

The Annual Audit Letter for Bromsgrove District Council

Year ended 31 March 2019

August 2019



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Your key Grant Thornton
team members are:

Richard Percival
Engagement Lead

T: 0121 232 5434

E: richard.d.percival@uk.gt.com

Neil Preece
Manager

T: 0121 232 5292

E: neil.a.preece@uk.gt.com

Denise Mills
Audit Executive

T: 0121 232 5306

E: Denise.F.Mills@uk.gt.com

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Executive Summary

Purpose

Our Annual Audit Letter (Letter) summarises the key findings arising from the work that we have carried out at Bromsgrove District Council (the Council) and its subsidiaries (the group) for the year ended 31 March 2019.

This Letter is intended to provide a commentary on the results of our work to the Council and group and external stakeholders, and to highlight issues that we wish to draw to the attention of the public. In preparing this Letter, we have followed the National Audit Office (NAO)'s Code of Audit Practice and Auditor Guidance Note (AGN) 07 – 'Auditor Reporting'. We reported the detailed findings from our audit work to the Council's Audit, Standards and Governance Committee as those charged with governance in our Audit Findings Report on 30 July.

Our work

Materiality	We determined materiality for the audit of the Council and group's financial statements to be £0.85m (PY £0.84m), which equates to 2% of the Council's prior year gross expenditure.
Financial Statements opinion	We gave an unqualified opinion on the Council and group's financial statements on 31 July 2019.
Whole of Government Accounts (WGA)	We completed work on the Council's consolidation return following guidance issued by the NAO. As the Council is below the threshold no work was required.
Use of statutory powers	We did not identify any matters which required us to exercise our additional statutory powers.
Value for Money arrangements	We were satisfied that the Council put in place proper arrangements to ensure economy, efficiency and effectiveness in its use of resources. We reflected this in our audit report to the Council on 31 July 2019.
Certification of Grants	We also carry out work to certify the Council's Housing Benefit subsidy claim on behalf of the Department for Work and Pensions. Our work on this claim is not yet complete and will be finalised by 30 November 2019. We will report the results of this work to the Audit, Standards and Governance Committee separately.
Certificate	We certified that we have completed the audit of the financial statements of Bromsgrove District Council in accordance with the requirements of the Code of Audit Practice on 31 July 2019.

Respective responsibilities

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

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

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

Audit of the Financial Statements

Our audit approach

Materiality

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

We determined materiality for the audit of the financial statements to be £0.85m (PY £0.84m) for the group and £0.86m (PY £0.84m) for the Authority, which equates to 2% of prior year gross expenditure. We therefore applied group materiality as it is the lower of the two. We used this benchmark as, in our view, users of the group and Council's financial statements are most interested in where the group and Council has spent its revenue in the year.

We also set a lower level of specific materiality of £100,000 for the disclosure note on senior manager's remuneration, in view of the sensitivity of this note to the reader of the accounts.

We set a lower threshold of £42,000, above which we reported errors to the Audit, Standards and Governance Committee in our Audit Findings Report.

The scope of our audit

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

- the accounting policies are appropriate, have been consistently applied and adequately disclosed;
- the significant accounting estimates made by management are reasonable; and
- the overall presentation of the financial statements gives a true and fair view.

We also read the remainder of the financial statements and the narrative report and annual governance statement to check they are consistent with our understanding of the Council and with the financial statements included in the Annual Report on which we gave our opinion.

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

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

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

Audit of the Financial Statements

Significant Audit Risks

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Valuation of land and buildings</p> <p>The Authority re-values its land and buildings on a rolling five-yearly basis. This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved and the sensitivity of this estimate to changes in key assumptions. Additionally, management will need to ensure the carrying value in the Authority and group financial statements is not materially different from the current value or the fair value (for surplus assets) at the financial statements date, where a rolling programme is used</p> <p>We therefore identified valuation of land and buildings, particularly revaluations and impairments, as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>	<p>As part of our audit work we:</p> <ul style="list-style-type: none"> 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 wrote 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. 	<p>We experienced significant difficulties in completing our work in this area. In particular:</p> <ul style="list-style-type: none"> 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 or 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. <p>Our audit work did not identify any other issues in respect of valuation of land and buildings</p>

Audit of the Financial Statements

Significant Audit Risks - continued

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Valuation of net pension liability The Authority's pension fund net liability, as reflected in its balance sheet as the net defined benefit liability, represents a significant estimate in the financial statements.</p> <p>The pension fund net liability is considered a significant estimate due to the size of the numbers involved and the sensitivity of the estimate to changes in key assumptions.</p> <p>We therefore identified valuation of the Authority's pension fund net liability as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>	<p>As part of our audit work we:</p> <ul style="list-style-type: none"> • updated 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 evaluated the design of the associated controls • evaluated the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work • assessed the competence, capabilities and objectivity of the actuary who carried out the Authority's pension fund valuation • assessed the accuracy and completeness of the information provided by the Authority to the actuary to estimate the liability • tested 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 • undertook 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 • obtained 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. 	<p>Our audit 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 page 8.</p> <p>Our audit work did not identify any other issues in respect of valuation of the valuation of the pension fund liability.</p>

Audit of the Financial Statements

Significant Audit Risks - continued

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

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Management override of internal controls</p> <p>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.</p> <p>We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>	<p>As part of our audit work we:</p> <ul style="list-style-type: none">• evaluated the design effectiveness of management controls over journals• analysed the journals listing and determine the criteria for selecting high risk unusual journals• tested unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration• gained an understanding of the accounting estimates and critical judgements applied made by management and consider their reasonableness with regard to corroborative evidence• evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions.	<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 did not identify any issues in respect of management override of controls.</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>Impact of the McCloud judgement</p> <p>The Court of Appeal 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 re-ran the valuation report with their best estimate of the impact re-McCloud.</p> <p>We agreed with Officers that the financial statements would 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 reviewed the analysis performed by the actuary, and considered that the approach that has been taken to arrive at this estimate is reasonable.</p> <p>Our audit procedures confirmed the relevant adjustments have been made to the financial statements in regard to the LGPS.</p>

Audit of the Financial Statements

Audit opinion

We gave an unqualified opinion on the Council and group's financial statements on 31 July 2019.

Preparation of the financial statements

The Council presented us with draft financial statements in accordance with the national deadline. However, 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.

As a result of the difficulties we faced, and the additional work required, we have agreed an additional fee of £8,000 with the Executive Director of Finance and the Council 's Audit, Standards and Governance Committee.

Issues arising from the audit of the financial statements

We reported the key issues from our audit to the Council 's Audit, Standards and Governance Committee on 30 July 2019. In addition to the points noted above, 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.

Annual Governance Statement and Narrative Report

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

We requested some enhancements to the Narrative Report and changes to the Annual Governance Statement in order to comply with requirements (these were also reported last year). After these amendments both documents were prepared in line with the CIPFA Code and relevant supporting guidance. We confirmed that both documents were consistent with the financial statements prepared by the Council and with our knowledge of the Council.

Whole of Government Accounts (WGA)

We carried out work on the Council's Data Collection Tool in line with instructions provided by the NAO . We issued an assurance statement which confirmed the Council was below the audit threshold.

Certificate of closure of the audit

We certified that we have completed the audit of the financial statements of Bromsgrove District Council in accordance with the requirements of the Code of Audit Practice on 31 July 2019.

Value for Money conclusion

Background

We carried out our review in accordance with the NAO Code of Audit Practice, following the guidance issued by the NAO in November 2017 which specified the criterion for auditors to evaluate:

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

Key findings

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

The risk we identified and the work we performed is set out overleaf.

Overall Value for Money conclusion

We are satisfied that in all significant respects the Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2019.

Value for Money conclusion

Value for Money Risks

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>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>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>Auditor view</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>Management response</p> <ul style="list-style-type: none"> 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 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 Present to members from September options for savings and additional income generation to be proposed for medium term financial plan Delivery of financial strategy for October Cabinet 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 Review of vacant posts to ensure release of any posts no longer required to support services Review of costs associated with support services and robust estimates of savings realised from new systems and automation to be made Full and detailed review of the Capital Programme to assess need of spend against projects and vehicles (including replacement period of vehicles) Consideration by budget scrutiny to enable challenge of savings proposed Work with Grant Thornton and other Councils to identify best practice in the identification and monitoring of savings

A. Reports issued and fees

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

Reports issued

Report	Date issued
Audit Plan	January 2019
Audit Findings Report	July 2019
Annual Audit Letter	August 2019

Audit fee variation

As outlined in our audit plan, the 2018-19 scale fee published by PSAA of £37,484 assumes that the scope of the audit does not significantly change. There are a number of areas where the scope of the audit has changed, which has led to additional work. These are set out in the following table.

Fee variations are subject to PSAA approval.

Fees

	Planned £	Actual £	2017/18 £
Statutory audit	37,484	45,484	53,180
Total fees	37,484	45,484	53,180

Audit fee variation

Area	Reason	Fee proposed £
Assessing the impact of the McCloud ruling	The Government's transitional arrangements for pensions were ruled discriminatory by the Court of Appeal last December. The Supreme Court refused the Government's application for permission to appeal this ruling. As part of our audit we have reviewed the revised actuarial assessment of the impact on the financial statements along with any audit reporting requirements.	2,000
PPE Valuation – work of experts	The Financial Reporting Council has highlighted that auditors need to improve the quality of work on PPE valuations across the sector. We have increased the volume and scope of our audit work to reflect this.	1,500
Financial Statements audit challenges	As set out in our Audit Findings Report and this Annual Audit Letter, we have incurred significant additional work in resolving the very high number of questions we raised, inadequate explanations to our questions, and the number of amendments required to the Statement of Accounts.	4,500
Total		8,000

A. Reports issued and fees (continued)

Fees for non-audit services

Service	Fees £
Audit related services	
- Certification of 2018/19 Housing Benefit subsidy claim	12,500
Non-Audit related services	
- None	Nil

Non- audit services

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



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