

additional papers 1



Audit, Governance and Standards Committee

Thu 24 Sep
2015
7.00 pm

Committee Room 2
Town Hall
Redditch

REDDITCH BOROUGH COUNCIL

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Welcome to today's meeting.

Guidance for the Public

Agenda Papers

The **Agenda List** at the front of the Agenda summarises the issues to be discussed and is followed by the Officers' full supporting **Reports**.

Chair

The Chair is responsible for the proper conduct of the meeting. Generally to one side of the Chair is the Democratic Services Officer who gives advice on the proper conduct of the meeting and ensures that the debate and the decisions are properly recorded. On the Chair's other side are the relevant Council Officers. The Councillors ("Members") of the Committee occupy the remaining seats around the table.

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Items will normally be taken in the order printed but, in particular circumstances, the Chair may agree to vary the order.

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Audit, GOVERNANCE AND STANDARDS COMMITTEE

Thursday, 24th September, 2015

7.00 pm

Committee Room 2 Town Hall

AGENDA

Membership

Cllrs:

David Thain (Chair)
Jane Potter (Vice-
Chair)
Natalie Brookes
Michael Chalk
John Fisher

Andrew Fry
Gareth Prosser
Rachael Smith
Pat Witherspoon

6. Grant Thornton - Audit Findings Report 2014/15

To enable Members to consider the Audit Findings Report
2014/15 from Grant Thornton.

(Report to follow)

AUDIT, STANDARDS AND GOVERNANCE COMMITTEE 24TH SEPT 2015

GRANT THORNTON AUDIT FINDINGS REPORT 2014/15

Relevant Portfolio Holder	Councillor John Fisher
Portfolio Holder Consulted	-
Relevant Head of Service	Jayne Pickering – Exec Director Finance and Resources
Ward(s) Affected	All Wards
Ward Councillor(s) Consulted	No
Key Decision / Non-Key Decision	Non–Key Decision

1. SUMMARY OF PROPOSALS

- 1.1 To present Members with the Grant Thornton Audit Findings Report in relation to the final accounts 2014/15.

2. RECOMMENDATIONS

- 2.1 That Committee considers and notes the Audit Findings Report 2014/15 as attached at Appendix 1.
- 2.2 That Committee approve the draft letter of representation as included at Appendix 2.

3. KEY ISSUES

Financial Implications

- 3.1 Any additional costs in relation to the work undertaken by Grant Thornton whilst undertaking the Audit for 2014/15 will be met from current savings within the accountancy budget.

Legal Implications

- 3.2 The Council has a statutory responsibility to comply with financial regulations. Included within the report is a recommendation to the Council under section 11(3) of the Audit Commission Act 1998 which requires the Council to respond formally to the recommendations included within the report. The summary of the recommendations has to be published in a local newspaper, subject to the exceptions in relation to confidential issues contained in section 12(3) of the Act.

Service / Operational Implications

- 3.3 The report attached at Appendix 1 presents the Audit Findings Report in relation to the audit of the 2014/15 Statement of Accounts. As explained in the report the audit is ongoing. Members are aware that the Statement of Accounts were submitted late to the External Auditors and as can be seen in the detail of the report there have been issues in carrying out the Audit following the receipt of the accounts. It is worth reminding Members as to the

AUDIT, STANDARDS AND GOVERNANCE COMMITTEE 24TH SEPT 2015

circumstances that have been agreed by the Auditors as leading to the issues surrounding the Accounts. These included:

- Implementation of a new financial ledger
- Restructure of the finance team, turnover of staff and difficulties in recruiting to vacant senior posts
- Introduction of a new chart of accounts and changes in coding issues

3.4 The accounts were submitted on Monday 13th July with the deadline of Wednesday 30th June. Officers have supported the Audit however there are a number of queries outstanding following the Audit that require resolving prior to an opinion on the accounts being presented to this meeting. It is hoped that with the support from all officers this deadline will be achieved. In addition the Auditors current position is that the opinion on the accounts will be unqualified.

3.5 The report contains a number of detailed recommendations which will form part of a wider action plan in relation to addressing the issues identified and preparing a plan for the 2015/16 accounts. The specific formal recommendations include:

- Development of a comprehensive project plan for the preparation of 2015/16 Accounts .
- Production of the 2015/16 Accounts to meet the statutory deadlines
- Robust budget preparation and monitoring processes to be put in place

Officers are currently working on developing a plan to meet the above recommendations

3.6 The detailed action plan will be reported to the Audit, Standards and Governance Members on a monthly basis.

Customer / Equalities and Diversity Implications

3.7 There are no implications arising out of this report.

4. RISK MANAGEMENT

4.1 There are a significant number of issues that require addressing and a formal risk plan will be developed alongside the action plan..

5. APPENDICES

Appendix 1 – Grant Thornton Audit Findings Letter 2014/15

AUTHOR OF REPORT

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The Audit Findings for Redditch Borough Council

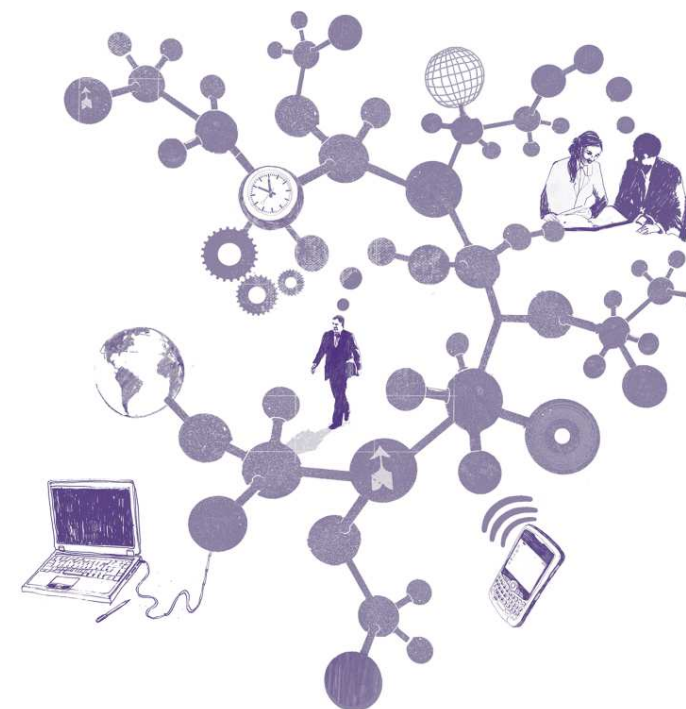
Year ended 31 March 2015

September 2015

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22 September 2015

Dear Jayne

Audit Findings for Redditch Borough Council for the year ending 31 March 2015

This Audit Findings report highlights the significant findings arising from the audit for the benefit of those charged with governance (in the case of Redditch Borough Council, the Audit and Governance Committee), as required by International Standard on Auditing (UK & Ireland) 260. Its contents have been discussed with the Audit Committee.

As auditors we are responsible for performing the audit, in accordance with International Standards on Auditing (UK & Ireland), which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities for the preparation of the financial statements.

The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed primarily for the purpose of expressing our opinion on the financial statements. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

We would like to take this opportunity to record our appreciation for the kind assistance provided by the finance team and other staff during our audit.

Yours sincerely

Phil Jones
Engagement lead

Chartered Accountants

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Section 1: Executive summary

01. Executive summary

02. Audit findings

03. Value for Money

04. Fees, non-audit services and independence

05. Communication of audit matters

Executive summary

Purpose of this report

This report highlights the key matters arising from our audit of Redditch Borough Council's (the Council) group and Council financial statements for the year ended 31 March 2015. It is also used to report our audit findings to management and those charged with governance in accordance with the requirements of International Standard on Auditing 260 (ISA UK&I).

Under the Audit Commission's Code of Audit Practice we are required to report whether, in our opinion, the group and Council's financial statements present a true and fair view of the financial position and expenditure and income for the year and whether they have been properly prepared in accordance with the CIPFA Code of Practice on Local Authority Accounting. We are also required to reach a formal conclusion on whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources (the Value for Money conclusion).

Introduction

In our opinion audit we have made some changes to our planned audit approach, which we communicated to you in our Audit Plan dated March 2015. Due to the unexpected variance of gross income and expenditure between the financial years, we judged that there were increased risks around the accuracy of the accounts. Following officer review, it was established that there were errors in the accounts including double counting and misallocation of certain items. This inevitably resulted in additional work for your staff and our team. We also extended our sampling of gross expenditure to reflect the increased risks. We have not yet completed that additional work.

Our audit is not as advanced as it should be, at this time. We are finalising our work in the following areas:

- review of Senior Manager remuneration and disclosures
- revaluation of property plant and equipment
- completion of the work on the HRA
- completion of debtors testing
- agreement of the financial instruments note.
- agreement of loans to underlying information
- completion of operating expenses testing
- completion of operating segments
- explanatory foreword
- review of the final version of the Financial Statements
- property, plant and equipment valuations and residual value considerations
- financial Instruments
- obtaining and reviewing the final management letter of representation
- review of final version of the Annual Governance Statement and
- updating our post balance sheet events review, to the date of signing the opinion
- obtaining and reviewing the final management letter of representation

We received draft financial statements and some of the accompanying working papers at the start of our audit. Additional requests for supporting working papers have been made throughout the audit. The absence of key staff in the course of the audit did also hamper progress.

Key issues arising from our audit

Financial statements opinion

We anticipate providing an unqualified opinion in respect of the financial statements.

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

- the Council missed the statutory deadline of 30 June for production of the accounts, the accounts being presented on 13 July
- there are material changes to those accounts
- the audit was protracted due to difficulties in completing our work.

Material adjustments and numerous disclosure changes have been made to the accounts. The largest adjustments related to 'double counting' of support service costs which inflated both gross income and expenditure on the face of the Comprehensive Income and Expenditure Account (CIES), increasing the provision for non-domestic rates appeals which impacted on both the collection fund and the CIES, and reallocation of 'Supported People' income and expenditure transferring it from general fund to the Housing Revenue account. We have not experienced this number of changes or had such difficulty completing the audit before.

The draft financial statements for the year ended 31 March 2015 recorded gross expenditure of £66.2m and gross income of £64.4m. The revised accounts show gross expenditure of £63.8m and revised income of £61.9m.

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

Value for Money conclusion

Based on our review of the Council's arrangements to secure economy, efficiency and effectiveness in its use of resources, we will be issuing an 'except for' value for money conclusion. This conclusion is based on the lack of appropriate financial controls resulting in inadequate budget setting.

Further detail of our work on Value for Money is set out in section three of this report. In this section of the report we highlight that some of the recommendations raised in the prior year have not been adequately progressed and thus some of our recommendations are repeated this year. This is not a satisfactory position.

The Council now has a three-year financial plan that was agreed by Members in February 2015. The plan does not assume use of general fund balances to support general expenditure. There are not significant levels of unidentified savings in that plan. The plan forecasts that the Council will have adequate level of balances to provide resilience in the medium term.. This is an improved position on last year when a one year budget was set.

The Council added over £800k to the general fund balances this year, increasing general fund balances from £1.1m to £1.9m, following transfer of £1.1m of earmarked balances to support general fund expenditure, as planned. This increases the level of general fund balances currently assumed within the Medium Term Financial Plan (MTFP).

Housing Revenue Account (HRA) general balances remain at £1m while the earmarked HRA balances have increased by £3m to £16m.

The increase in general fund balances provides the Council with greater financial resilience in the medium term, particularly when there is continuing uncertainty around the level of funding from central government. The level of HRA earmarked reserves now needs to be considered in relation to the HRA business plan.

Despite this overall improvement in financial position we are issuing an 'except for' opinion.

Once again the accounts demonstrate large increases in general fund balances which were not planned when the budget was set. It is not clear from the Council's management processes how this has been achieved.. We know that unreliable assumptions were made this year as part of the budgetary process in relation to certain cost heads, including interest and superannuation. Underspends and savings may have been delivered as a result of service reviews over delivering against budgeted savings plans, but current reporting arrangements are not sufficiently robust to demonstrate to be able to demonstrate this. The level of savings and budget underspends lead us to conclude that some of the savings arose, as in prior years, due to inaccurate budget forecasting, which may have involved, for instance, incorrect assumptions about vacancies.

These issues are also of concern as a number of the assumptions made in this year's annual budget, roll forward into future financial years which may undermine the robustness of the medium term financial plan.

In 2014 we reported weaknesses in strategic planning and performance management arrangements. These have again not been progressed which is disappointing. Without information on the quality and efficiency of Council services it is difficult to form a view as to the impact of service reviews and for us to assess the value for money of council services.

Whole of Government Accounts (WGA)

We are not required to report to the National Audit Office on the Council's WGA submission.

Controls

Roles and responsibilities

The Council's management is responsible for the identification, assessment, management and monitoring of risk, and for developing, operating and monitoring the system of internal control.

Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we report these to the Council.

In our audit plan and July audit update we highlighted that the bank reconciliation had not been completed routinely during the year although was up to date at June. Similar weakness in controls applied to the payroll reconciliation.

The Council has a joint finance team with Bromsgrove District Council (BDC). The benefits of economy of scale, operational and increased resilience which was envisaged when the teams merged, have not yet been realised.

During the year the ledger at BDC was replaced with 'Agresso'. At RBC the ledger was upgraded and a new income module introduced. This implementation was problematic and created difficulty in posting income, resulting in considerable income held in suspense. The problems took a considerable time to resolve. In addition, a finance restructure was undertaken and there was turnover of some key finance staff. Poor project planning and backfill arrangements directly contributed to wider financial control and operational issues across both councils.

The Executive Director of Finance has accepted that there are underlying operational and management issues that need to be addressed. The Executive Director of Finance has discussed with us her outline plans for improving financial management arrangements. The Council needs to address the adequacy of budgetary control which may also involve strengthening delegated budget holding arrangements, which will have an authority-wide impact.

The accounts were prepared late and subsequently had to be restated following questions that we submitted to finance officers relating to large unexplained variances in the revenue accounts. The quality of many of the working papers and audit trail to support the accounts was inadequate with no reference to the tailored working papers request document prepared by ourselves earlier in the year.

We experienced difficulty in obtaining audit trails for some of our testing work. This was probably due to staff's lack of operating knowledge of the new financial ledger and difficulty in obtaining information from the 'old' ledger.

As a result of the magnitude of the problems encountered in relation to the audit of the Council's accounts for the year ended 31 March 2014/15, and in addition, due to the slow progress made in relation to previous year's audit recommendations, which covered poor budget preparation and monitoring, we have made a recommendation to the Council under section 11(3) of the Audit Commission Act 1998 (the Act). The recommendation is contained in the audit findings section of this report.

Under section 11 of the Act, the Council is required to respond formally to our recommendation. The Executive Director of Finance and Resources must prepare a report that summarises the Council's response. As soon as is practicable after the meeting we will need to be provided with a draft notice summarising the decisions. The notice, once we have approved it, must be published in a local newspaper circulating in the Council's area, subject to the exceptions in relation to confidential issues contained in section 12(3) of the Act.

Recommendation made under section 11(3) of the Audit Commission Act 1998 :

The Council should put in place robust arrangements for:

- the production of the 2015/16 financial statements, which meet statutory requirements and international financial reporting standards. In order to achieve this the Council should:
 - ensure sufficient resources and specialist skills are available to support the accounts production
 - introduce appropriate project management skills to the production of the financial statements
- develop a comprehensive project plan for the preparation of the accounts which ensures that:
 - the financial statements are compiled directly from the ledger
 - the entries in the accounts are supported by good quality working paper which are available at the start of the audit
 - the financial statements and working papers have been subject to robust quality assurance prior to approval by the Executive Director (Finance and Resources) provide additional training, where necessary, to ensure all staff involved in the accounts production process have the necessary skills and information;
 - monitor the production of the financial statements through regular reporting to Directors and the Audit Board.

- put in place robust arrangements to ensure that:
 - budget preparation processes are based on sound assumptions which enable an accurate forecast to be made of budget out-turn, including realistic assessments of demand factors, service and demographic changes as well as sound assumptions around turnover and vacancy rates
- budget monitoring processes are timely to enable an accurate forecast to be made in-year of the likely year-end outturn and action to be taken, where necessary, to address budget variances and to report progress on delivery of saving plans

The way forward

In addition to the formal recommendation above, we have made a number of more detailed recommendations, which are set out in the action plan in Appendix A.

Acknowledgment

We would like to take this opportunity to record our appreciation for the assistance provided by the finance team and other staff during our audit.

Grant Thornton UK LLP
September 2015

Section 2: Audit findings

- 01. Executive summary
- 02. Audit findings**
- 03. Value for Money
- 04. Fees, non-audit services and independence
- 05. Communication of audit matters

The Accounts presented for audit were not certified by the statutory deadline of 30 June. We are hoping to give an unqualified opinion on the accounts to enable the accounts to be approved by the 30 September statutory deadline. We are issuing a Section 11 recommendation which will require a formal response from your Executive Director of Finance and Resources.

Audit findings

In this section we present our findings in respect of matters and risks identified at the planning stage of the audit and additional matters that arose during the course of our work. We set out on the following pages the work we have performed and the findings arising from our work in respect of the audit risks we identified in our audit plan, presented to the Audit Board in March 2015. We also set out the adjustments to the financial statements arising from our audit work and our findings in respect of internal controls.

Changes to Audit Plan

There are some changes to the audit plan:

- additional testing was undertaken around operating expenses (reviewed our risk assessment and increased our sampling) because of our assessed risks around the restatement of the accounts.
- our analytical review work was more detailed than originally planned, seeking explanations for unexpected variances between years in gross income and gross expenditure in the first draft of accounts received.
- our risk assessment around welfare benefits changed, meaning that we were able to test a judgmental sample for opinion purposes

The volume of changes to the accounts and difficulty obtaining adequate working papers has meant that some procedures have had to be repeated with updates to the accounts. The audit has taken significantly longer than planned.

Audit opinion

Our proposed audit opinion is set out in Appendix B.

Audit findings against significant risks

"Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, either due to size or nature, and that therefore occur infrequently. Judgmental matters may include the development of accounting estimates for which there is significant measurement uncertainty" (ISA (UK&I) 315).

In this section we detail our response to the significant risks of material misstatement which we identified in the Audit Plan. As we noted in our plan, there are two presumed significant risks which are applicable to all audits under auditing standards.

	Risks identified in our audit plan	Work completed	Assurance gained and issues arising
1.	Improper revenue recognition Under ISA (UK&I) 240 there is a presumed risk that revenue may be misstated due to improper recognition	<ul style="list-style-type: none"> review and testing of revenue recognition policies testing of material revenue streams review of unusual significant transactions 	<p>In our audit plan we stated that we had rebutted the presumed assumption of the risk of fraud in revenue recognition and therefore we did not consider it to be a significant risk.</p> <p>Revenue streams are material and so audit procedures were completed as described.</p> <p>Our audit work has not identified any issues in respect of revenue recognition.</p>
2.	Management override of controls Under ISA (UK&I) 240 there is a presumed risk of management over-ride of controls	<ul style="list-style-type: none"> review of accounting estimates, judgements and decisions made by management testing of journal entries review of unusual significant transactions 	<p>Our audit work has not identified any evidence of management override of controls. In previous years we have highlighted that senior officers have the ability to post journals, and thus our testing involves checking whether this has occurred. The findings of our review of journal controls and testing of journal entries has not identified any significant issues.</p> <p>We set out later in this section of the report our work and findings on key accounting estimates and judgments.</p>

Audit Findings against other risks identified

The auditor should evaluate the design and determine the implementation of the entity's controls, including relevant control activities, over those risks for which, in the auditor's judgment, it is not possible or practicable to reduce the risks of material misstatement at the assertion level to an acceptably low level with audit evidence obtained only from substantive procedures (ISA 315).

In this section we outline the other risks of material misstatement which we have identified as a result of our planning.


Other risks	Description	Audit Approach	Assurance gained and issues arising
Operating expenses	Creditors understated or not recorded in the correct period (Operating expenses understated)	Work completed: <ul style="list-style-type: none">• We updated our understanding of the system and walked it through• We reviewed the Council's accruals process and tested a sample to supporting information• Tested for unrecorded liabilities• We searched for unrecorded liabilities by reviewing payments after the year end	Our work here is substantially complete. Amendments made to the gross expenditure within the financial statements meant that we judged it necessary to extend our testing so that we obtain sufficient audit assurance. This included testing of the shared services expenditure. The further testing required, including the testing of recharges is on-going.
Employee remuneration	Employee remuneration accruals understated (Remuneration expenses not correct)	Work completed: <ul style="list-style-type: none">• We documented our understanding of the system and walked it through• We completed a trend analysis of payroll costs to highlight any unexpected variances for further investigation and ensured that this agreed to the accounts.• Review of the completeness of the payroll reconciliation to ensure that information from the payroll system can be agreed to the ledger and financial statements• We reviewed the reconciliation of the payroll to general ledger• We consider the arrangements in place during the period when there was no payroll manager in post including exception reporting• Agree a sample of payroll costs to contracts of employment/manager confirmation and ensure the employer costs have been accurately calculated	Our review of arrangements when the payroll manager was absent highlighted that exception reporting and review independent of the payroll team was adequate We noted that the payroll reconciliation had not been completed regularly during the financial year. This was highlighted at interim and brought up to date by June 15. Our review of the year end reconciliation did not highlight any issues.

Significant matters discussed with management

	Significant matter	Commentary
1.	Discussions or correspondence with management regarding accounting practices, the application of auditing standards, the application of auditing standards, or fees for audit or other services.	<p>We have discussed the difficulties experienced in completing the audit with the Executive Director of Finance. She was kept fully informed about progress in the course of our work. She has also discussed with us her initial plans for improving things going forward and we will continue to keep appraised of events during the coming year.</p> <p>Assumptions around the audit are changed compared with those when the fee was set, and thus there will be an impact on the audit fee. This will initially be discussed with The Executive Director of finance and agreed with Public Sector Appointments, prior to being shared with Members.</p>

Accounting policies, estimates & judgements

In this section we report on our consideration of accounting policies, in particular revenue recognition policies, and key estimates and judgements made and included with the Council's financial statements.

Accounting area	Summary of policy	Comments	Assessment
Revenue recognition	<ul style="list-style-type: none"> Revenue from the sale of goods is recognised when the Council 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 follow to the Council. Revenue from the provision of services is recognised when the Council 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 Council. Interest receivable on investments and payable on borrowings 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. Where revenue or expenditure has 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 it is doubtful that debts will be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected. Accruals will be made for items of income and expenditure in excess of £500, lower amounts will only be actioned at the request of the relevant budget holder 	<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 2014/15 Adequacy of disclosure of accounting policy. we have noted that there is no specific disclosure around Non Domestic rates (NDR) and Council Tax income, despite these being material income streams. Our review has not highlighted any other issues which we wish to bring to your attention The draft accounts did not include £500k of housing benefit debt being recovered from on-going benefit. This has been adjusted. 	 Amber




Assessment

● Marginal accounting policy which could potentially attract attention from regulators

● Accounting policy appropriate and disclosures sufficient

● Accounting policy appropriate but scope for improved disclosure

Accounting policies, estimates & judgements continued

Accounting area	Summary of policy	Comments	Assessment
Estimates and judgements	<p>Key estimates and judgements include:</p> <ul style="list-style-type: none"> • useful life of capital equipment • pension fund valuations and settlements • Revaluations • Impairments • Provisions • Valuation of investments • Jointly controlled operation (WRS) • Group relationship (ARTRIX) 	<ul style="list-style-type: none"> • We noted that the Council changed its assumptions to the determination of the housing benefits provision for bad debts. This resulted in an increased provision which offset the previously unidentified debtor within the accounts relating to on-going benefit. This changed assumption has not been adequately explained and should be disclosed in the estimates and judgements note to the accounts. • The provision for NNDR appeals has been increased. This was as a result of appeals received after the financial year end. This should be disclosed in the post balance sheet events section of the accounts (see adjustments section for more detail) • The council changed its assumptions around the financing of 'Supported Housing' within the accounts, during the audit. The service is partly funded by grant and partly by the Council. The change has meant that £813k of costs and £533k of income is recognised in the HRA rather than in the general fund. Our understanding is that there was no change in policy, the Council simply clarified its existing policy and reviewed its accounting practices. This has resulted in a prior year adjustment. We have requested that there should be a disclosure in the accounts. 	 amber
Going concern	<p>The Directors have a reasonable expectation that the services provided by the Council will continue for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.</p>	<p>Directors have not undertaken a formal going concern review to support the going concern assumption on which the accounts are prepared. The Director provided her assessment of why she judged that the accounts were prepared on a going concern basis and we consider that this was adequate.</p>	 amber
Other accounting policies	<p>We have reviewed the Council's policies against the requirements of the CIPFA Code and accounting standards.</p>	<p>Our review of accounting policies has not highlighted any issues which we wish to bring to your attention</p>	 green

Assessment

- Marginal accounting policy which could potentially attract attention from regulators
- Accounting policy appropriate and disclosures sufficient

- Accounting policy appropriate but scope for improved disclosure

Other communication requirements

We set out below details of other matters which we are required by auditing standards to communicate to those charged with governance.



	Issue	Commentary
1.	Matters in relation to fraud	<ul style="list-style-type: none"> We have previously discussed the risk of fraud with the Audit and Governance committee. We have not been made aware of any incidents in the period and no other issues have been identified during the course of our audit. There is clear signposting on the Council website in relation to benefit and council tax fraud. and how to report it. As reported in the prior year Audit Findings report, the Fraud and Corruption Policy and the Whistleblowing Policy have not been reviewed, nor are they readily available to staff or the public through the website. This is indicative of weakness in governance arrangements and also suggests that prevention and detection of wider fraud and corruption, are not important to the Council.
2.	Matters in relation to laws and regulations	<ul style="list-style-type: none"> We are not aware of any significant incidences of non-compliance with relevant laws and regulations, not already referred to within this report. As reported in our interim report the financial regulations and policies and procedures are not up to date.
3.	Written representations	<ul style="list-style-type: none"> A letter of representation has been requested from the Council. This will be incorporated within Audit and Governance Committee papers when the accounts are submitted for approval.
4.	Disclosures	<ul style="list-style-type: none"> The Council has used the CIPFA model for the format of the accounts. Local disclosures are very limited and additional disclosures were requested in relation to the large movements on the face of the comprehensive income and expenditure account and in relation to the additional post balance sheet provisions for business rates appeals. Whilst the accounts are compliant with the minimum requirements of the CIPFA code (SORP) the collection fund in particular would benefit from more detail around, for instance, the level of arrears, which is the normal practice in most council accounts. The financial foreword was not in the 13 July version of the accounts submitted for audit. The Foreword should more closely reflect the good practice as outlined in the SORP: that is, 'telling the story' of the accounts and future pressures.
5.	Matters in relation to related parties	<ul style="list-style-type: none"> We are not aware of any related party transactions which have not been disclosed. The accounts presented for audit did include inaccurate disclosures of the value of related party transactions
6.	Confirmation requests from third parties	<ul style="list-style-type: none"> We requested from management permission to send confirmation requests to the Council's banks and then direct confirmations were obtained. Confirmations have also been requested for loans.

Internal controls



The purpose of an audit is to express an opinion on the financial statements.

Our audit included consideration of internal controls relevant to the preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control. We considered and walked through the internal controls for Employee Remuneration and Operating Expenses.

The matters that we identified during the course of our audit are set out in the table below.

	Assessment	Issue and risk	Recommendations
1.	 Amber	<ul style="list-style-type: none"> We highlighted in our progress report that not all payroll reconciliations were completed on a routine basis. In addition bank reconciliations were not up to date due to the delays around the posting of income arising from the difficulties in upgrading the new income module of the financial statements. As part of the opinion audit we also noted that other less fundamental but important reconciliations had not been completed. This included reconciliation of the ledger to the benefits claim and the rents reconciliation. These were undertaken at audit request. There were no significant matters arising from review of these reconciliations at the year end (bank reconciliation work is not yet complete - £600k of reconciled items) 	<ul style="list-style-type: none"> There should be a schedule of reconciliation, who completes them and when an this should be reviewed and enforced by the Financial Services Manager.
2	 Amber	<ul style="list-style-type: none"> We reported that not all the IT control weaknesses identified in the prior year had been addressed. 	<ul style="list-style-type: none"> Whilst none of the controls identified were judged to be significant and thus presenting a risk of material misstatement, the Audit Board should monitor the implementation of internal and external audit recommendations

Assessment

-  Significant deficiency – risk of significant misstatement
-  Deficiency – risk of inconsequential misstatement

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.

Internal controls – review of issues raised in prior year

	Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
1.	X	A part of our review of the AGS, we noted some areas of the constitution that were out of date. This included financial regulations, the Fraud and corruption policy , whistleblowing policy, and the published members allowances scheme.	<ul style="list-style-type: none"> Financial regulations are dated 2006 and are in the process of being updated. There is no reference to whistleblowing or fraud policies on the Council website or in the constitution. Officers have confirmed that these have not been brought up to date. Members allowance scheme has been disclosed this year.
2.	X	At our interim audit, we highlighted that we had identified some weakness in IT controls. Whilst we did not judge these as 'significant' and thus do not impact on our procedures, we have yet to receive a response to that report.	<ul style="list-style-type: none"> We have received responses to our report this year. Some matters have yet to be addressed and this should be monitored
3.	X	Bank reconciliation: the reconciliation was overly complicated and included unnecessary processes	<ul style="list-style-type: none"> Reconciliation process is unchanged

Assessment

- ✓ Action completed
- X Not yet addressed

Adjusted misstatements

A number of adjustments to the draft financial statements have been identified during the audit process. We are required to report all non-trivial misstatements to those charged with governance, whether or not the financial statements have been adjusted by management. The table below summarises the adjustments arising from the audit which have been processed by management.

Impact of adjusted misstatements

All adjusted misstatements are set out below along with the impact on the primary statements and the reported financial position.

Detail	Comprehensive Income and Expenditure Account £'000	Balance Sheet £'000	Impact on total net expenditure £000
Due to errors in the coding and recharging of support services costs the comprehensive income and expenditure was adjusted	Expenditure (£66,562 restated as £63,834) Income £64,468, restated as £61,979		
Due to the impact of the reassessment of NNDR appeals provision the taxation and non specific grant income and expenditure has reduced, to reflect reduced NNDR income to the Council. Additional disclosure has been requested explaining this change in estimate The gross impact is reflected in the collection fund increasing the increase in provisions for appeals from £1,601 to £2,459	£11,102 reduced to £10,759	Increase in provisions from £1,572 to £1,915	

Adjusted misstatements

A number of adjustments to the draft financial statements have been identified during the audit process. We are required to report all non-trivial misstatements to those charged with governance, whether or not the financial statements have been adjusted by management. The table below summarises the adjustments arising from the audit which have been processed by management.

Impact of adjusted misstatements

All adjusted misstatements are set out below along with the impact on the primary statements and the reported financial position.

Detail	Housing Revenue Account	Balance Sheet £'000	Impact on total net expenditure £000
Housing revenue account: in the prior year the Supporting People income and expenditure was reflected in the general fund with a net charge to the HRA. The full income and expenditure are now reflected within the HRA. A prior year adjustment has also been made.	Increase HRA expenditure £813k, and income £533k.	n/a	n/a
HRA - "HRA share of contribution to or from the pension reserve" balance has been adjusted to £291 from £0 due to the adjustment for the pension interest costs (this relates to the matter above)	Change in net amount credited to HRA £2156 to £2488		
Detail	Comprehensive Income and Expenditure Account £'000	Balance Sheet £'000	Impact on total net expenditure £000
Note 32 long term liabilities – grant B is £109. this should be within short term debtors	n/a	£109k movement between long term liabilities and short term debtors	
Debtors understated by creditors incorrectly included in the debtors balance – no net impact on CIES.		£1,059 understatement of debtors and creditors by corresponding amounts.	£nil

Adjusted misstatements

A number of adjustments to the draft financial statements have been identified during the audit process. We are required to report all non-trivial misstatements to those charged with governance, whether or not the financial statements have been adjusted by management. The table below summarises the adjustments arising from the audit which have been processed by management.

Impact of adjusted misstatements

All adjusted misstatements are set out below along with the impact on the primary statements and the reported financial position.

Detail	Comprehensive Income and Expenditure Account £'000	Balance Sheet £'000	Impact on total net expenditure £000
The Council did not include debtors from claimants receiving on-going benefit of £550k, within the accounts. To minimise the impact on the CIES the provision for HB bad debts was adjusted accordingly. We are not convinced about the basis of this provision and the change in assumption should be reflected in the estimates note.		Increase debtors by £500k., increase provision for bad debts £500k.	£nil net effect

Misclassifications & 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.

Adjustment type		Value £'000	Account balance /note reference	Impact on the financial statements
	Disclosure CIES – taxation and non specific grant income and expenditure and note 11 prior year	10,110k	Note 11	The NNDR 13/14 in note 11 is showing the net figure while the 14/15 result has been presented in both gross income and expenditure. The 13/14 figure is showing £1,270 as the gross income but it is the net figure of both gross income and expenditure. The 13/14 column with the relevant gross income £12,996 and gross expenditure £11,726 .
	Misclassifications: CIES – taxation and non specific grant income and expenditure and note 11 current year –disclosure was net not gross	10,759k	CIES & note 11	Note 11 had incorrectly shown net figures – this has now been included gross.
	Disclosure: Financial instruments		Fair value of long term and short term borrowings	These are not disclosed within the note as required by the code
	Disclosure: Senior officer remuneration		Disclosure note 30	Several adjustments in relation to the bandings
	Disclosure: Amounts disclosed as related party transactions		Disclosure note 33	Amounts disclosed for income and expenditure were incorrect The disclosure should include balances to and from related parties. testing elsewhere in the audit has indicated that there are creditor and debtor balances invoices for shared services that are unpaid or have not yet been raised

Misclassifications & 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.

Adjustment type		Value £'000	Account balance /note reference	Impact on the financial statements
	Misclassification: Regulatory services pension		Note 37 Local government pension	Note 37: LGPS - Impact on the Defined Benefits Obligation in the Scheme - Did not include their share of Regulatory Services
	Misclassification: Adjustment between property types of valuation	302k	Note 12	Revaluations incorrectly allocated to land instead of buildings
	Collection fund disclosure – these meet the minimum sorp requirements but contain insufficient relevant information such as the share of the deficit carried forward	n/a	Collection fund notes	none

Section 3: Value for Money

01. Executive summary

02. Audit findings

03. Value for Money

04. Fees, non-audit services and independence

05. Communication of audit matters

Value for Money

Value for money conclusion

The Code of Audit Practice 2010 (the Code) describes the Council's responsibilities to put in place proper arrangements to:

- secure economy, efficiency and effectiveness in its use of resources;
- ensure proper stewardship and governance; and
- review regularly the adequacy and effectiveness of these arrangements.

We are required to give our VfM conclusion based on two criteria specified by the Audit Commission which support our reporting responsibilities under the Code.

These criteria are:

The Council has proper arrangements in place for securing financial resilience - the Council has robust systems and processes to manage effectively financial risks and opportunities, and to secure a stable financial position that enables it to continue to operate for the foreseeable future.

The Council has proper arrangements for challenging how it secures economy, efficiency and effectiveness - the Council is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.

Key findings

Securing financial resilience

We have undertaken a review which considered the Council's arrangements against the three expected characteristics of proper arrangements as defined by the Audit Commission:

- Financial governance;
- Financial planning; and
- Financial control.

In 2013/14 we reported that the Council did not have a medium-term financial plan (MTFP). It is a basic expectation of our VFM assessment that such a plan will be in place. This was a key reason why the VFM conclusion was qualified. In February the Council agreed a MTFP. The plan does not rely on general fund balances and assumes savings which are supported.

The unexpected increase in general fund balances, not anticipated in the MTFP, provides some further resilience in the face of probable reductions in central government grants and uncertainty around other income streams.

The 2014/15 budget was set with a need to achieve, over £674k of identified savings over £500k of unidentified savings and a further saving of £150k from vacancies. The out-turn report is showing that all these savings have been achieved but also the accounts are showing that general fund balances have increased by over £800k, which was not planned. Some explanation has been provided such as incorrect assumptions around interest costs and superannuation. As previously reported, there is inadequate understanding of what has been achieved from service reviews nor is there any attempt made to reconcile actual savings to that planned. It now seems likely that a number of the assumptions within the medium term financial plan are unreliable. The Value for money conclusion will therefore be qualified again this year due to uncertainty around the Council's budget.

The VFM criteria also assesses the adequacy of staffing in the finance department and considers whether there were any significant problems in preparing the accounts. We have highlighted in the previous section that these were particular issues this year.

Value for Money

Challenging economy, efficiency and effectiveness

We have considered the Council's arrangements to challenge economy, efficiency and effectiveness against the following themes:

- Prioritising resources
- Improving efficiency & productivity

The Council is continuing its programme of service reviews which it expects will improve services and make savings through efficiencies and improved focus. A Council plan was developed in 2013 which set out priority themes. Budgets and savings are developed around these. There are currently no agreed plans underpinning these priorities, making it difficult to assess the links between budget and strategic planning. The absence of a performance management system with monitoring and reporting of service measures makes it difficult for us, or the public to assess the quality of Bromsgrove's services. Similar observations were made in the prior year Annual Audit Letter.

Overall VfM conclusion

On the basis of our work, and having regard to the guidance on the specified criteria published by the Audit Commission, we are satisfied that in all significant respects the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2015.

We set out below our detailed findings against six risk areas which have been used to assess the Council's performance against the Audit Commission's criteria. We summarise our assessment of each risk area using a red, amber or green (RAG) rating, based on the following definitions:

Green	Adequate arrangements
Amber	Adequate arrangements, with areas for development
Red	Inadequate arrangements

The table below and overleaf summarises our overall rating for each of the themes reviewed:

Theme	Summary findings	RAG rating
Key indicators of performance	Compared with similar councils, Redditch Borough Council has relatively low levels of unallocated reserves at £1.1m (13/14). The Audit commission has benchmarked the levels of general fund balances against other similar councils. Based on last year's balances Redditch BC was in the lowest 20% of councils for this indicator.	Green
	Collection rates of council tax have declined over the last 3 years	
	2014/15 96.61%	
	2013/14 97.2 %	
	2012/13 97.4 %	
	Collection rates for NDR have declined this year. With the changes to the arrangements for distribution of business rates in 2013 there is more risk associated with business rates income.	
	2014/15 95.65 %	
	2013/14 98.3 %	
	2012/13 97.9 %	
	Performance against budget: revenue and capital	
In 2014 /15 the Council increased balances by £819k, compared with £166k in the previous year. The budget was set with no planned increases in general fund balances. Capital expenditure was £10.3 against a budget of £15m. The main areas of capital expenditure was on HRA.		

Theme	Summary findings	RAG rating
Strategic financial planning	<p>The Council has in place a medium term financial plan. Budgeting, in particular the 'additional pressures' and savings have been grouped and considered under the council corporate themes as outlined in the Council plan.</p> <p>The Council is not planning to make any drawings on general fund reserves to support spending over the life of the plan. In 2015/16 over £800k of earmarked reserves will be released to support GF spending. It is also assumed that over £1m of recurring savings will be achieved in 2015/16. The level of balances is forecast to be above the minimum level of balances set by the Council of £750k</p> <p>As part of the assessment we are required to consider the links between the budget and the council strategic plans. As reported last year, the Council sets out the core priorities for the Council in the Council Plan. However this is not translated into an actual plan with priorities and actions. This therefore makes it difficult to demonstrate that the financial plans are linked with the Council strategic priorities and plans.</p>	Amber
Financial governance	<p>The Council has delegated budget arrangements. This means that budget holders, supported by key accountants are involved in setting, and managing the budget including the savings incorporated into the base budget. It is intended that the reporting module of the new financial ledger will improve the information available to budget holders and facilitate better management of budgets.</p> <p>As reported in previous years, we consider that budget reporting could be significantly improved by better linking of outturn reporting with the original and revised budget and savings plans. Current accounting practice around use of earmarked reserves and support service recharges should be reviewed. Our concern remains that there may be aspects of the base budget which should have been stripped out such as vacancies that are not going to be filled, which inevitably leads to underspends. It is therefore difficult for officers to demonstrate how all savings and underspends relate to planned actions, fortuitous events or 'underlying underspends' within base budgets. This then impacts on budget setting going forward. In 2014/15 unexpected underspends in the 2013/14 accounts were to some extent stripped out of the revised budget, which may be a reason why outturn was closer to forecast</p> <p>The links between the capital programme also should be better developed. At Q3 the council was forecasting a capital budget underspend of £253k against a budget of £11m. The outturn report indicates a revised budget of £15m; accordingly there is some inconsistency in reporting.</p> <p>In year revenue reporting does not include the HRA, which was a matter highlighted last year, and is a weakness.</p> <p>The reporting of Q1 (April to June) 2015/16 will go to the September Executive and is in a new format to fit with corporate themes. It is important that the reports are timely, profiled spend to the year end and highlights risks to the overall financial position to enable decisions to be made to manage the financial position.</p>	red

Theme	Summary findings	RAG rating
Financial governance (cont.)	<p>An updated financial ledger was implemented in February 2015, 1 month before the year end along with a new income module. In the accounts section of this report we highlight that problems with the ledger implementation and staff turnover across the two councils resulted in a delay in the production of the accounts. The accounts were not available by the statutory deadline.</p> <p>The accounts presented were restated in August when it became apparent that different assumptions had been made in preparing the accounts compared with the prior year, in particular around accounting for recharges and housing benefits. The restatement was material.</p> <p>Had the accounts not been produced late and had there been adequate time for review, then the misstatement would have been evident and rectified before being presented for audit.</p> <p>Other material changes have been made to the accounts in the course of the audit.</p> <p>Whilst the problems in the accounts production can be attributed to it being an exceptional year, better project planning and earlier intervention could have meant that some of the problems could have been mitigated.</p> <p>The restructured finance team is not yet operating as an effective joint finance team and it is clear that there are underlying issues that need to be resolved.</p>	Red
Prioritising resources	<p>The Council has a programme of savings and service reviews that are changing how services are provided and delivered.</p> <p>Budgets are allocated against the strategic priorities. The savings targets and unavoidable costs are allocated against these as part of the budget setting process.</p> <p>The service review approach adopted involves challenging how services are provided and front line staff and service users are involved in the review.</p> <p>We have seen no evidence of post implication review of service changes, or assessment of any unintended impacts on activities and increased spending or capacity gaps in other departments, partners or other bodies</p>	Amber

We set out below our detailed findings against six risk areas which have been used to assess the Council's performance against the Audit Commission's criteria. We summarise our assessment of each risk area using a red, amber or green (RAG) rating, based on the following definitions:

Theme	Summary findings	RAG rating
Improving efficiency & productivity	<p>The Council has a programme of savings and service reviews that are changing how services are provided and delivered. The Council plans to provide a new leisure centre which should provide improved leisure services for residents. There has been considerable capital investment in the town centre and Parkside which it is hoped will contribute to regeneration of the town centre. Other regeneration plans are being considered.</p> <p>The Council has not yet developed its outcome measures to underpin the Council plan. There is currently no performance management information routinely reported (other than around customer services which is reported to audit committee) It is therefore difficult to assess efficiency and productivity of council services. It is not possible to assess the impact of service changes or savings on service quality as there is no reporting.</p> <p>The planning service entered special measures this year due to the delay in processing large applications.</p> <p>The Council does not benchmark its costs against other councils. Audit Commission indicators suggest that the council is not a high spending council.</p>	Amber

Section 4: Fees, non-audit services and independence

01. Executive summary

02. Audit findings

03. Value for Money

04. Fees, non-audit services and independence

05. Communication of audit matters

Fees, non-audit services and independence

We confirm below our final fees charged for the audit.

Fees

	Per Audit plan £	Actual fees £
Council audit	77,280	tbc
Grant certification on behalf of Audit Commission	13,720	tbc
Total audit fees	91,000	tbc

As referred to in this report, more work was needed to complete the audit than was planned when we agreed the audit fee.

Additional procedures were undertaken due to the upgrade of the ledger mid year and due to the absence of the payroll manager. These were anticipated and referred to in the audit plan.

The accounts audit was protracted because working papers were inadequate in some places, there was some difficulty accessing staff as contractors had been used to prepare the accounts, audit trails were difficult due to new system issues and finally restated accounts meant that additional procedures were required.

We have yet to complete the audit of the Housing Benefits Subsidy. Initial testing has highlighted a number of errors in the initial sampling which will mean additional testing is required, in line with grant requirements.

Our final audit fee will need to be agreed with officers and Public Sector Appointments (PSAA) and will then be included in the Annual Audit Letter.

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 Standards and therefore we confirm that we are independent and are able to express an objective opinion on the financial statements.

We confirm that we have implemented policies and procedures to meet the requirements of the Auditing Practices Board's Ethical Standards.

Section 5: Communication of audit matters

01. Executive summary

02. Audit findings

03. Value for Money

04. Fees, non-audit services and independence

05. Communication of audit matters

Communication of audit matters to those charged with governance

International Standard on Auditing ISA (UK&) 260, as well as other (UK&I) ISAs, prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table opposite.

The Audit Plan outlined our audit strategy and plan to deliver the audit, while this Audit Findings report presents the key issues and other matters arising from the audit, together with an explanation as to how these have been resolved.

Respective responsibilities

The Audit Findings Report has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission (www.audit-commission.gov.uk).

We have been appointed as the Council's independent external auditors by the Audit Commission, the body responsible for appointing external auditors to local public bodies in England. As external auditors, we have a broad remit covering finance and governance matters.

Our annual work programme is set in accordance with the Code of Audit Practice (the Code) issued by the Audit Commission and includes nationally prescribed and locally determined work. Our work considers the Council's key risks when reaching our conclusions under the Code.

It is the responsibility of the Council to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Council is fulfilling these responsibilities.

Our communication plan	Audit Plan	Audit Findings
Respective responsibilities of auditor and management/those charged with governance	✓	
Overview of the planned scope and timing of the audit. Form, timing and expected general content of communications	✓	
Views about the qualitative aspects of the entity's accounting and financial reporting practices, significant matters and issues arising during the audit and written representations that have been sought		✓
Confirmation of independence and objectivity	✓	✓
A statement that we have complied with relevant ethical requirements regarding independence, relationships and other matters which might be thought to bear on independence.	✓	✓
Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged		
Details of safeguards applied to threats to independence		
Material weaknesses in internal control identified during the audit		✓
Identification or suspicion of fraud involving management and/or others which results in material misstatement of the financial statements		✓
Compliance with laws and regulations		✓
Expected auditor's report		✓
Uncorrected misstatements		✓
Significant matters arising in connection with related parties		✓
Significant matters in relation to going concern		✓
Matters in relation to the Group audit, including: Scope of work on components, involvement of group auditors in component audits, concerns over quality of component auditors' work, limitations of scope on the group audit, fraud or suspected fraud	✓	✓

Appendices

Appendix A: Action plan

Rec No.	Recommendation	Priority	Management response	Implementation date & responsibility
	<p>Accounts production would be improved by ensuring that:</p> <ul style="list-style-type: none"> there is a clear and robust closedown timetable which is made available to all staff involved with the accounts closedown, including those outside of the finance function. individual tasks are allocated to specific staff who are responsible for delivery working papers are clearly prepared, referenced and have description of contents (and cross referenced to our working papers request) 	high		
	<p>Quality of the accounts would be improved by having</p> <ul style="list-style-type: none"> a detailed and evidenced review of the financial statements by senior finance staff reasonableness checks, addition checks and review of all policies and disclosures made prior to accounts being submitted to audit 	high		
	<p>The audit process would be improved by ensuring that:</p> <ul style="list-style-type: none"> annual leave of key financial staff is limited during peak periods including when the accounts are being prepared and when the audit is taking place. staff are aware of each others roles and can backfill where colleagues may be unavailable 	medium		

Appendix A: Action plan

Rec No.	Recommendation	Priority	Management response	Implementation date & responsibility
	<p>Budget setting and monitoring would be improved by:</p> <ul style="list-style-type: none"> • Greater clarity and honesty over the underlying budget requirement at a budget holder level and changes in assumptions communicated more accurately to those preparing in-year reports • Improved information available to budget holders to facilitate more active delegated budgetary control. This was envisaged with the new ledger reporting modules. • The culture that achieving a previously unidentified underspend is a success needs to be discouraged with greater focus on accurate forecasting by budget holders. • More timely reporting to members so that reports can inform decisions rather than them being purely for information • Better trail between the original budget to the in year reports – through review of current practices around allocating earmarked reserves, support service recharges and capital charges. 	high		
	<p>Out turn reporting would be improved by:</p> <ul style="list-style-type: none"> • The financial foreword to the accounts should tell the story of the year and the risks and how they are being managed going forward. This should be in line with good practice recommended by CIPFA. • Improved understanding over underspends i.e how much is attributable to in-year events, to active changes such as service reviews, planned savings and how much is down to issues in relation to original budget assumptions. 			

Appendix A: Action plan

Rec No.	Recommendation	Priority	Management response	Implementation date & responsibility
	<p>Operational effectiveness of the financial services team would be improved by:</p> <ul style="list-style-type: none"> Improved project planning through the main cycles of work – to include milestones (budget setting, reporting and closedown) These cycles need to be speeded up. Greater sharing of skills and tasks across the 2 councils – currently they are still operating in silos with differing practices in place for each council in some areas (as demonstrated by some working papers/ reconciliations being available for one council but not the other). A stronger performance framework with underperforming staff being identified and effectively managed. Those with potential need to be given more opportunity and success recognised. There should be more of a professional culture developed in the team. 	h		
	<p>Performance Management issues The benefits of review should be recognised:</p> <ul style="list-style-type: none"> Formal post implementation assessment of service reviews or other changes should be routine. These are important to establish whether the envisaged benefits are being achieved, both performance and financial, and for lessons to be learned to inform future reviews. Greater priority should be given to having in place a fully operational performance framework. Currently measures of success of reviews and day to day operations of the council appear to be anecdotal rather than specific, measurable and is not communicated to the tax payer. A post implementation review of the ledger implementation is recommended. 	m		

Appendix A: Action plan

Rec No.	Recommendation	Priority	Management response	Implementation date & responsibility
	Internal controls would be improved by better discipline around key reconciliations. simple procedures such as a schedule of reconciliations, responsibility and dates with oversight of the Financial services manager would improve arrangements.	h		

Appendix B: Audit opinion (DRAFT)

We anticipate we will provide the Council with a modified audit report

INDEPENDENT AUDITOR’S REPORT TO THE MEMBERS OF Redditch Borough Council

We have audited the financial statements of Bromsgrove District Council for the year ended 31 March 2015 under the Audit Commission Act 1998. The financial statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement, the Collection Fund and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2014/15.

This report is made solely to the members of Bromsgrove District Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the Chief Financial Officer and auditor

As explained more fully in the Statement of the Chief Financial Officer’s Responsibilities, the Chief Financial Officer 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 2014/15, and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards also require us to comply with the Auditing Practices Board’s Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Authority’s circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Chief Financial Officer; and the overall presentation of the financial statements.

In addition, we read all the financial and non-financial information in the explanatory foreword to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements: give a true and fair view of the financial position of Bromsgrove District Council as at 31 March 2015 and of its expenditure and income for the year then ended; and have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2014/15 and applicable law.

Opinion on other matters

In our opinion, the information given in the explanatory foreword for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we report by exception

We are required to report to you if:

- in our opinion the annual governance statement does not reflect compliance with ‘Delivering Good Governance in Local Government: a Framework’ published by CIPFA/SOLACE in June 2007; or
- we issue a report in the public interest under section 8 of the Audit Commission Act 1998; or
- we exercise any other special powers of the auditor under the Audit Commission Act 1998.

We have nothing to report in these respects.

We report to you if we designate under section 11 of the Audit Commission Act 1998 any recommendation as one that requires the Authority to consider it at a public meeting and to decide what action to take in response. On 24 September we presented our Audit Findings Report to the Audit and Governance Committee. In this Report we made a number of recommendations concerning the improvements the Authority needs to make in preparing its financial statements and strengthening its budgeting arrangements, which in our opinion the Authority should consider under section 11 of the Audit Commission Act 1998.

The Audit Commission Act states "A written recommendation is within section 11 subsection 3 if it is made to the body concerned by an auditor and is stated in the document containing it to be one which in the auditor's opinion should be considered under this section".

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

Respective responsibilities of the Authority and the auditor

The Authority is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

We are required under Section 5 of the Audit Commission Act 1998 to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires us to report to you our conclusion relating to proper arrangements, having regard to relevant criteria specified by the Audit Commission in October 2014.

We report if significant matters have come to our attention which prevent us from concluding that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Scope of the review of arrangements for securing economy, efficiency and effectiveness in the use of resources

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission in October 2014, as to whether the Authority has proper arrangements for:

- securing financial resilience; and
- challenging how it secures economy, efficiency and effectiveness.

The Audit Commission has determined these two criteria as those necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2015.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to form a view on whether, in all significant respects, the Authority had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources

Basis for Qualified Conclusion

In seeking to satisfy ourselves that the Council has made proper arrangements for securing financial resilience, we have considered the financial controls around budget setting. We have concluded that these are inadequate.

Qualified conclusion

On the basis of our work, having regard to the guidance on the specified criteria published by the Audit Commission in October 2014, with the exception of the matters reported in the basis for qualified conclusion paragraph above, we are satisfied that in all significant respects Redditch Borough Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2015.

Certificate

We certify that we have completed the audit of the financial statements of Bromsgrove District Council in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission.

Phil Jones

for and on behalf of Grant Thornton UK LLP, Appointed Auditor
Colmore Plaza
20 Colmore Circus
BIRMINGHAM
West Midlands
B4 6AT

30 September 2015



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*****Prepare on client letterhead*****

Grant Thornton UK LLP
Colmore Plaza

20 Colmore Circus

BIRMINGHAM

West Midlands B4 6AT

30 September 2015

Dear Sirs

Redditch Borough Council
Financial Statements for the year ended 31 March 2015

This representation letter is provided in connection with the audit of the financial statements of **Redditch Borough Council** for the year ended 31 March 2015 for the purpose of expressing an opinion as to whether the financial statements give a true and fair view in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2014/15 and applicable law.

We confirm that to the best of our knowledge and belief having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

Financial Statements

- i We have fulfilled our responsibilities for the preparation of 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 2014/15 ("the Code"); which give a true and fair view in accordance therewith.
- ii We have complied with the requirements of all statutory directions affecting the Council and these matters have been appropriately reflected and disclosed in the financial statements.
- iii The Council has complied with all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance. There has been no non-compliance with requirements of regulatory authorities that could have a material effect on the financial statements in the event of non-compliance.
- iv We acknowledge our responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud.

Chartered Accountants

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- v Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable.
- vi We are satisfied that the material judgements used in the preparation of the financial statements are soundly based, in accordance with the Code and adequately disclosed in the financial statements. There are no other material judgements that need to be disclosed.
- vii Except as disclosed in the financial statements:
 - a there are no unrecorded liabilities, actual or contingent
 - b none of the assets of the Council has been assigned, pledged or mortgaged
 - c there are no material prior year charges or credits, nor exceptional or non-recurring items requiring separate disclosure.
- viii We confirm that we are satisfied that the actuarial assumptions underlying the valuation of pension scheme liabilities for IAS19 Employee Benefits disclosures are consistent with our knowledge. We confirm that all settlements and curtailments have been identified and properly accounted for. We also confirm that all significant post-employment benefits have been identified and properly accounted for.
- ix Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of the Code.
- x All events subsequent to the date of the financial statements and for which the Code requires adjustment or disclosure have been adjusted or disclosed.
- xi Actual or possible litigation and claims have been accounted for and disclosed in accordance with the requirements of the Code.

We have considered the adjusted misstatements, and misclassification and disclosures changes schedules included in your Audit Findings Report. The financial statements have been amended for these misstatements, misclassifications and disclosure changes and are free of material misstatements, including omissions.

- xii We have no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the financial statements.
- xiii We believe that the Council's financial statements should be prepared on a going concern basis on the grounds that current and future sources of funding or support will be more than adequate for the Council's needs. We believe that no further disclosures relating to the Council's ability to continue as a going concern need to be made in the financial statements.

specific representation

- xiv We believe that the basis of the provision for bad debts, in particular for business rate appeals and housing benefits is a reasonable estimate.

Information Provided

- xv We have provided you with:
 - a access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;

- b additional information that you have requested from us for the purpose of your audit; and
 - c unrestricted access to persons within the Council from whom you determined it necessary to obtain audit evidence.
- xvi We have communicated to you all deficiencies in internal control of which management is aware.
- xvii All transactions have been recorded in the accounting records and are reflected in the financial statements.
- xviii We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
- xix We have disclosed to you all our knowledge of fraud or suspected fraud affecting the Council involving:
 - a management;
 - b employees who have significant roles in internal control; or
 - c others where the fraud could have a material effect on the financial statements.
- xx We have disclosed to you all our knowledge of any allegations of fraud, or suspected fraud, affecting the Council's financial statements communicated by employees, former employees, regulators or others.
- xxi We have disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing financial statements.
- xxii We have disclosed to you the identity of all the Council's related parties and all the related party relationships and transactions of which we are aware.
- xxiii We have disclosed to you all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements.

Annual Governance Statement

- xxiv We are satisfied that the Annual Governance Statement (AGS) fairly reflects the Council's risk assurance and governance framework and we confirm that we are not aware of any significant risks that are not disclosed within the AGS.

Approval

The approval of this letter of representation was minuted by the **[**Council's Cabinet/Audit Committee**]** at its meeting on **[Click here and enter date]**.

Yours faithfully

Name.....

Position.....

Date.....

Name.....

Position.....

Date.....

Signed on behalf of the Council