

additional papers 2



Audit, Governance & Standards Committee

Mon 30 Jul
2018
7.00 pm

Committee Room Two
Town Hall
Redditch



www.redditchbc.gov.uk

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Audit, Governance & Standards

Monday, 30th July, 2018

7.00 pm

Committee Room 2 Town Hall

Agenda

Membership:

Cllrs:

John Fisher (Chair)
Mark Shurmer
(Vice-Chair)
Salman Akbar
Joanne Beecham
Michael Chalk

Michael Rouse
Craig Warhurst
Yvonne Smith
Pat Witherspoon

7. Grant Thornton - Audit Findings Report 2017/18 (Pages 1 - 42)

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REDDITCH BOROUGH COUNCIL**AUDIT, GOVERNANCE & STANDARDS**30th July 2018**GRANT THORNTON AUDIT FINDINGS REPORT 2017/18**

Relevant Portfolio Holder	Councillor Tom Baker-Price
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 2017/18.

2. RECOMMENDATIONS

- 2.1 **That the Committee APPROVE the Audit Findings Report 2017/18 as attached at Appendix 1.**
- 2.2 **That the Committee APPROVE the draft letter of representation as included at Appendix 2.**

3. KEY ISSUES**Financial Implications**

- 3.1 The cost associated with the External Audit is funded from approved budgets. There are no additional charges for the 2017/18 Audit work.

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. As can be seen within the Appendix, the recommendations relating to the final accounts have all been delivered to the satisfaction of Grant Thornton.

Service / Operational Implications

- 3.3 The report attached at Appendix 1 presents the Audit Findings Report in relation to the audit of the 2017/18 Statement of Accounts.
- 3.4 The Statement of Accounts for 2017/18 needed to be submitted by 31st May 2018 a month earlier than previous years and the external audit completed by the 31st July 2018 two months earlier than previous years.
- 3.5 The accounts were submitted to the Auditors within the deadline on 30th May 2018. As noted in the Appendix the Auditors have acknowledged the accounts were submitted in

REDDITCH BOROUGH COUNCIL**AUDIT, GOVERNANCE & STANDARDS****30th July 2018**

advance of the deadline and that they have been able to complete the audit by the end of July as planned (compared with September last year). There are no outstanding material issues or misstatements. Audit testing resulted in one prior year restatement, as per the appendix, for expenditure and income analysed by nature, which was a presentational change and had no impact on the bottom line. There is one outstanding recommendation from the prior year, with regards to the management restructure not having taken place as yet. The main recommendation from this year is that a quality control review takes place prior to account completion.

- 3.6 On completion of the audit, an unqualified opinion has been given on the accounts.
- 3.7 In relation to the Value for Money judgement, having taken into account the financial pressures facing the Council over the next 4 years, a qualified “except for” opinion has been given due to uncertainty around the financial sustainability of the council. Officers will work with the Auditors to ensure that plans to manage this are robust and appropriate.

Customer / Equalities and Diversity Implications

- 3.8 There are no implications arising out of this report.

4. RISK MANAGEMENT

- 4.1 The recommendations from the External Auditors will be picked up within the financial services risk arrangements

5. APPENDICES

Appendix 1 – Grant Thornton Audit Findings Letter 2017/18
Appendix 2 – Letter of Representation

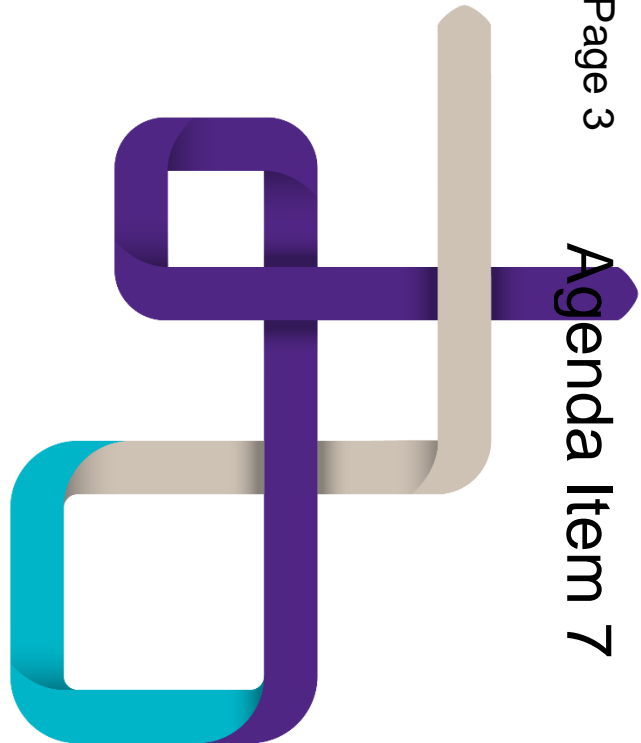
AUTHOR OF REPORT

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Audit Findings

Year ending 31 March 2018

Redditch Borough Council
25 July 2018



Contents



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Section

1. Headlines
2. Financial statements
3. Value for money
4. Independence and ethics

Appendices

- A. Action plan
- B. Follow up of prior year recommendations
- C. Audit adjustments
- D. Fees
- E. Audit Opinion

Page

- 3
- 4
- 15
- 21

- 22
- 23
- 25
- 31
- 32

Page 4
Agenda Item 7

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

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Headlines

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

<p>Financial Statements</p>	<p>Under the International Standards of Auditing (UK) (ISAs), we are required to report whether, in our opinion:</p> <ul style="list-style-type: none"> the Council's financial statements give a true and fair view of the Council's financial position and of the group and Council's expenditure and income for the year, and have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting and prepared in accordance with the Local Audit and Accountability Act 2014. <p>We are also required to report whether other information published together with the audited financial statements (including the Statement of Accounts, Annual Governance Statement (AGS) and Narrative Report), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.</p>	<p>Our audit work was completed on site during May, June and July. Our findings are summarised on pages 4 to 14. We have not identified any adjustments to the financial statements that have resulted in an amendment to the Statement of Comprehensive Income and Expenditure. Audit adjustments are detailed in Appendix C. We have also raised recommendations for management as a result of our audit work in Appendix A. Our follow up of recommendations from the prior year's audit are detailed in Appendix B.</p> <p>Subject to outstanding queries being resolved, we anticipate issuing an unqualified audit opinion following the Audit, Governance and Standards Committee meeting on 30 July 2018, as detailed in Appendix E. These outstanding items include:</p> <ul style="list-style-type: none"> receipt of management representation letter; completing testing in a number of areas; and review of the final set of financial statements. <p>We have concluded that the other information published with the financial statements, which includes the Statement of Accounts, Annual Governance Statement and Narrative Report, are consistent with our knowledge of your organisation and with the financial statements we have audited.</p>
<p>Value for Money arrangements</p>	<p>Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion:</p> <ul style="list-style-type: none"> the Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources ('the value for money (VFM) conclusion'). 	<p>We have completed our risk based review of the Council's value for money arrangements. We have concluded that Redditch Borough Council has proper arrangements to secure economy, efficiency and effectiveness in its use of resources, apart from in relation to financial sustainability.</p> <p>We therefore anticipate issuing a qualified 'except for' value for money conclusion, as detailed in Appendix E. Our findings are summarised on pages 15 to 20.</p>
<p>Statutory duties</p>	<p>The Local Audit and Accountability Act 2014 ('the Act') also requires us to:</p> <ul style="list-style-type: none"> report to you if we have applied any of the additional powers and duties ascribed to us under the Act; and certify the closure of the audit. 	<p>We have not exercised any of our additional statutory powers or duties.</p> <p>We have completed the majority of work under the Code and expect to be able to certify the completion of the audit when we give our audit opinion.</p>

Acknowledgements

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

Summary

Overview of the scope of our audit

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

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

Audit approach

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

- An evaluation of the Council's internal controls environment including its IT systems and controls; and
- Substantive testing on significant transactions and material account balances, including the procedures outlined in this report in relation to the key audit risks.

Key messages

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

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

- There are no unadjusted misstatements.
- The Narrative Report was enhanced and expanded in order to meet the Code requirements.
- The Annual Governance Statement did not fully comply with Code requirements and, importantly, did not make sufficient reference to the Housing Repairs investigation, which is now included as a "Significant Governance Issue".
- Note 8 - Expenditure and Income Analysed by Nature, shows that employee benefits have increased by £3.083m (21%) year on year. Our work identified that, for 2016/17 employee costs were reported as £14.450m, but applying the same approach as that followed for 2017/18, the figure would be £16.985m. Officers have restated the previous year and provided explanations for the difference.
- The Fair Value figures for PWLB loans disclosed in Note 16 were incorrect and have been amended from £125.797m to £114.325m. This has no impact on the amount of borrowing shown on the balance sheet.
- Pension fund disclosures were amended to show the correct sensitivity analysis, as required by the Code, and to correct typographical errors.
- The analysis of pension fund assets was misstated by £20.0 million, meaning that the overall assets per the analysis of £122.987 million did not agree to the scheme assets per the actuary reports of £102.988 million. This has been corrected.
- The financial statements include disclosure of operating leases where the Council is lessor (Note 34). The total income expected over the life of the leases is £3.447 million (£3.901 million in 2016/17). The 2016/17 financial statements stated "The Council has no operating leases." We have tested the leases underlying this disclosure, with no issues identified, but report the incorrect disclosure in the previous year.

Summary

Conclusion

We have substantially completed our audit of your financial statements and subject to outstanding queries being resolved, we anticipate issuing an unqualified audit opinion following the Audit, Governance and Standards Committee meeting on 30 July 2018, as detailed in Appendix E. These outstanding items include:

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

Our approach to materiality

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

Materiality calculations remain the same as reported in our audit plan, except that we have set a separate lower materiality level for the disclosure note on senior manager's remuneration. In view of the sensitivity of this note to the reader of the accounts, we have set a materiality level of £100k.

We have determined materiality to be £1.322 million (PY £1.324 million), which equates to 2% of your gross expenditure for the prior year after adjusting for the HRA revaluation. We are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. Clearly trivial has been set at £66k (PY £66k).

Going concern

Our responsibility

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

Going concern commentary

Management's assessment process

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

The Council has a sound income stream through Council Tax (£5.8m) and Business Rates (£1.9m). It has delivered a balanced budget year on year and has a realistic Medium Term Financial Plan.

The Council also has usable, non earmarked reserves of £1.8m.

Auditor commentary

This is reasonable as the Council has a realistic Medium Term Financial Plan and sufficient reserves to cover any short term unexpected need. It would be considered a going concern even if it demised and the services transferred to another body. Our Informing the Audit Risk Assessment report, presented to Audit, Governance and Standards Committee on 26 April, shows on pages 15 to 16 the arrangements in place to demonstrate that the Council is a going concern.

Work performed

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

Auditor commentary

We have nothing to report in relation to Going Concern.

Significant audit risks

Risks identified in our Audit Plan

Commentary

1

Improper revenue recognition

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

Auditor commentary

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

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

Therefore we do not consider this to be a significant risk for Redditch Borough Council.

2

Management override of controls

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

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

Auditor commentary

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

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

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

Significant audit risks

Risks identified in our Audit Plan

Commentary

3

Valuation of property, plant and equipment

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

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

Auditor commentary

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

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

Our audit work has not identified any changes to the disclosure of property, plant and equipment, but our work in this area is incomplete at the time of writing this report.

4

Valuation of pension fund net liability

The Council's pension fund asset and liability as reflected in its balance sheet represent a significant estimate in the financial statements.

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

Auditor commentary

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

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

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

Reasonably possible audit risks


Risks identified in our Audit Plan	Commentary
<p>Employee remuneration</p> <p>Payroll expenditure represents a significant percentage (20%) of the Council's operating expenses.</p> <p>As the payroll expenditure comes from a number of individual transactions and an interface with sub-systems there is a risk that payroll expenditure in the accounts could be understated. We therefore identified completeness of payroll expenses as a risk requiring particular audit attention.</p>	<p>Auditor commentary</p> <p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> evaluated the Council's accounting policy for recognition of payroll expenditure for appropriateness gained an understanding of the Council's system for accounting for payroll expenditure and evaluated the design of the associated controls obtained the year-end payroll reconciliation and ensured the amount in the accounts can be reconciled to the ledger and through to payroll reports. Investigate significant adjusting items performed substantive analytical procedures for the year. <p>Our audit work to date has not identified any significant issues in respect of the risk identified. However, our work in this area is incomplete at the time of writing this report.</p>
<p>Operating expenses</p> <p>Non-pay expenses on other goods and services also represents a significant percentage (61%) of the Council's operating expenses. Management uses judgement to estimate accruals of un-invoiced costs.</p> <p>We identified completeness of non- pay expenses as a risk requiring particular audit attention.</p>	<p>Auditor commentary</p> <p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> evaluated the Council's accounting policy for recognition of non-pay expenditure for appropriateness gained an understanding of the Council's system for accounting for non-pay expenditure and evaluated the design of the associated controls tested non-pay payments made in April to ensure they are charged to the appropriate year. <p>Our audit work has not identified any significant issues in respect of the risk identified.</p>

Matters discussed with management

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

Significant matter	Commentary	Auditor view
Early payment of pension contributions	<p>The Council has made an early payment of £11.0m to the Worcestershire Pension Fund as deficit payment funding 2017-20. The advantage of this is that it provided an ongoing revenue saving to the Council.</p> <p>We discussed the need for officers to demonstrate that they had satisfied themselves the legality of the process, to correctly account for the payment and to ensure there is sufficient prominence within the accounts.</p>	<p>We are satisfied that the Council is satisfied that the early payment is compliant with Regulations and is appropriately reflected in the financial statements.</p>
Consideration of pension guarantees	<p>We discussed with officers the need to consider the accounting treatment of any guarantees that the Council may have with the pension fund in relation to staff that have transferred to another employer.</p> <p>Officers contacted the Worcestershire Pension Fund to confirm the position and considered the likelihood of any arrangement being activated. They concluded that there is a low risk.</p>	<p>We are satisfied that officers have made appropriate enquiries concerning potential pension guarantees and that their view that there is a low risk of any arrangement being activated is reasonable.</p>



Accounting policies

Accounting area	Summary of policy	Comments	Assessment
Revenue recognition	<p>Revenue from the sale of goods is recognised when the Authority transfers the significant risks and rewards of ownership to the purchaser and it is probable that economic benefits or service potential associated with the transaction will flow to the Authority.</p> <p>Revenue from the provision of services is recognised when the Authority can measure reliably the percentage of completion of the transaction and it is probable that economic benefits or service potential associated with the transaction will flow to the Authority.</p> <p>Interest receivable on investments and payable on borrowings is accounted for respectively as income and expenditure on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract.</p> <p>Where revenue and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Where debts may not be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.</p>	<p>We have considered the:</p> <ul style="list-style-type: none"> • Appropriateness of the Council's policies under International Financial Reporting Standards, as adopted through the Code of Practice on Local Authority Accounting for 2017/18. • Adequacy of disclosure of accounting policies. We note that there is no accounting policy on accruals, and would suggest that one is included in future years. <p>Our review has not highlighted any other issues which we wish to bring to your attention</p>	 (Green)




Assessment

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

Accounting policies

Accounting area	Summary of policy	Comments	Assessment
Judgements and estimates	<p>Key estimates and judgements include:</p> <ul style="list-style-type: none"> – Valuation of Property, Plant and Equipment – Provision for NNDR appeals 	<p>Valuation of property, plant and equipment</p> <p>The Council revalues its Council Dwellings every year and all other assets on a rolling basis over a five year period. We have undertaken the following:</p> <ul style="list-style-type: none"> • reviewed management's processes and assumptions for the calculation of the estimate; • reviewed the competence, expertise and objectivity of the valuation expert, the instructions issued to them and the scope of their work; and • tested the revaluations made during the year to ensure they are input correctly into the Council's asset register and financial statements. <p>The Code requires that the Council ensures that the carrying value at the balance sheet date is not materially different from current value. We are satisfied that this is the case.</p> <p>Business Rates Appeal Provision</p> <p>The Council has made a provision for the Business Rate appeals that have been received but not settled, and those not yet lodged at year end. The Council's estimate is based on the likelihood of various types of claims having to be settled and the estimated value of the settlement. Overall we are satisfied with the approach taken and that the provision is not materially misstated.</p>	<p> (Green)</p> <p> (Green)</p>
Other critical policies		<p>We have reviewed the Council's policies against the requirements of the CIPFA Code of Practice 2017/18. The Council's accounting policies are appropriate and consistent with previous years.</p>	<p> (Green)</p>

Assessment

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

Other communication requirements

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

Issue	Commentary
① Matters in relation to fraud	We have previously discussed the risk of fraud with the Audit, Governance & Standards Committee. We have not been made aware of any material incidents in the period and no other issues have been identified during the course of our audit procedures.
② Matters in relation to related parties	From the work we carried out, we have not identified any related party transactions which have not been disclosed.
③ Matters in relation to laws and regulations	You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work. However, we have been monitoring progress in the investigation into contract management and procurement within the housing department.
④ Written representations	A standard letter of representation has been requested from the Council which is included in the Audit, Governance & Standards Committee papers.
⑤ Confirmation requests from third parties	We requested from management permission to send confirmation requests to banks and councils with whom the Council had investments or borrowing. This permission was granted and the requests were sent. All of these requests were returned with positive confirmation.
⑥ Disclosures	We identified changes to a number of other disclosures in the financial statements which the Council has agreed to amend.
⑦ Audit evidence and explanations	All information and explanations requested from management was provided.
⑧ Significant difficulties	We have not encountered any significant difficulties with accounts closedown, production of draft accounts and working papers.

Other responsibilities under the Code

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

Issue	Commentary
① Other information	<p>We are required to give an opinion on whether the other information published together with the audited financial statements (including the Statement of Accounts, Annual Governance Statement (AGS) and Narrative Report), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.</p> <p>Inconsistencies have been identified but have been adequately rectified by management. We plan to issue an unqualified opinion in this respect – refer to Appendix E</p>
② Matters on which we report by exception	<p>We are required to report on a number of matters by exception in a numbers of areas:</p> <ul style="list-style-type: none"> • If the Annual Governance Statement does not meet the disclosure requirements set out in the CIPFA/SOLACE guidance or is misleading or inconsistent with the other information of which we are aware from our audit • If we have applied any of our statutory powers or duties <p>We have nothing to report on these matters.</p>
③ Specified procedures for Whole of Government Accounts	<p>We are required to carry out specified procedures (on behalf of the NAO) on the Whole of Government Accounts (WGA) consolidation pack under WGA group audit instructions.</p> <p>Work is not required as the Council does not exceed the threshold.</p>
④ Certification of the closure of the audit	<p>We intend to certify the closure of the 2017/18 audit of Redditch Borough Council in the audit opinion, as detailed in Appendix E.</p>

Value for Money

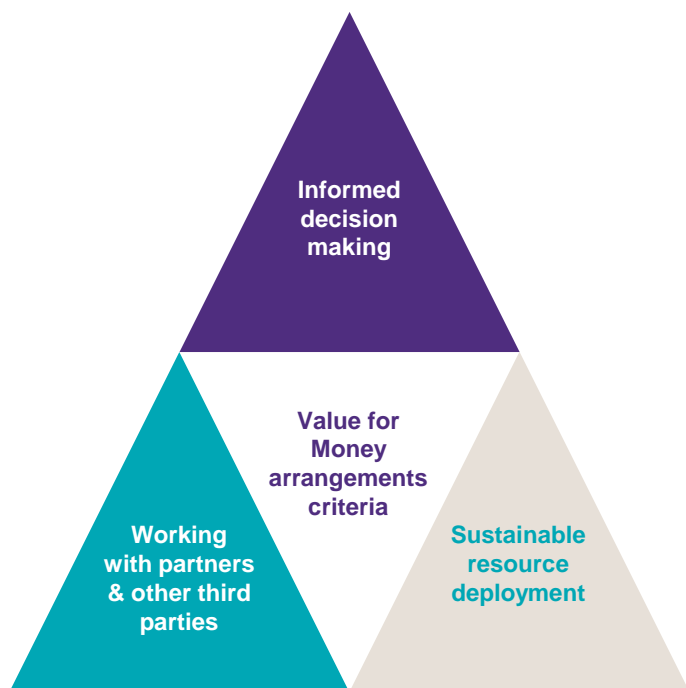
Background to our VFM approach

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

The guidance identifies one single criterion for auditors to evaluate:

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

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



Risk assessment

We carried out an initial risk assessment in and identified three significant risks in respect of specific areas of proper arrangements using the guidance contained in AGN03. We communicated these risks to you in our Audit Plan dated 18 January 2018.

We have continued our review of relevant documents up to the date of giving our report, and have not identified any further significant risks where we need to perform further work.

We carried out further work only in respect of the significant risks we identified from our initial and ongoing risk assessment. Where our consideration of the significant risks determined that arrangements were not operating effectively, we have used the examples of proper arrangements from AGN 03 to explain the gaps in proper arrangements that we have reported in our VFM conclusion.

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

Value for Money

Our work

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

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

- financial sustainability;
- in year financial reporting to Members; and
- procurement and contract management in the housing department

We have set out more detail on the risks we identified, the results of the work we performed and the conclusions we drew from this work on pages 17 to 20.

Overall conclusion

Based on the work we performed to address the significant risks, we concluded that: except for the matter we identified in respect of financial sustainability, the Council had proper arrangements in all significant respects. We therefore propose to give a qualified 'except for' conclusion on your arrangements for securing economy, efficiency and effectiveness in your use of resources.

The text of our proposed report can be found at Appendix E.

Recommendations for improvement

We discussed findings arising from our work with management and have agreed recommendation for improvement .

Our recommendations and management's response to these can be found in the Action Plan at Appendix A

Significant difficulties in undertaking our work

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

Significant matters discussed with management

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

Key findings

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

Significant risk	Findings	Conclusion
<p>1 Financial sustainability</p> <p>How robust is the MTFs and how well developed are savings plans?</p> <p>We have previously identified that improvement is needed to planning finances effectively to support the sustainable delivery of strategic purposes and maintain statutory functions.</p> <p>We will follow up recommendations from our 2016/17 Audit Findings Report to determine the progress made in addressing these issues.</p> <p>1) All savings plans are appropriately supported by a business case, all aspects of the savings are identified, it is clear when the planned savings will be delivered and what needs to happen to realise the savings.</p> <p>2) Priority is given by Executive to ensuring that the management restructure is progressed on a timely basis.</p>	<p>1) We tested a number of schemes to identify whether our recommendations had been addressed. We found there are appropriate business cases in place, commensurate with the savings being considered. However, there is still a financial gap in the MTFP of £1.3 million in 2020/21, and use of balances to cover this is not realistic. At the 31 March 2018 the General Fund working balance was £1.8 million. This level of General Fund working balances will only cover the financial gap for a short period and would then leave the Council with very little financial contingency reserves. There are currently no plans to bridge the gap on a sustainable basis. The Council has not demonstrated that the underlying deficit is being addressed effectively.</p> <p>Officers are also aware that, after 2019/20, the HRA rent reduction scheme is scheduled to end, and councils will be able to begin increasing rents again. Officers intend to revisit the HRA Business Plan to make sure that the HRA is sustainable in the longer term, and that reserves don't fall any lower.</p> <p>While there is no financial impact on the current MTFP, the Council Acquisition and Investment Strategy is proposing borrowing £20m from PWLB to finance investments within the local area. Officers will need to prepare a paper for Members that assesses the impact of the revised Statutory Investment Guidance on their plans. In particular, the Guidance is clear that: "Authorities must not borrow more than or in advance of their needs purely in order to profit from the investment of the extra sums borrowed." [paragraph 46, Statutory Guidance on Local Authority Investment].</p> <p>The LGA Peer review highlighted the need for the Council to avoid having too many priorities, and to adopt a clear approach on de-prioritisation. The Council needs to make some difficult and challenging decisions in order to ensure it can live within its means in the longer term.</p>	<p>Auditor view</p> <p>Savings plans are supported by appropriate business cases, however the Council is not in a financially sustainable long term position, and does not have sufficiently developed plans to address this. If the current MTFP is delivered the Council will have insufficient balances to be able to support spending at the proposed level beyond 2020/21.</p> <p>On this basis, we have concluded that the Council does not have robust plans in place to ensure it remains financially sustainable. We are proposing to issue an "Except for" qualified VFM Conclusion.</p> <p>Should the Council decide to proceed with the Acquisition and Investment Strategy a paper will be needed which clearly sets out how the Council is complying with the Statutory Investment Guidance.</p> <p>Management response</p> <p>Officers are reviewing the investment strategy to ensure the new guidance is addressed.</p> <p>Budget assumptions will be considered earlier to ensure sufficient time and information given to members for decision making.</p>

Significant risk	Findings	Conclusion
<p>1 Financial sustainability (cont.)</p> <p>How robust is the MTFs and how well developed are savings plans?</p> <p>We have previously identified that improvement is needed to planning finances effectively to support the sustainable delivery of strategic purposes and maintain statutory functions.</p> <p>We will follow up recommendations from our 2016/17 Audit Findings Report to determine the progress made in addressing these issues.</p> <p>1) All savings plans are appropriately supported by a business case, all aspects of the savings are identified, it is clear when the planned savings will be delivered and what needs to happen to realise the savings.</p> <p>2) Priority is given by Executive to ensuring that the management restructure is progressed on a timely basis.</p>	<p>2) The management restructure has not progressed. There are three main factors which have caused delay</p> <p>a) the proposal to outsource or restructure Redditch Borough Council leisure services which could reduce the number of Heads of Service;</p> <p>b) the investigation into Redditch Borough Council housing procurement. The Head of Service was suspended while the investigation took place. This makes any restructuring very difficult. This investigation process has now concluded.</p> <p>c) Leaders of both Redditch BC and Bromsgrove DC wanted to see the outcome of the LGA Peer Review before making any decisions.</p> <p>The LGA Peer Review highlighted the need to “define a new shared culture from the bottom up” and “establish a single workforce and reduce duplication and time spent navigating two structures and systems of governance”. The management review is an essential part of responding to this challenge.</p>	<p>Auditor view</p> <p>The management restructure has not progressed as planned, but we are satisfied that there are valid reasons for this. It is however important that the restructure is now progressed as part of the wider response to the issues identified in the LGA Peer Review.</p>

Significant risk	Findings	Conclusion
<p>2 In year financial reporting to Members</p> <p>How informative is in year financial reporting to Members?</p> <p>We have previously identified that improvement was needed in reliable and timely financial reporting that supports the delivery of strategic purposes.</p> <p>We said we would follow up recommendations from our 2016/17 Audit Findings Report to determine the progress made in addressing the following issues.</p> <p>3) Further improvement to the overall reporting of savings, including a clear picture of planned savings to be delivered, progress to date, risk to full achievement and mitigating actions;</p> <p>4) Monitoring of progress against the actions plans supporting the delivery of the Council Plan and quarterly reporting to the Executive.</p>	<p>3) Savings are reported against the Efficiency Plan monitoring report in a one page summary. As such it does not contain much detail, but Members are able to ask questions or see more detail if they wish. Our work demonstrated that Service Managers and accountants have worked together to reduce budgets or increase income projections where appropriate. There are no business cases to support this, but we have seen email correspondence and workings to support the savings figures. The work undertaken is proportionate for the type and amount of savings. We discussed with Officers that, as time moves on, it may now be more appropriate to monitor and report savings and income generation against the MTFP, rather than the Efficiency Plan, as this is more current.</p> <p>4) Corporate Performance is now presented bi-monthly using a new format. The first report was presented to Executive on 6 March 2018. The report is very comprehensive and thorough, and is also easily understandable. This report notes the strategic measures that are currently used to understand the purpose 'keep my place safe and looking good'. These are reported, along with others relevant to the strategic purpose. The Council is now adequately reporting progress against the Council Plan and the key indicators for each strategic purpose to Executive.</p>	<p>Auditor view</p> <p>Savings reporting continues to improve. The high level figures presented to Members are underpinned by appropriate levels of information and analysis. However, in reporting against the Efficiency Plan officers are reporting against old measures, which are difficult to reconcile to the latest MTFP. It would be more transparent and provide Members with better assurance that the MTFP is on track, if savings and income generation were reported against the MTFP.</p> <p>The Council is now adequately reporting progress against the Council Plan and the key indicators for service areas to Executive.</p> <p>Management response</p> <p>Monitoring statements will be enhanced for 2018/19 to include savings plans against the MTFP.</p>

Significant risk	Findings	Conclusion
<p>3 Procurement and contract management in the housing department</p> <p>There was an independent investigation into the procurement and management of housing repairs contracts.</p> <p>We said we would monitor the investigation and the Council response to determine whether there are any implications for our VFM Conclusion.</p>	<p>Following the identification of anomalies in the housing repairs contracts in 2017 internal and external investigations have been carried out. During these investigations eight members of the Housing Repairs team were suspended.</p> <p>Both investigations are now complete and their findings reported to the Chief Executive and Monitoring Officer. We have been briefed on the findings by the Monitoring Officer.</p> <p>The external investigation concluded that there was no evidence of fraud, but there was a failure to comply with Council regulations and processes.</p> <p>A number of officers have left the Council as a result of this process, and an internal re-organisation has led to a more prominent role in procurement and contract management for the Monitoring Officer.</p>	<p>Auditor view</p> <p>We have considered how the Council has responded to this issue, both with respect to its investigation and ensuring that appropriate arrangements are put in place to strengthen procurement and contract management.</p> <p>We have concluded that the Council's response to investigating the issue was appropriate and proportionate. We have also noted that improvements have been made to procurement and contract management.</p> <p>Management response</p> <p>A S151 report will be submitted to Audit, Governance & Standards in October to respond to the Internal Audit reports.</p> <p>Mandatory training has been undertaken by all staff in relation new contract and procurement rules.</p> <p>Specialist contract manager in place.</p>

Independence and ethics

Independence and ethics

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

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

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

Details of fees charged are detailed in Appendix D

Audit and Non-audit services

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



Service	£	Threats	Safeguards
Audit related			
Certification of Housing capital receipts grant	1,654 (estimated)	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £1,654 in comparison to the total fee for the audit of £57,960 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.
Non-audit related			
CFO insights – a data analytics tool through subscription (to be confirmed).	£7,500 (estimated)	None	This fee is for one year only, and does not involve any members of the audit team.

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




None of the services provided are subject to contingent fees.

Action plan

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

	Assessment	Issue and risk	Recommendations
1	 (Amber)	While the financial statements were presented for audit by 31 May, there is scope to improve the quality of the statements and the supporting working papers.	Officers should ensure that sufficient time is built into the financial statements production process to allow for a robust and thorough quality review of both the statements and supporting working papers. Management response <ul style="list-style-type: none"> [...]
2	 (Red)	The Council is not in a financially sustainable long term position, and does not have sufficiently developed plans to address this. If the current MTFP is delivered the Council will have insufficient balances to be able to support spending at the proposed level beyond 2020/21.	Officers and Members need to avoid having too many priorities, and to adopt a clear approach on de-prioritisation. The Council needs to make some difficult and challenging decisions in order to ensure it can live within its means in the longer term. Management response <ul style="list-style-type: none"> [...]

Controls

-  (Red) High – Significant effect on control system
-  (Amber) Medium – Effect on control system
-  (Green) Low – Best practice

Follow up of prior year recommendations (Financial Statements)

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

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
1	✓	Management response
	2017/18 financial statements production	Agreed.
	Officers need to develop a robust and realistic project plan to ensure that the high quality financial statements are prepared by 31 May 2018, and that officers are able to support auditors to complete the audit and provide an opinion by 31 July.	The timetable is being reviewed to bring forward the timetable (EG. Revaluations) and the Council is exploring the purchase of CIPFA's Big Red Button (BRB) to automate the financial statement.
		Final account support to be procured
		Financial Services Manager to be in place by 1/12/17
		Review Timetable 31/10/17 – Chief Accountant
		Purchase BRB and final accounts support 31/10/17– Director of Finance
		Audit finding
		While the Council did not ultimately use the CIPFA Big Red Button tool to automate the financial statements it did play a part in the production of the financial statements before the 31 May deadline.

Assessment

- ✓ Action completed
- X Not yet addressed

Follow up of prior year recommendations (Financial Statements)

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
<p>2 ✓</p>	<p>IT Systems review A review of the staff assigned administrator rights should be performed on a periodic basis to ensure that administrator level access is given on a needs only basis. Least privilege should be the guiding principle when granting all system access.</p> <p>The Agresso accounts should be removed as the system has been replaced this year.</p>	<p>Management response</p> <p>A review of administrator rights within active directory has been implemented. Date due for completion 21/7/17</p> <p>Agresso is switched off and only accessed by a formal request from Finance.</p> <p>21/7/17 Completed</p> <p>Audit finding</p> <p>A review of IT access rights has been undertaken within EFIN. Agresso is switched off and can only be accessed via formal request from finance).</p> <p>Of the nine SuperUsers only seven have admin rights. This number is still a little high, but there is scope to review this if and when the new ledger system is introduced.</p>

Assessment

- ✓ Action completed
- X Not yet addressed

Follow up of prior year recommendations (Financial Statements)

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
3 ✓	<p>Pension fund returns</p> <p>The Council should ensure that all necessary returns are made to the County Council on a timely basis</p>	<p>Management response</p> <p>Agreed. This is an issue with the software. If a fix is not found by 30/9/17 a manual process will be identified.</p> <p>Software solutions or manual fix by 30/9/17 – Business Support</p> <p>Audit finding</p> <p>Manual monthly pension returns are calculated and agreed back to the payroll system before being sent to Worcestershire County Council. This has been in operation since October 2017 but all returns show the figures to date so no estimations are required.</p>
4 ✓	<p>Work in progress</p> <p>The Council should introduce commitment accounting to ensure that expenditure on capital projects is recognised appropriately.</p>	<p>Management response</p> <p>Agreed. This is mainly housing projects but an approach across all capital projects will be introduced for 2017/18 year end to obtain works completed to 31st March 2018.</p> <p>Will be part of the timetable process to be completed by 31/10/17 – Chief Accountant</p> <p>Audit finding</p> <p>A new "no order, no payment policy" is in place. At year end managers have been told they need to obtain valuation certificates for all capital works in progress. This has been communicated in the year end guidance sent to all managers. Our audit work this year did not identify any issues.</p>
5 ✓	<p>Creditor process</p> <p>All invoices should be sent to a central location for processing, and be addressed to the Council. All invoices should be supported by a purchase order.</p>	<p>Management response</p> <p>Agreed. This is an ambition that we are implementing but it does require a disciplined approach. 31/12/1 Financial Services Manager</p> <p>Audit finding</p> <p>A new "no order, no payment policy" is in place. All orders now contain a centralised address to ensure corresponding invoices are sent to the creditors team. Our audit work this year did not identify any issues.</p>

Assessment

- ✓ Action completed
- X Not yet addressed

Follow up of prior year recommendations (Financial Statements)

	Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
6	✓	<p>Accruals policy</p> <p>The Council should adopt and follow an appropriate accounting policy for accruals</p>	<p>Management response</p> <p>Agreed. A new accounting policy will be introduced for 2017/18. Will be part of the 2017/18 accounting policies reported to Audit Committee by 30/04/18 – Financial Services Manager</p> <p>Audit finding</p> <p>A new accrual policy has been communicated to all managers within the year end guidance. The accrual de minimus level has increased to £5k and will be included in the financial statements.</p>
7	✓	<p>Journal authorisation</p> <p>Parameters within the ledger should be reviewed to ensure that only those individuals set up to authorize journals can complete that process.</p>	<p>Management response</p> <p>Agreed. Preference is to remove the ability to create and post a journal but need to speak to the software producer (ABS).</p> <p>31/12/17 – Financial Services Manager</p> <p>Audit finding</p> <p>There is no change to this. Personnel who can approve a journal can also post their own journal. We therefore reflected this in our testing approach.</p>

Assessment

- ✓ Action completed
- X Not yet addressed

Follow up of prior year recommendations (Value for Money)

	Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
1	✓	All savings plans are appropriately supported by a business case, all aspects of the savings are identified, it is clear when the planned savings will be delivered and what needs to happen to realise the savings.	<p>Management response</p> <p>Business case framework agreed to be used for development and presentation of business cases for 2018/19. This will include detailed calculations of planned saving and the rationale for the proposal.</p> <p>November 2017 Executive Director of Finance and Resources</p> <p>Audit finding</p> <p>See page 17.</p>
2	✓	Further improvements to the overall reporting of savings is needed, including a clear picture of planned savings to be delivered, progress to date, risk to full achievement and mitigating actions.	<p>Management response</p> <p>Reporting is currently under review using templates from best practice councils as identified by the auditors. This is to be used for quarter 2 to improve capturing and reporting to members.</p> <p>November 2017 Executive Director of Finance and Resources</p> <p>Audit finding</p> <p>See page 19.</p>
3	✓	Progress against the action plans supporting the delivery of the Council Plan needs to be monitored and reported on a quarterly basis to Executive.	<p>Management response</p> <p>Officers are in discussion with members as to the most appropriate mechanism for reporting. Overview and Scrutiny have requested updates on the council plan actions.</p> <p>October 2017 Head of Transformation</p> <p>Audit finding</p> <p>See page 19.</p>

Assessment

- ✓ Action completed
- X Not yet addressed

Follow up of prior year recommendations (Value for Money)

	Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
4	X	Priority is given by Executive to ensuring that the management restructure is progressed on a timely basis.	<p>Management response</p> <p>Proposals to be developed by Senior Management Team to be presented to Executive in late 2017. December 2017 Chief Executive</p> <p>Audit finding See page 18.</p>
5	✓	The performance dashboard needs to be reported to Members and Officers on a regular basis.	<p>Management response</p> <p>We will be undertaking a review of the dashboard in line with changes to our thinking as the organisation continues to change and transform. We will be reporting performance to Members at both Councils in line with the Corporate Performance Strategy – this will commence in November 2017. November 2017 Head of Transformation</p> <p>Audit finding Performance is now reported to Executive through the use of the online Measures Dashboard, supported by a bi-monthly report.</p>

Assessment

- ✓ Action completed
- X Not yet addressed

Audit Adjustments

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

Impact of adjusted misstatements

There are no adjusted misstatements which impact on the key statements and the reported net expenditure for the year.

Impact of unadjusted misstatements

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

Audit Adjustments

Misclassification and disclosure changes

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

Disclosure omission	Detail	Auditor recommendations	Adjusted?
Note 35 - Defined Benefit Pension Schemes	The sensitivity note has been amended to show the impact of the different changes on the overall liability, rather than the impact on the total service cost for the next year.	The note has been amended.	✓
Note 35 - Defined Benefit Pension Schemes	The analysis of pension fund assets was incorrect. The European Property Fund was misstated by £20.0m, being stated as £22.575m rather than £2.575m, meaning that the overall assets per the analysis of £122.987m did not agree to the scheme assets per the actuary reports of £102.988m.	The note has been amended.	✓
Narrative Report	The Narrative Report presented for audit did not comply with the Code requirements.	The Narrative Report has been enhanced to comply with the Code and to expand on the financial challenges the Council faces.	✓
Annual Governance Statement	The Annual Governance Statement did not fully comply with the requirements and, importantly, did not make sufficient reference to the Housing Repairs investigation. This was a major investigation which needed to be included as a "Significant Governance Issue".	Officers have now included appropriate wording;	✓
Note 8 - Expenditure and Income Analysed by Nature	This note shows that employee benefits have increased by £3.083m (21%) year on year. Our work identified that, for 2016/17 reported employee costs were reported as £14.450m, but applying the same approach as that followed for 2017/18, the figure would be £16.985m. Officers have restated the previous year by increasing employee costs to £16.985m and reducing other expenditure to £41.704m and provided explanations for the difference.	The note has been amended.	✓
Note 16 – Financial Instruments	The Fair Value figures for PWLB loans incorrectly used the PWLB website figures. Fair Value figures obtained by Officers from the Council advisor, Arlingclose, result in the figure being amended from £125.797m to £114.325m. The underlying amount borrowed has not changed.	The note has been amended.	✓

Fees

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

Audit Fees

	Proposed fee	Final fee
Council Audit	57,960	TBC
Grant Certification	18,199	TBC
Total audit fees (excluding VAT)	£76,159	£TBC

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

Non Audit Fees

Fees for other services	Fees £
Audit related services:	
Certification of Housing capital receipts grant	1,654 (estimated)
Non-audit services:	
CFO insights (TBC)	7,500 (estimated)
	£9,154

Audit opinion

We anticipate we will provide the Council with an unmodified audit report on the financial statements and a qualified Value for Money Conclusion.

Independent auditor's report to the members of Redditch Borough Council

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Redditch Borough Council (the 'Authority') for the year ended 31 March 2018 which comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement, the Housing Revenue Account Income and Expenditure Statement, the Movement on the HRA Statement, the Collection Fund Statement and all notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2017/18.

In our opinion the financial statements:

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

Basis for opinion

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

Who we are reporting to

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the Authority's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

Conclusions relating to going concern

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

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

Other information

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

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

We have nothing to report in this regard.

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

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

We have nothing to report in this regard.

Opinion on other matter required by the Code of Audit Practice

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

Matters on which we are required to report by exception

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

- we have reported a matter in the public interest under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we have made a written recommendation to the Authority under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or

- we have exercised any other special powers of the auditor under the Local Audit and Accountability Act 2014.

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

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

As explained more fully in the Statement of Responsibilities [set out on page(s) x to x], the Authority is required to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the Executive Director of Finance and Resources. The Executive Director of Finance and Resources is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2017/18, which give a true and fair view, and for such internal control as the Executive Director of Finance and Resources determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

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

Qualified conclusion

On the basis of our work, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in November 2017, except for the effects of the matter described in the basis for qualified conclusion section of our report we are satisfied that, in all significant respects, the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2018.

Basis for qualified conclusion

In considering the Authority's arrangements for securing efficiency, economy and effectiveness in its use of resources we identified the following matter:

The Authority’s medium term financial plan was updated in February 2018 and covers the period to 31 March 2021. Over this period, the plan forecasts that expenditure will exceed income by £1.3 million. At 31 March 2018 the Authority’s General Fund balance was £1.8 million. This balance will only cover the financial gap for a short period and would then leave the Authority with very little financial contingency reserves. There are currently no plans to bridge the gap on a sustainable basis.

This matter is evidence of weaknesses in proper arrangements for sustainable resource deployment in planning finances effectively to support the sustainable delivery of strategic priorities and maintain statutory functions.

Responsibilities of the Authority

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

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

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to be satisfied that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

We have undertaken our review in accordance with the Code of Audit Practice having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in November 2017, as to whether in all significant respects the Authority had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined this criterion as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2018.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to be satisfied that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

Report on other legal and regulatory requirements - Certificate

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

Signature to be added

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

The Colmore Building
20 Colmore Circus
Birmingham
B4 6AT

Date to be added

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Redditch Borough Council

Town Hall, tel: (01527) 64252
Walter Stranz Square,
Redditch,
Worcs, B98 8AH

**APPENDIX 2**

Grant Thornton UK LLP
The Colmore Building
20 Colmore Circus
BIRMINGHAM
West Midlands
B4 6AR

30 July 2018

Dear Sirs

**Redditch Borough Council
Financial Statements for the year ended 31 March 2018**

This representation letter is provided in connection with the audit of the financial statements of Redditch Borough Council for the year ended 31 March 2018 for the purpose of expressing an opinion as to whether the Council financial statements are presented fairly, in all material respects in accordance with International Financial Reporting Standards and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18 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 Council's financial statements in accordance with International Financial Reporting Standards and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18 ("the Code"); in particular the financial statements are fairly presented 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 any 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.
- v Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable.
- vi 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.
- vii We confirm that we are satisfied that the actuarial assumptions underlying the valuation of pension scheme assets and 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.
- viii Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards and the Code.
- ix All events subsequent to the date of the financial statements and for which International Financial Reporting Standards and the Code require adjustment or disclosure have been adjusted or disclosed.
- x We have considered the adjusted misstatements, and misclassification and disclosures changes schedules included in your Audit Findings Report. The Council financial statements have been amended for these misstatements, misclassifications and disclosure changes and are free of material misstatements, including omissions.
- xi Actual or possible litigation and claims have been accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards.
- 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.

Information Provided

- xiv We have provided you with:
- a. access to all information of which we are aware that is relevant to the preparation of the Council 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.

- xv We have communicated to you all deficiencies in internal control of which management is aware.
- xvi All transactions have been recorded in the accounting records and are reflected in the financial statements.
- xvii 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.
- xviii We have disclosed to you all information in relation to fraud or suspected fraud that we are aware of and that affects the Council and involves:
 - 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.
- xix We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the financial statements communicated by employees, former employees, analysts, regulators or others.
- xx 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.
- xxi We have disclosed to you the identity of the Council's related parties and all the related party relationships and transactions of which we are aware.
- xxii 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

- xxiii 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.

Narrative Report

- xxiv The disclosures within the Narrative Report fairly reflect our understanding of the Council's financial and operating performance over the period covered by the Council financial statements.

Approval

The approval of this letter of representation was minuted by the Council's Audit, Governance and Standards Committee at its meeting on 30 July 2018.

Yours faithfully

Name.....

Position.....

Date.....

Name.....

Position.....

Date.....

Signed on behalf of the Council