

The Audit Findings for Redditch Borough Council

DRAFT

This version of the report is a draft. Its contents and subject matter remain under review and its contents may change and be expanded as part of the finalisation of the report.

Year ended 31 March 2014

25 September 2014

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The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed 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.

Contents

Section	Page
1. Executive summary	[4]
2. Audit findings	[8]
3. Value for Money	[22]
4. Fees, non audit services and independence	[29]
5. Communication of audit matters	[31]

Appendices

- A Action plan
- B Audit opinion

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') financial statements for the year ended 31 March 2013. 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).

Under the Audit Commission's Code of Audit Practice we are required to report whether, in our opinion, the Council's financial statements present a true and fair view of the financial position, its 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 the conduct of our audit we have not had to alter or change our planned audit approach, which we communicated to you in our Audit Plan dated March 2014.

Our audit is substantially complete although we are finalising our work in the following areas:

- completion of the work on council tax
- operating segments
- WGA
- going concern;
- external confirmation of bank balances

- cash
- contingent liabilities – awaiting legal responses
- obtaining and reviewing the final management letter of representation
- review of final version of the Annual Governance Statement (AGS) and
- updating our post balance sheet events review, to the date of signing the opinion
- HR
- Whole of Government Accounts

We received draft financial statements and accompanying working papers at the start of our audit, in accordance with the agreed timetable.

Key issues arising from our audit

Financial statements opinion

We anticipate providing an unqualified opinion on the financial statements. We have identified no adjustments affecting the Council's reported financial position (details are recorded in section 2 of this report). The draft financial statements recorded net expenditure of £4,192k which is unchanged. We have however identified some adjustments to improve the presentation of the financial statements.

Staff at the Council were very supportive in helping us deliver the audit. In the main, the Council provided adequate working papers to support the accounts, and far fewer adjustments were necessary than has been the case in recent years. We would like to take this opportunity to thank your finance team and congratulate them on the improvements made again this year.

There have been some significant changes in council tax and NDR arrangements, and these have impacted on the accounts. This meant some additional procedures were required. This, combined with additional procedures undertaken on the VFM conclusion, is reflected in some additional fees, as referred to in the final section of the report.

Next year, the Council should focus on:

- 'de-cluttering' the accounts
- making further improvements to the Explanatory Foreword
- improve arrangements around the production of the AGS
- undertaking a more formal 'going concern' assessment.

Further details are set out in section 2 of this report.

Value for Money conclusion

Our review of the Council's arrangements to secure economy, efficiency and effectiveness has resulted in a qualified 'except for' VFM conclusion, as a result of the organisation's failure to put in place 'proper arrangements in place for securing financial resilience'

The main issues informing our conclusion are:

- Weaknesses in medium-to long-term financial planning, specifically the absence of an up-to-date, sustainable 3-5 year medium-term financial plan.
- Lack of robust plans to deliver savings required to balance the budget
- Planned use of reserves to fund recurrent expenditure that is not, for example, part of planned invest to save initiatives

In addition to weaknesses in these specific criteria, further weaknesses exist which make it difficult for the Council to demonstrate the quality, efficiency or effectiveness of services or achievement of strategic priorities. We have some considerable concern about the financial resilience of the Council in the medium term. Further details are outlined in section 3 of this report.

Whole of Government Accounts (WGA)

We will complete our work in respect of the Whole of Government Accounts in accordance with the national timetable. We are expecting that the Council will require only limited procedures, as in previous years.

Controls

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 we referred to weaknesses in a number of areas in our IT risk assessment. We did not judge that these were significant and they did not impact on our planned audit approach.

Internal Audit identified a number of weaknesses in internal controls, including the absence of in year reconciliation in relation to the council tax and NDR systems and some weakness in payroll arrangements. We designed our audit testing procedures so that we could obtain sufficient assurance in the areas impacted by Internal audit's findings.

When the accounts were prepared in June, Internal Audit had not completed or reported on all its work for 2013/14. We recommended that the AGS was updated to reflect the weakness identified. We have therefore not included their findings within this report.

Our work has not identified any further control weaknesses which we wish to highlight for your attention. However, it is important that all weaknesses identified are addressed and that Those Charged with Governance (TCWG) have adequate assurance that this is happening.

During 2014/15 it is likely that Redditch Council and Bromsgrove District Council will both be updating their financial ledgers to provide a common financial system, to support a common finance team. This is a significant project which needs to be properly resourced and managed. In our experience, where such a project is not managed well, the consequences can be serious. It is important that management and TCWG receive regular and appropriate assurances around this project, and we would expect internal audit to have a role in providing this assurance.

This project is being undertaken when the team are facing some considerable challenges including a restructure, supporting the development of a medium term financial plan and making improvement in budget setting and monitoring arrangements. This increases the risk both to the project but also that other improvements are not made.

The way forward

Matters arising from the financial statements audit and review of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources have been discussed with the Executive Director (Finance and Corporate Resources).

We have made a number of recommendations, which are set out in the action plan in Appendix A. Recommendations have been discussed and agreed with the Executive Director (Finance and Corporate Resources), and the finance team.

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 2014

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

We are anticipating issuing an unqualified opinion on the accounts by the 30 September national deadline.

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 findings arising from our work in respect of the audit risks we identified in our audit plan, presented to the Audit Committee in March 2014. We also set out the adjustments to the financial statements arising from our audit work and our findings in respect of internal controls. We have not made any changes to that audit Plan.

Audit opinion

We anticipate that we will provide the Council with an unmodified opinion. Our 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 315).

In this section we detail our response to the significant risks of material misstatement which we identified in the Audit Plan. There have been some small changes to the work we planned to address the risks. 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.	<p>Improper revenue recognition</p> <p>Under ISA 240 there is a presumed risk that revenue may be misstated due to improper recognition</p>	<ul style="list-style-type: none"> • review and testing of revenue recognition policies • testing of material revenue streams • review of unusual significant transactions 	<p>Our audit work has not identified any issues in respect of revenue recognition.</p>
2.	<p>Management override of controls</p> <p>Under ISA 240 there is a presumed risk of management over-ride of controls</p>	<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 particular 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>

In this section we detail our response to the other risks of material misstatement which we identified in the Audit Plan. Some minor changes have been made to the approach outlined in the audit plan to reflect the nature of the sample or to improve efficiency. Recommendations, together with management responses, are attached at Appendix A.



Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
Operating expenses	Creditors understated or not recorded in the correct period	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> • documented our understanding of processes and key controls over the transaction cycle • undertaken walkthrough of the key controls to assess the whether those controls are designed effectively • cut off testing of purchase orders and goods received notes(both before and after year end) (here we actually tested from the cash transaction listing) • reviewed the completeness of the reconciliations to the purchasing system. • tested a a sample of operating expenses covering the period 1/4/13 to 31/3/14 to ensure they have been accurately accounted for and in the correct period. 	No significant matters of concern have been identified.
Employee remuneration	Employee remuneration accrual understated	<p>We have conducted a walkthrough of the key controls for this system at interim.</p> <p>At the final accounts visit we:</p> <ul style="list-style-type: none"> • reviewed the completeness of the payroll reconciliation to ensure that information from the payroll system can be agreed to the ledger and financial statements • sample of payments made in April & May to ensure payroll expenditure is recorded in the correct year. • Undertook a monthly trend analysis of total payroll <p>At interim we undertook testing of a sample of employees remuneration covering the period to February 2014 to ensure they have been correctly accounted for. This work was extended in the accounts audit to include a sample of employee remuneration payments covering the period March to May 2014.</p>	No significant matters of concern have been identified

Audit Findings against 'Other' risks (cont)



<p>Welfare expenditure</p>	<p>Welfare benefit expenditure improperly computed</p>	<p>At interim we conducted a walkthrough of the key controls for this system</p> <p>We undertook further testing in accordance with the methodology required to certify the Housing Benefit subsidy claim.</p>	<p>No significant matters have arisen from this work</p>
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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"> Accounting policy 1.2 summarises the Council's approach to revenue recognition. 	The policy adopted is consistent with the prior and the approach that is considered to be the industry 'norm', as referred to in the SORP. Disclosure of the policy is adequate. Our testing has not identified any transaction that are no consistent with the stated policy.	 green
Judgements and estimates	<p>Assumptions made about sources of estimation uncertainty is covered in note 4 for:</p> <ul style="list-style-type: none"> Pensions liability Arrears/ bad debt provisions Earmarked reserves Property Plant and equipment Equal Pay claims Provision for business rate appeals 	<p>Pensions liabilities : The Council is reliant on the pensions administrator (Worcestershire County Council) and the actuary to provide this estimate. The note adequately describes the basis of the estimate. As part of our work we have considered whether it is appropriate to rely on the Council experts for this estimate, and have judged that it is reasonable to do so.</p> <p>Arrears/ Provision for bad debts: the note refers to the levels of sundry and housing benefit debt and the associated risk. The Council also has set aside provisions for bad debt for other debtors, including housing rents, business rates and council tax, which are not referred to in this note.</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

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
		<p>PPE estimate of depreciation : the Council's policy is in line with the industry 'norm' .</p> <p>Equal pay claims: we consider that it is appropriate and prudent to include a reserve, to provide for potential claims, as no actual claims have yet been made against the Council and it is also thus appropriate not to have a provision or contingent liability within the accounts.</p> <p>Provision for business rate appeals: estimate has been considered as part of our detailed work on collection fund. The approach adopted is consistent with our experience at other similar councils and is reasonable.</p>	
<p>Judgements and estimates - PPE</p>	<ul style="list-style-type: none"> The Council has a 5 year rolling programme, as referred to in accounting policy 1.18. The Code requirement in paragraph 4.1.2.35 is to value items within a class of PPE simultaneously (IAS 16 Property, Plant and Equipment, does permit a class of assets to be re-valued on a rolling basis provided that: <ul style="list-style-type: none"> - the revaluation of the class of assets is completed within a 'short period' - the revaluations are kept up to date 	<p>The Council's policy does not state that classes of assets are re-valued 'simultaneously', although this is the Council's adopted practise, which is entirely appropriate and has been confirmed from our testing.</p>	<p style="text-align: center;"> green</p>



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 (cont)

	<ul style="list-style-type: none"> Critical judgements in applying accounting policies – this is covered in note 3. 	<ul style="list-style-type: none"> Reference is made to the challenging financial outlook. However we have recommended that this section is expanded to reflect the underlying assumption that the Council remains a going concern and to explain why this is the case. 	 red
Other accounting policies	<ul style="list-style-type: none"> We have reviewed the Council's policies against the requirements of the CIPFA Code and accounting standards. 	<ul style="list-style-type: none"> We are currently discussing with your officers some changes to the disclosure of accounting policies not yet adopted . Otherwise stated accounting polices are consistent with CIPFA requirements and our testing has not identified any instance of non compliance with stated policies. 	 amber

Adjusted misstatements

There have been no material adjusted misstatements

Changes have been made to disclosures including the segments note, however no adjustments have been made to the primary financial statements.

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	Impact on the financial statements
1 Disclosure	n/a		Critical judgements to be extended to include more detail on: <ul style="list-style-type: none"> going concern Arrears for other debtors, council tax, business rates and housing rents.
2 Disclosure	51	Employee remuneration-termination costs: note 31	The note refers to £51, 315 recharge to Bromsgrove for termination costs, this should be £46,041.
3 Disclosure	1,532	Disposal of houses	1 house was excluded from the schedule of house disposals and thus the value of disposals was understated by £37k
4 Disclosure	n/a	Collection fund adjustment account	Narrative- only refers to council tax, it is in fact council tax and NDR.
5 Disclosure	16,666	Earmarked reserves	The total balance of earmarked reserves increased by £3.7m in year, and £459k of balances were applied in year. We noted that the balance on earmarked reserves had remained static for a some years on some balances and this should be an area that the council keeps under review, as to whether balances can be released to support expenditure.
6 Disclosure	AGS	Complaints to standards board	AGS needs to be updated to reflect the 2 complaints to the standards board. Some other changes have been recommended to improve the content of the report.
7 Disclosure	Contingent liabilities	Legal proceedings	There are a number of on-going legal proceedings. An earmarked reserve has been set up to cover a number of events. We have recommended that the council consider the contingent liability disclosure on this. there also needs to be a link between the stated contingent liability on NDR appeals and the provision

Unadjusted misstatements

There are no unadjusted misstatements

Internal controls

	Assessment	Issue and risk	Recommendations
1.	●	<p>As part of our review of the AGS we noted that a number of key policies and procedures are out of date. This includes:</p> <ul style="list-style-type: none"> • Financial regulations • Fraud and corruption policies • Whistleblowing policies 	<ul style="list-style-type: none"> • There should be a rolling programme of review of the Constitution which should ensure that these key documents are kept up to date and relevant. • Induction programme should include training on these arrangements.
2.	●	<p>In our PPE testing, a listing of parks was requested in order to select our sample. No such listing was available.</p>	<ul style="list-style-type: none"> • Officers should ensure that all asset listings are complete.
3.	●	<ul style="list-style-type: none"> • 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"> • Matters raised in our IT review should be responded to by management

Assessment

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

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 Committee in April. We have not been made aware of any other incidents in the period and no other issues have been identified during the course of our audit.
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.
3.	Written representations	<ul style="list-style-type: none"> A letter of representation has been requested from the Council. In particular, representations will be requested from management in respect of restructuring costs.
4.	Disclosures	<ul style="list-style-type: none"> Our review found no material omissions in the financial statements. Some disclosure changes have been made and these are referred to later in the report.
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

Other communication requirements (Cont)

	Issue	Commentary
6.	Going concern	<p>The accounts are prepared on the underlying assumption that the Council is a 'going concern'. As part of the preparation of the accounts, a 'going concern' review should be undertaken by Management. We brought to the April Audit Committee, a report entitled 'Auditing standards, communication with TCWG' which identified various areas of best practice. One of these was the need in appropriate circumstances for the section 151 Officer to comment on a range of matters including the 'going concern' assumption.</p> <p>To be a going concern, we would expect the Council to be able to demonstrate that it can continue to provide its statutory services for the foreseeable future.</p> <p>As referred to later in this report, we have highlighted that the Council has set a one year budget for 2014/15 but not a medium term financial plan. Hence for 12 months from the date of issuing the opinion on the accounts, we have no firm assurances that the Council's arrangements to secure the Council's future financial position into the medium term are sound,.</p> <p>In these circumstances, we have asked the Chief Finance Officer to both update the assessment presented to the Audit Committee in April, and also to provide further narrative in the critical judgements section of the accounts, to support the underlying assumption that the Council is a 'going concern' .</p>

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

An 'except for' Value for Money conclusion is proposed.

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 considered the Council's arrangements to secure financial resilience against the following themes:

- Key financial performance indicators
- Financial governance
- Financial planning
- Financial control

The Council does not currently have a medium term financial plan. The Section 151 Officer has set the minimum general balance at £750k, based on local circumstances. The current level of general fund (GF) balances at £1.1m are adequate, although this is low compared with many other similar councils, and does not provide much headroom given the challenges ahead.

There are considerable budget challenges in 2014/15, but in particular in relation to 2015/16. The 2014/15 budget includes £600k of unidentified savings and has substantially only been balanced by a £1.2m contribution from earmarked reserves. This is a non-recurring financial measure. Work is nearing completion on understanding the large underspend in 2013/14 and how much of this is recurring savings and therefore available to offset the unidentified savings in the budget.

Detailed work on the 2015/16 budget has not yet started. Initial estimates for 2015/16 have indicated that the gap is around £1.7m. Work has started on identifying schemes that will help to fill that gap. Delivery of the 2015/16 budget will be very challenging given that the 2015/16 budget will need to identify cost improvements or additional resources of £1.2m (equivalent to the 14/15 contribution from reserves) in addition to the other substantial savings it will need to make to balance the budget. This is a big test given that the Council has not recently delivered savings of this magnitude.

Much of the savings delivered to date have been achieved through the shared service arrangement, but further significant savings are not considered achievable by that means. Savings will now need to be achieved by other means. In the past the Council has struggled to demonstrate the level of savings achieved through its transformation programme, in part because the Council's budget and monitoring processes lack transparency. As a result of this the savings delivered by transformation have not been capable of being distinguished from the efficiencies delivered by other budget measures. It is hence difficult to gauge the extent of the cost and quality improvements delivered by transformation, which in turn makes it difficult to assess whether this process will be able to deliver the large-scale cost efficiencies required in 2015/16 and beyond.

Value for Money

The Council's budget monitoring reports have shown that a significant amount of savings have been achieved by freezing vacancies. This may indicate that the original budgets were over-inflated by providing for vacancies which departments had little intention of filling.

We are also concerned about how the Council manages the delivery of its savings plans. Budgets have for a number of years been set with large levels of unidentified savings.. Formal review of savings out-turn against planned, is not undertaken. In year budgets routinely forecast out-turns which are quite different to the actual outturn and this may be linked to clarity around recurring and non recurring savings built into budgets.

The Council has a track record of delivering budgets with large levels of unidentified savings, and there is confidence amongst members and Directors that the transformation programme will support delivery of future savings. Additionally the disposal of Threadneedle House should help raise additional funds.

However, In the absence of a medium term financial plan and other robust and transparent planning mechanisms, and also having regard to the current level of general fund balances, we have some considerable concern around the financial resilience of the Council in the medium term. This has meant that we have issued an 'Except for' Value for Money Conclusion.

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

Overall our work highlighted:

Officers and members are committed to implementing changes that will have a long term impact on costs and services, through its shared services and transformation programmes and by considering alternative delivery models such as the joint property services vehicles.

Whilst new strategic purposes were set in July 2103, this has not been translated into a strategic or annual plan. Budgets are set with strategic purposes in mind, but without a strategic plan it is difficult to assess how effectively the Council is prioritising resources. Performance measures are being developed to more effectively reflect the new corporate priorities. However there is currently no operational performance management system or routine measurement of the effectiveness of services.

Whilst it seems likely that with the savings achieved over the last few years and with the shared services programme, services may have become more efficient and productivity improved, there is no information on which we can make such an assessment.

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 not 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 2014 and we will therefore be issuing an 'except for' conclusion. See Appendix B for the draft conclusion

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 2012-13	RAG rating 2013-14
Key indicators of performance	<p>As at 31/3/14 the general fund balance is £1.1m and earmarked reserves are £3.6m. The general fund minimum set by the S151 is £750k. This level of balances is comparatively low, although this is a slightly improved position on the previous year. In view of the level of savings set in the 13/14 budget this improved position is encouraging.</p> <p>The Council has been reliant on some short term fixes to balance the out-turn, and this again is planned for 14/15, with over £1m of reserves earmarked for specific schemes to be released to support general fund spending and some additional borrowing planned to compensate.</p> <p>The level of borrowing has reduced slightly year in year. Due to slippage in the capital programme, the anticipated borrowing has not occurred.</p> <p>The council does not use internal or external measures of performance. This is normal in a council of this type. Such measures of performance as are available, for instance sickness absence and revenues collection rates, indicate that performance is comparable with other councils. Review of Audit Commission profiles provides a mixed picture with some areas being relatively low spend and others being relatively high.</p> <p>The level of balances is currently adequate, although we are concerned that they are inadequate to support the unidentified savings for 14/15 and beyond. Whilst highlighting these future concerns, we have assessed the current position as green.</p>	Green	Green
Strategic financial planning	<p>This part of our assessment consider the medium term financial plan and the links to the annual planning process.</p> <p>The Council does not have a reliable medium term financial plan. A 1 year budget was set for 14/15.</p> <p>The Council set new corporate priorities in July 2013 and recognised that it should develop outcome based performance measures to support these priorities. However these are still being developed.</p> <p>The Council has not had an annual plan for 13/14 or 14/15 which is underpinned by an operational performance management system with links to the budget.</p> <p>For these reasons we have assessed the Council as red for strategic financial planning.</p>	Amber	Red

Value for Money

Theme	Summary findings	RAG rating 2012-13	RAG rating 2013-14
Financial governance	<p>The Council underspent against its budget this year, which was an achievement in view of the level of savings (both identified and not identified) with which the budget was set.</p> <p>There has been a commitment to sharing services between Redditch and Bromsgrove which has meant that many services now operate with a single management team and some are fully integrated. This has delivered recurring savings.</p> <p>There is also a strong commitment to transformation principles that are being adopted throughout the council. These factors all indicate that senior management recognise the need to change to both improve services and reduce costs.</p> <p>Whilst budget reporting has improved in terms of narrative, we continue to have concerns about the accuracy of the reporting as once again the outturn was not accurately forecast at Q3 (outturn was significantly better than forecast) As reported in previous years, this is likely to be due to a number of factors including:</p> <ul style="list-style-type: none"> • Lack of understanding of outturn savings and thus recurring savings being included in following year budgets, possibly leading to inflated budgets being set. This is being reviewed for 14/15 as a means to deliver the current 'unidentified' savings. • Budget holders not accurately forecasting outturn, probably by not declaring underspends until the outturn. <p>Reporting of the capital programme is not given as high a profile as revenue reporting</p> <p>Financial reports to members are delayed (e.g. q1 report is not reported until September) thus cannot be an effective management tool .</p> <p>Arrangements for risk management have improved year on year due to some investment in the process. However the corporate risk register is still not being used as a management tool, to provide assurance around key risks and how they are being mitigated.</p> <p>The absence of a medium term financial plan also indicates weakness in financial governance arrangements.</p>	Amber	Amber

Value for Money

Theme	Summary findings	RAG rating 2012-13	RAG rating 2013-14
Financial control	<p>This part of the assessment considers adequacy of budget setting, savings plan setting and monitoring finance department resourcing, adequacy of financial systems and internal audit.</p> <p>The finance department is currently going through a restructure which should both deliver savings and achieve a more focussed team. Internal audit is generally effective and is now better resourced to deliver the agreed plan. Further improvement could be made in the timing of audit work so that it is complete when the AGS is prepared.</p> <p>Internal Audit has issued a number of reports this year giving moderate, limited and in one case, no assurance. Whilst not all these reports relate to key financial systems, this is slightly worse overall than in the previous year.</p> <p>As referred to already, the budget has in successive years been set including large levels of unidentified savings, as a balancing item, which is very unusual for a District Council. This is clearly a matter of concern. Savings are embedded in budgets and these are not separately monitored.</p> <p>Whilst the council continues to achieve its planned outturn, there is not a comprehensive assessment of how these savings are achieved and thus there is not an overall picture about where these have been achieved by some transformational means or by other more traditional methods such as vacancy management, essential spending only, review of contracts and one off revenue or other benefits. As a result it is possible that some elements of initial budgets are over inflated as recurring savings achieved have not been fully recognised.</p> <p>These factors provide us with concern around both the adequacy of budget setting and in year financial control.</p>	Green	Amber
Prioritising resources	<p>The Council has implemented and continues to consider alternative methods of delivery as indicated by its shared services and transformation programmes. It is also one of the councils involved in developing a joint property vehicle, which again is an innovative project. It seems likely that the Council may have to explore further sharing of services due to continuing budget pressures if the quality of services is to be improved and non essential services retained.</p> <p>As referred to under other themes, the council does not yet have an annual planning process. The budget is set with some consideration of the strategic themes when making budget decisions. However without an annual or other corporate plan with measurable outcomes, it is difficult to assess the success of the council in prioritising its resources.</p>	n/a	Amber

Value for Money

Theme	Summary findings	RAG rating 2012-13	RAG rating 2013-14
Improving efficiency & productivity	<p>This part of the assessment considers whether costs are understood, delivery of savings , service redesign and effectiveness of key services.</p> <p>There is some overlap with the findings on this theme with other themes.</p> <p>It is clear that the Council wants to make changes that will deliver long term benefits to the Council, as this is key to the shared services and the separate transformation agenda. Most organisations will achieve annual savings through a mixture of recurring savings and short term fixes, but it is important that there is a clear understanding of this . It is increasingly important that savings achieved are recurring and that the Council is not reliant on short term fixes .</p> <p>Without an effective performance management system, it is not possible to assess the impact on services of decisions. There is no information on the performance of key services such as planning, leisure and housing as this information is not reported, and in a number of areas not measured. Much of the reported success measures are anecdotal and focus on limited areas of the organisation.</p> <p>However where we have obtained comparative information, eg revenues collection performance, performance is good. We are aware of some slippage in performance where we have undertaken specific work, for example in benefits there has been limited quality checks over at least the last year, although this is to be rectified.</p> <p>Whilst clearly change has occurred and continues that should inevitably improve efficiency and productivity, this is not reported and so it is not possible to measure success or therefore properly assess,</p>	<p>n/a</p>	<p>Amber</p>
Managing natural resources	<p>A high level assessment of this area is required this year and we were asked to consider whether the organisation produces reports on how it uses natural resources and whether this affects decision making.</p> <p>Officers were unable to provide information on this and thus we have assessed as red</p>	<p>n/a</p>	<p>Amber</p>

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 and provision of non-audit services.

Fees

	Per Audit plan £	Actual fees £
Council audit	76,380	*77,200
Additional fee VFM work		tbc
Grant certification	13,900	tbc
Total audit fees	90, 280	tbc

*The Audit Commission determines the scale fee for the audit. They have confirmed that the fee will be increased by £900 for all district councils to reflect the additional work around the new collection fund accounting requirements.

We have undertaken additional procedures around the VFM conclusion as it has been qualified this year. We have yet to agree the fees with management and the Audit Commission.

The work on grant certification is not yet complete and thus we have not yet determined the need for a fee variation for this work.

Fees for other services

Service	Fees £
Review of Threadneedle House	5,250

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 Auditing Practices Board'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) 260, as well as other 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.

	Audit Plan	Audit Findings
Our communication plan		
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		✓

Appendices

Appendix A: Action plan

Rec No.	Recommendation	Priority	Management response	Implementation date & responsibility
	Financial systems/ accounts			
1	Management to undertake a 'going concern' assessment to be included in the accounts – critical judgements, and to update the assessment presented to the Audit Committee in April.	High		
2	AGS to be updated to reflect the weaknesses in internal audit reports, including reports issued subsequent to the S151 signing the accounts.	High		
3	Procedures and policies contained in the Constitution should be kept under review on a rolling basis. In particular the Financial regulations and both the fraud and corruption and whistleblowing policies should be brought up to date.			
4	TCWG to have regular updates on the progress of the ledger implementation project. Independent assurance on this should be provided by Internal audit at key stages in the project.	High		
5	2014/15 accounts closedown plan to include time to 'declutter' the accounts, make further improvements in the explanatory foreword and management to undertake a more formal 'going concern' assessment.	Medium		

Appendix A: Action plan (continued)

Rec No.	Recommendation	Priority	Management response	Implementation date & responsibility
	Value for Money Conclusion			
6	Give high priority to production of the 2015/16 budget and a medium term financial plan, with the full engagement of the management team	high		
7	Minimise the amount of 'unidentified savings' contained in the 2015/16 and beyond.	high		
8	Undertake a detailed review of 2013/14 outturn, to have a better understanding of where recurring savings can be reflected in the revised 2014/15 budget. 14/15 revised budget should include a review of vacancies and whether these should now be reflected in base budgets.	high		
9	As recommended in previous years, separate in year monitoring of savings should be in place– to improve understanding, transparency and risk management	medium		
10	Consider how the council can both accelerate and improve the accuracy of in year financial reporting.	high		
11	HRA should be part of the quarterly financial reports.	high		
12	Accelerate the work around developing performance measures and embedding them into routine committee reporting procedures, within an operational performance management system.	high		
13	A 2015/16 service plan should be in place for 2015/16, to be produced in conjunction with the budget.	high		

Appendix B: Audit opinion

We anticipate we will provide the Council with an unmodified opinion on the accounts and an 'except for' modified value for money conclusion

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF REDDITCH BOROUGH COUNCIL

Opinion on the Authority financial statements

We have audited the financial statements of Redditch Borough Council for the year ended 31 March 2014 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 Housing Revenue Account Income and Expenditure Statement, the Movement on the Housing Revenue Account Statement and 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 2013/14.

This report is made solely to the members of Redditch Borough 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 Director of Finance and Corporate resources and auditor

As explained more fully in the Statement of the Director of Finance and Corporate Resources' Responsibilities, the Director of Finance and Corporate 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, 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 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 Director of Finance and Corporate Resources' Responsibilities; 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 Redditch Borough Council as at 31 March 2014 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 2013/14 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 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; we issue a report in the public interest under section 8 of the Audit Commission Act 1998; 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; or we exercise any other special powers of the auditor under the Audit Commission Act 1998.

We have nothing to report in these respects.

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.

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 audit in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission in October 2013, 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 2014.

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 economy, efficiency and effectiveness in its use of resources, we have considered the following matter in relation to financial resilience:

Weaknesses in the Council's medium-to long-term financial planning, specifically the absence of an up-to-date, sustainable 3-5 year medium-term financial plan.

Lack of robust plans to deliver savings required to balance the budget

Planned use of reserves to fund recurrent expenditure

Qualified conclusion

On the basis of our work, having regard to the guidance on the specified criteria published by the Audit Commission in October 2013, with the exception of the matter 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 2014.

Certificate

We certify that we have completed the audit of the financial statements Redditch Borough 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
Director
for and on behalf of Grant Thornton UK LLP, Appointed Auditor

30 September 2014



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