation</li> <li>• assess the accuracy and completeness of the information provided by the Authority to the actuary to estimate the liability</li> <li>• test the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial report from the actuary</li> <li>• undertake procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performing any additional procedures suggested within the report</li> <li>• obtain assurances from the auditor of Worcestershire Pension Fund as to the controls surrounding the validity and accuracy of membership data; contributions data and benefits data sent to the actuary by the pension fund and the fund assets valuation in the pension fund financial statements.</li> </ul> <p>Our audit to date has identified one issue in relation to accounting for the impact of the McCloud Court of Appeal judgement. This is considered under section "Significant findings – other issues" on the next page.</p> <p>Our audit work has not identified any other issues in respect of valuation of the valuation of the pension fund liability. At the time of drafting this report our audit work was subject to completion and final Engagement Lead review.</p>

# Significant findings - other issues





This section provides commentary on new issues and risks which were identified during the course of the audit that were not previously communicated in the Audit Plan and a summary of any significant control deficiencies identified during the year.

Issue	Commentary	Auditor view
<p><b>Impact of the McCloud judgement</b></p> <p>The Court of Appeal has ruled that there was age discrimination in the judges and firefighters pension schemes where transitional protections were given to scheme members.</p> <p>Our Grant Thornton view was that this gave rise to a past service cost and liability within the scope of IAS 19 as the ruling created a new obligation.</p> <p>The Government applied to the Supreme Court for leave to appeal this ruling, but this was rejected in late June 2019. The case will now be remitted back to employment tribunal for remedy.</p> <p>The legal ruling has implications for pension schemes where transitional arrangements have been implemented, including the Local Government Pension Scheme (LGPS).</p> <p>This was confirmed on 15 July 2019 in a statement released by The Chief Secretary to the Treasury. The quote below confirms that remedies will need to be applied to the LGPS and hence supports the Authority's stance in the recognition of increased liabilities:</p> <p><i>"As 'transitional protection' was offered to members of all the main public service pension schemes, the government believes that the difference in treatment will need to be remedied across all those schemes. This includes schemes for the NHS, civil service, local government, teachers, police, armed forces, judiciary and fire and rescue workers. Continuing to resist the full implications of the judgment in Court would only add to the uncertainty experienced by members."</i></p>	<p>The decision as to the appropriate accounting treatment is one for the Council. At the Council's request the actuary has re-run the valuation report with their best estimate of the impact re-McCloud.</p> <p>We have agreed with Officers that the financial statements will be amended to reflect the estimated increase in the net deficit in the scheme for the Council from £43,957k to £44,095k. This is a function of an increase in the deficit due to the additional past service costs of £1,151k, and a decrease in the deficit of £1,013k due to the increase in asset values arising from better information since the earlier actuarial report.</p>	<p>We have reviewed the analysis performed by the actuary, and consider that the approach that has been taken to arrive at this estimate is reasonable.</p> <p>Our audit procedures have confirmed the relevant adjustments have been made to the financial statements in regard to the LGPS.</p>

# Significant findings – key judgements and estimates

Accounting area	Summary of management's policy	Audit Comments	Assessment
<b>Provisions for NNDR appeals</b>	The Council is responsible for repaying successful rateable value appeals. The calculation of the provision required is based upon the latest information about outstanding rates appeals provided by the Valuation Office Agency (VOA) and previous success rates. The provision has remained largely unchanged being £1,303k in 2017/18 and £1,311k in 2018/19.	Our testing has confirmed the appropriateness of the underlying information used to determine the estimate. The estimate calculated is reasonable.	 (Green)
<b>Land and Buildings – Other</b>	The Authority revalues its land and buildings as a minimum on a rolling five-yearly basis with interim reviews. If the value of an asset class is projected to materially change during the period since the last valuation then further valuations are instructed. Some asset classes are currently valued annually.	<p>We have set out our findings in relation to the valuation of other land and buildings on page 8.</p> <p>We are satisfied that the judgements and estimates used by management in determining the value of other land and buildings are appropriate for the Council.</p> <p>At the time of drafting this report our audit work was subject to completion and final Engagement Lead review. Based on the work completed, we are satisfied that the judgements and estimates used by management in determining the value of land and buildings are appropriate for the Council.</p>	 (Work incomplete)
<b>Net pension liability</b>	A full actuarial valuation is required every three years. The latest full actuarial valuation was completed in 2016. A roll forward approach is used in intervening periods, which utilises key assumptions such as life expectancy, discount rates, salary growth and investment returns. Given the significant value of the net pension fund liability, small changes in assumptions can result in significant valuation movements.	<p>We have set out our findings in relation to the net pension liability on page 9. We are satisfied that the judgements and estimates used by management in determining the pension fund asset and liability are consistent with those used by the actuary and appropriate for the Council.</p> <p>We have noted that the net liability has increased as a result of a legal case, which has national implications.</p>	 (Green)

## Assessment

-  We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
-  We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
-  We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
-  We consider management's process is appropriate and key assumptions are neither optimistic or cautious

# Significant findings – key judgements and estimates

Summary of management's policy	Audit Comments	Assessment																								
<p><b>Net pension liability</b></p> <p>The Council's net pension liability at 31 March 2019 is £44.1m.</p> <p>The Council uses Mercer to provide actuarial valuations of the Council's assets and liabilities derived from these schemes. A full actuarial valuation is required every three years.</p> <p>The latest full actuarial valuation was completed in 2016. A roll forward approach is used in intervening periods, which utilises key assumptions such as life expectancy, discount rates, salary growth and investment returns.</p> <p>Given the significant value of the net pension fund liability, small changes in assumptions can result in significant valuation movements.</p>	<p>We have:</p> <ul style="list-style-type: none"> <li>• Undertaken an assessment of management's expert</li> <li>• Reviewed and assessed the actuary's roll forward approach taken,</li> <li>• Used an auditors expert (PwC) to assess the actuary and assumptions made by the actuary</li> </ul> <table border="1" data-bbox="758 394 1798 846"> <thead> <tr> <th>Assumption</th> <th>Actuary Value</th> <th>PwC range</th> <th>Assessment</th> </tr> </thead> <tbody> <tr> <td>Discount rate</td> <td>2.4%</td> <td>2.4% - 2.5%</td> <td>●</td> </tr> <tr> <td>Pension increase rate</td> <td>2.3%</td> <td>2.4% - 2.5%</td> <td>●</td> </tr> <tr> <td>Salary growth</td> <td>3.7%</td> <td>Scheme and employer specific</td> <td>●</td> </tr> <tr> <td>Life expectancy – Males currently aged 45 / 65</td> <td>25.1.1/ 22.8</td> <td>23.7 – 24.4/ 21.5 – 22.8</td> <td>●</td> </tr> <tr> <td>Life expectancy – Females currently aged 45 / 65</td> <td>28.2/ 25.8</td> <td>26.2 – 26.9/ 24.1 – 25.1</td> <td>●</td> </tr> </tbody> </table> <p>We have reviewed:</p> <ul style="list-style-type: none"> <li>• Completeness and accuracy of the underlying information used to determine the estimate</li> <li>• Impact of any changes to valuation method</li> <li>• Reasonableness of the Council's share of LPS pension assets.</li> <li>• Reasonableness of increase/decrease in estimate</li> <li>• Adequacy of disclosure of estimate in the financial statements</li> </ul> <p>In October 2018, the High Court ruled that defined benefit pension schemes must remove any discriminatory effect that guaranteed minimum pension entitlements (GMPs) have had on members benefits. GMPs must be equalised between men and women and that past underpayments must be corrected. Actuaries have taken differing approaches to this issue. Mercer have not made any allowance for (GMPs). We have estimated an impact of 0.1% of gross pension liabilities. We do not consider this to be material.</p>	Assumption	Actuary Value	PwC range	Assessment	Discount rate	2.4%	2.4% - 2.5%	●	Pension increase rate	2.3%	2.4% - 2.5%	●	Salary growth	3.7%	Scheme and employer specific	●	Life expectancy – Males currently aged 45 / 65	25.1.1/ 22.8	23.7 – 24.4/ 21.5 – 22.8	●	Life expectancy – Females currently aged 45 / 65	28.2/ 25.8	26.2 – 26.9/ 24.1 – 25.1	●	<p>● (Green)</p>
Assumption	Actuary Value	PwC range	Assessment																							
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# Significant findings - 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).

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## 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 (£8.9m) and Business Rates (£1.1m). 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 £4.9m.

### 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 24 January, shows on pages 15 to 16 the arrangements in place to demonstrate that the Council is a going concern.

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## 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

The reported position of the Council at 31 March 2019 per the draft financial statements shows that they have total current assets of £8.7m compared to £20.2m current liabilities, £1.7m of total current assets are cash and are therefore highly liquid.

We have nothing to report in relation to Going Concern.

# Other communication requirements

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

	Issue	Commentary
1	<b>Matters in relation to fraud</b>	<ul style="list-style-type: none"> <li>We have previously discussed the risk of fraud with the Audit, Standards and Governance Committee. We have not been made aware of any material incidents in the period and no other issues have been identified during the course of our audit procedures.</li> </ul>
2	<b>Matters in relation to related parties</b>	<ul style="list-style-type: none"> <li>We are not aware of any related parties or related party transactions which have not been disclosed.</li> </ul>
3	<b>Matters in relation to laws and regulations</b>	<ul style="list-style-type: none"> <li>You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work.</li> </ul>
4	<b>Written representations</b>	<ul style="list-style-type: none"> <li>A standard letter of representation has been requested from the Council.</li> </ul>
5	<b>Confirmation requests from third parties</b>	<ul style="list-style-type: none"> <li>We requested from management permission to send confirmation requests to 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.</li> </ul>
6	<b>Disclosures</b>	<ul style="list-style-type: none"> <li>Our review found no material omissions in the financial statements.</li> </ul>
7	<b>Audit evidence and explanations/significant difficulties</b>	<ul style="list-style-type: none"> <li>All information and explanations requested from management was provided.</li> <li>We have reported the significant difficulties with accounts our audit of the draft accounts and working papers on page 5.</li> </ul>

# Other responsibilities under the Code

Issue	Commentary
① <b>Other information</b>	<p>We are required to give an opinion on whether the other information published together with the audited financial statements (including the Annual Governance Statement 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. We plan to issue an unmodified opinion in this respect – refer to Appendix E.</p>
② <b>Matters on which we report by exception</b>	<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"> <li>• 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</li> <li>• If we have applied any of our statutory powers or duties</li> </ul> <p>We have nothing to report on these matters.</p>
③ <b>Specified procedures for Whole of Government Accounts</b>	<p>We are required to carry out specified procedures (on behalf of the NAO) on the Whole of Government Accounts (WGA) consolidation pack under WGA group audit instructions.</p> <p>Work is not required as the Council does not exceed the threshold.</p>
④ <b>Certification of the closure of the audit</b>	<p>We intend to certify the closure of the 2018/19 audit of Bromsgrove District Council in the audit opinion, as detailed in Appendix E.</p>

# Value for Money

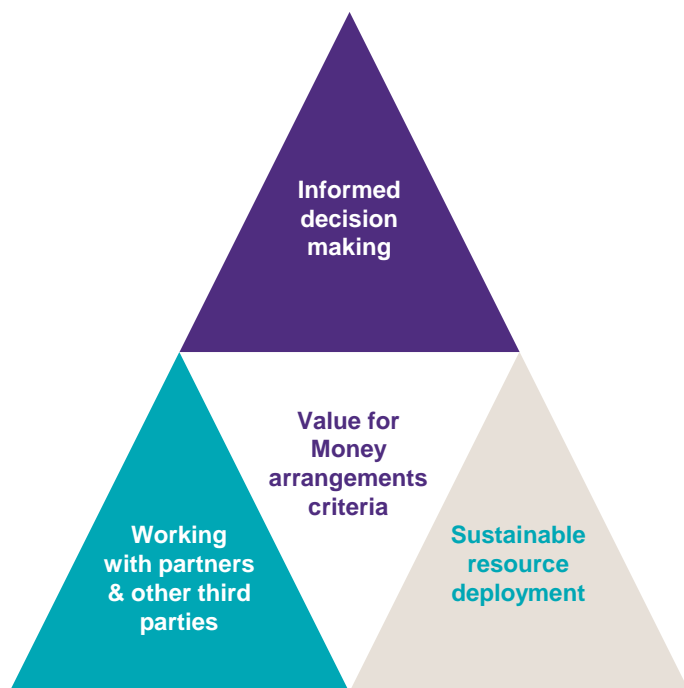
## Background to our VFM approach

We are required to satisfy ourselves that the Council has made 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. In carrying out this work, we are required to follow the NAO's Auditor Guidance Note 3 (AGN 03) issued in November 2017. 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."*

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



## Risk assessment

We carried out an initial risk assessment in December 2018 and identified one significant risk 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 24 January 2019.

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.



# 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 the robustness of your Medium Term Financial Plan.

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 page 18.

## **Overall conclusion**

Based on the work we performed to address the significant risks, we are satisfied that the Council had proper arrangements for securing economy, efficiency and effectiveness 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><b>1</b> <b>Financial sustainability</b></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>1) We will review the February 2019 MTFP and select a number of new savings or income generation schemes to test.</p> <p>2) We will assess the progress being made to put the Council on a long term financially viable footing.</p> <p>3) We will monitor progress on the management restructure.</p>	<p>1) We tested four new savings or income generation schemes included the MTFP agreed in February 2019. We were satisfied that these schemes were soundly based and should deliver the additional savings or income forecast.</p> <p>2) The MTFP agreed in February 2019 shows annual gaps of:</p> <p>2019/20 = £0k; 2020/21 = £827k; 2021/22 = £1,270k; 2022/23 = £1,270k.</p> <p>Totalling £3,368k. The figures above are after efficiency savings or income growth of around £330k per year for the first 3 years, and £460k in the final year, totalling £1,500k. The current General Fund balance is £4,900k and Members wish to have a minimum of £1,100k. The Council has reserves for at least three years, even if no further savings are made.</p> <p>3) The Management Restructure is still in progress. One Head of Service has moved to Rubicon and two have left the Council.</p>	<p><b>Auditor view</b></p> <p>The Council is currently in a sound financial position, but continues to face a challenging future. Members and Officers need to ensure that anticipated savings and income generation schemes are delivered in order to avoid using reserves to support revenue expenditure.</p> <p><b>Management response</b></p> <ul style="list-style-type: none"> <li>Continued quarterly monitoring of savings and income generation as approved by members in Feb 2019. The information to be reported to members as part of the quarterly budget monitoring report and improvements to be discussed with Grant Thornton in relation to best practice</li> <li>Portfolio Holder and CMT workshop arranged to consider future direction (priorities and non-priorities) against the backdrop of the financial position to enable robust and deliverable saving proposals to be made</li> <li>Present to members from September options for savings and additional income generation to be proposed for medium term financial plan</li> <li>Delivery of financial strategy for October Cabinet</li> <li>Detailed review of 2018/19 actual v 2019/20 budget to enable any additional budget allocated to be released for the period 2019/20-2021/23</li> <li>Review of vacant posts to ensure release of any posts no longer required to support services</li> <li>Review of costs associated with support services and robust estimates of savings realised from new systems and automation to be made</li> <li>Full and detailed review of the Capital Programme to assess need of spend against projects and vehicles ( including replacement period of vehicles )</li> <li>Consideration by budget scrutiny to enable challenge of savings proposed</li> <li>Work with Grant Thornton and other Councils to identify best practice in the identification and monitoring of savings</li> </ul>

# 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, as well as the threats to our independence and safeguards that have been applied to mitigate these threats.

	Fees £	Threats identified	Safeguards
<b>Audit related</b>			
Certification of 2018/19 Housing Benefit subsidy claim	12,500	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £12,500 in comparison to the total fee for the audit of £37,484 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level. This work will be completed after we issue our opinion on the financial statements.
<b>Non-audit related</b>			
None			




None of the services provided are subject to contingent fees.

# Action plan

We have identified two recommendations for the Council, arising from our work on the Statement of Accounts, 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 2019/20 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
<p>2</p> <p> (Red)</p>	<p><b>Statement of Accounts production</b></p> <p>Many of the changes we identified as a result of our audit were repeated from last year. It is disappointing and time consuming to have to raise the same amendments in successive years. The Council needs to ensure that the template Statement of Accounts for 2019/20 start with the final audited 2018/19 Statement.</p>	<p>The Finance Team needs to ensure that amendments to the structure of the Statement of Accounts for 2019/20 and the titles and headings used therein reflects the changes agreed this year.</p> <p><b>Management response</b></p> <p>The Council will ensure that in future years a greater amount of time will be allocated to quality checking at a senior level.</p>
<p>3</p> <p> (Red)</p>	<p><b>Quality of working papers and responses</b></p> <p>We noted some improvement in the quality of the working papers initially provided to us. However, those improvements were insufficient to avoid a very high number of questions being raised. For the majority of our audit the responses we received were frequently inadequate, necessitating further questions.</p> <p>Officers need to properly address the recommendation made last year and to ensure that responses to audit questions are “Right first time”.</p>	<p>The Finance Team needs to properly address the recommendation made last year and to ensure that responses to audit questions are “Right first time”.</p> <p><b>Management response</b></p> <p>A training plan will be put in place to address improvements in working papers and responses to audit queries. This will be developed in consultation with Grant Thornton.</p>

## Controls

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

# Follow up of prior year recommendations

We identified the following issues in the audit of Bromsgrove District Council's 2017/18 financial statements, which resulted in two recommendations being reported in our 2017/18 Audit Findings report. Our work this year has identified that neither of these has been addressed.

	Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
1	<p data-bbox="182 496 227 545"><b>X</b></p> <p data-bbox="312 486 1004 568">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.</p> <p data-bbox="312 582 513 604"><b>Recommendation</b></p> <p data-bbox="312 622 1004 728">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.</p>	<p data-bbox="1044 486 1941 596">We noted some improvement in the quality of the working papers initially provided to us. However, those improvements were insufficient to avoid a very high number of questions being raised. For the majority of our audit the responses we received were frequently inadequate, necessitating further questions.</p> <p data-bbox="1044 611 1941 661">Officers need to properly address the recommendation made last year and to ensure that responses to audit questions are "Right first time".</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 ending 31 March 2019.

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000
1 Increase in the Council pension fund deficit arising from the McCloud ruling. Cr. Net Pensions Liability Dr. Cost of Services	1,151	1,151	1,151
2 Decrease in the Council pension fund deficit arising from the updated return on assets. Cr. Remeasurement of the net defined liability (CIES) Dr. Net Pensions Liability	(1,013)	(1,013)	(1,013)
<b>Overall impact of McCloud</b>	<b>138</b>	<b>138</b>	<b>138</b>
3 Former Council House shown as a Surplus Asset (Note 14) with an incorrect figure of £1,400k used for revaluation, rather than £1,300k. Cr. PPE (Surplus Assets) Dr. Revaluation Reserve		(100) 100	
4 Two assets with material balances in the Revaluation Reserve and the CIES. To correct this the net effect is to decrease the Revaluation Reserve and increase the Capital Adjustment Account. Cr. Revaluation Reserve Dr Capital Adjustment Account		(131) 131	
<b>Overall impact of PPE adjustments</b>	<b>0</b>	<b>0</b>	<b>0</b>

# Audit Adjustments

## Misclassification and disclosure changes

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

- Enhancements to the Narrative Report;
- Changes to the Annual Governance Statement in order to comply with requirements (these were also reported last year);
- Changes to some Headings and Statement Titles to comply with requirements (these were also reported last year);
- Twenty nine adjustments to the prior year financial statement figures as the final audited version was not used.

# 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	37,484	TBC
<b>Total audit fees (excluding VAT)</b>	<b>£37,484</b>	<b>TBC</b>

The final audit fee is to be confirmed, pending discussions with Officers and PSAA regarding additional fee as a result of:

- the extra work required arising from the McCloud case (estimated £2,000);
- the additional work required to form a conclusion on the valuation of other land and buildings (estimated £1,500); and
- the additional work required to resolve the very high number of questions we raised, inadequate explanations to our questions, and the number of amendments required to the Statement of Accounts (estimated £4,500).

## Non Audit Fees

Fees for other services	Fees (£)
<b>Audit related services:</b>	
Certification of 2018/19 Housing Benefit subsidy claim	12,500
	<b>£12,500</b>



# 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 2019 which comprise the Movement in Reserves Statement for the Council and Group, 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 2018/19.

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 2019 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 2018/19; 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.

#### 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, other than the Authority and group 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.

# Audit opinion

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 audit 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 issue a report 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 make 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 make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014, in the course of, or at the conclusion of the audit.

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 Responsibilities set out on [page\(s\) x to x](#), 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 2018/19, for being satisfied that they 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.

# Audit opinion

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 there is an intention by government that the services provided by the Authority will no longer be provided.

The Audit, Standards and Governance Committee is Those Charged with Governance. Those charged with governance are responsible for overseeing the Authority's financial reporting process.

## 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](http://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 2019.

## 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 2019.

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.

# Audit opinion

## Report on other legal and regulatory requirements - Certificate

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

### Use of our report

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.

[Signature]

Richard Percival, Engagement Lead  
for and on behalf of Grant Thornton UK LLP, Local Auditor

Birmingham

[Date]



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