



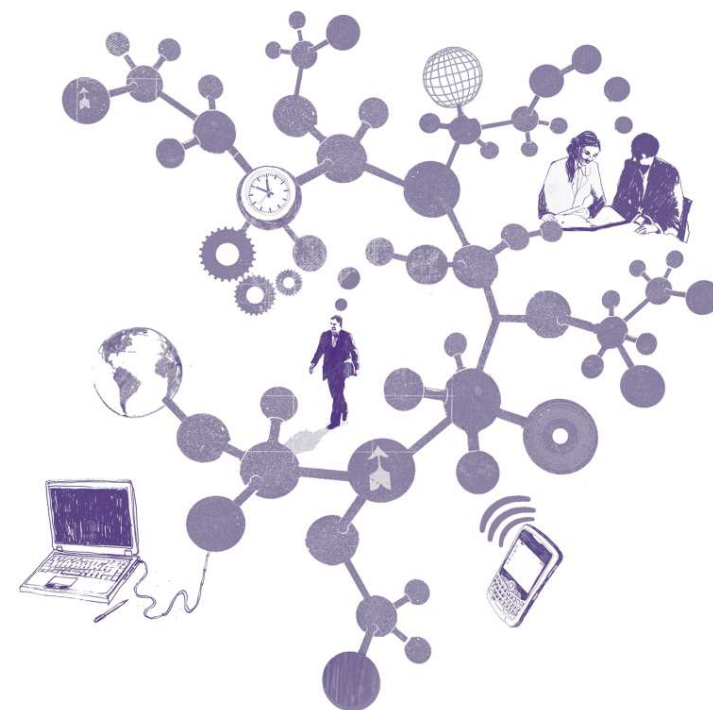
The Annual Audit Letter for Redditch Borough Council

Year ended 31 March 2014

September 2014

Phil Jones
Director
T 0121 232 5232
E phil.w.jones@uk.gt.com

Zoe Thomas
Audit Manager
T 0121 232 5277
E zoe.thomas@uk.gt.com



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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.

Key messages

Our Annual Audit Letter summarises the key findings arising from the work that we have carried out at Redditch Borough Council ('the Council') for the year ended 31 March 2014.

The Letter is intended to communicate key messages to the Council and external stakeholders, including members of the public. Our annual work programme, which includes nationally prescribed and locally determined work, has been undertaken in accordance with the Audit Plan that we issued in June and was conducted in accordance with the Audit Commission's Code of Audit Practice, International Standards on Auditing (UK and Ireland) and other guidance issued by the Audit Commission.

Financial statements audit (including audit opinion)	<p>We reported our findings arising from the audit of the financial statements in our Audit Findings Report on 25 September, to the Audit and Governance Committee. The key messages reported were:</p> <ul style="list-style-type: none">• An unqualified opinion on the accounts was issued• The Whole of Government accounts work was completed and the necessary return made to the NAO. No matters arose from that work. <p>We issued an unqualified opinion on the Council's 2013/14 financial statements on 30 September 2014, meeting the deadline set by the Department for Communities and Local Government. Our opinion confirms that the financial statements give a true and fair view of the Council's financial position and of the income and expenditure recorded by the Council.</p> <p>In view of the current financial position of the Council, we asked the S151 Officer to add additional narrative to support the going concern judgement within the accounts. This is something that should be considered by management as part of the 2015/16 preparation of the accounts.</p>
Value for Money (VfM) conclusion	<p>We issued a qualified VfM conclusion for 2013/14 on 30 September 2014.</p> <p>The VfM conclusion is based on our assessment of arrangements against two criteria specified by the Audit Commission:</p> <ul style="list-style-type: none">• The Council has proper arrangements to secure financial resilience• The Council has proper arrangements for challenging how it secures economy, efficiency and effectiveness <p>On the basis of our work, and having regard to the guidance, we concluded there is insufficient evidence that the Council has adequate arrangements against the first criteria, securing financial resilience. A modified value for money conclusion was therefore issued. Appendix A sets out more detail.</p>

Key messages

Whole of Government Accounts	We reviewed the consolidation pack prepared by the Council to support the production of the Government's Whole of Government Accounts. In line with our instructions we reported that the Council was below the audit threshold level set by the National Audit Office and reviewed the worksheets specified for bodies below the audit threshold. We confirmed that the closing figures for Property, Plant and Equipment and Pensions liabilities in the consolidation pack were consistent with those in the Council's financial statements on the 30 September 2014 in advance of the deadline.
Certification of grant claims and returns	Work is currently on-going for the certification of the housing benefits subsidy claim. This work is being undertaken on behalf of Department for Work and Pensions. We have also completed the audit of the Capital Receipts Return.
Audit fee	Our fee for the 2013/14 audit fee is £77,280, excluding VAT. The Audit Commission sets the scale fee on which your audit fee is based. This scale fee was increased by £900, to reflect the additional work required around the changes this year to the accounting for business rates. There were no other matters that impacted on the planned fee. The planned fee was consistent with that billed the previous year. Further detail is included within appendix B.

Appendix A: Key issues and recommendations

This appendix summarised the significant recommendations identified during the 2013/14 audit.

No.	Issue and recommendation	Priority	Management response/ responsible office/ due date
1.	<p>Current Financial position The Council has a history of setting budgets that contain unidentified savings. This is not good practise and puts the Council at risk. This was the case in 2013/14 and the 2014/15 budget has again been set with £600k of unidentified savings. Despite this, the Council has a track record of broadly delivering the budget out-turn. In 2013/14 £166k was in fact added to general fund balances. However from 2014/15, the financial position becomes increasingly pressured. Over £1.2m is planned to be released from earmarked reserves to support general expenditure. In future years there is some scope to review and potentially release further earmarked reserves, however the level of general fund balances is nearing the minimum set by the S151. Clearly reliance on balances is an unsustainable position.</p> <p>Medium Term Financial Plan There is no medium term financial plan in place. The Council has recognised that significant levels of recurring savings need to be identified to prepare such a plan. A decision was made to set a one-year budget for 2014/15 and to work towards putting in place a medium term financial plan by autumn 2014. Without a medium term financial plan, and taking into account that the level of balances available to fill any budget gaps is now below the level that sufficiently mitigates risks, we are unable to conclude that the Council is financially resilient for the foreseeable future. This was the main matter that led to a qualified VFM conclusion.</p> <p>Recommendations Give high and urgent priority to the production of the 2015/16 budget and medium term financial plan, with the full commitment of the management team. Revision of the 2014/15 budget should accurately reflect information from review of the 2013/14 out-turn.</p>	high	<p>A 3 year plan is to be in place from 2015/16. Unidentified savings within the plan will be reduced from the current levels.</p> <p>Officers are currently working on the 3 year plan, to be in place from 2015/16.</p> <p>A detailed review of 2013/14 outturn savings is being undertaken to identify all recurring savings with Heads of Service.</p> <p>There will be a review of vacancies as part of the budget process</p> <p>Responsible office: Jayne Pickering / Sam Morgan Due date: January 2015</p>

Appendix A: Key issues and recommendations (cont)

no	issue	priority	Management response
2.	<p>Financial monitoring: The Q3 forecast out-turn was once again significantly different to the actual out-turn. Production of the in year financial reports is not timely and this means that it has limited benefit as a management tool</p> <p>Recommendation: The in year financial reports production should be speeded up, in particular to get the Quarter 1 report out more promptly and accuracy should be improved.</p>	high	<p>Presentation to 4th Tier to develop more robust forecasting and monitoring of budgets.</p> <p>Finance system to be used by budget holders to reflect more informed position on monitoring of financial position</p> <p>Responsible office: Jayne Pickering / Sam Morgan /HOS Due date: January 2015</p>
3	<p>Performance management arrangements: The Council does not have a properly functioning performance management framework. This is in part caused by the on-going development of relevant performance (outcome) measures to support the strategic ambitions published in July 2013. Whilst the Council has agreed strategic ambitions, this was not translated into service plans for 2013/14.</p> <p>Recommendation: Accelerate the work around developing performance measures and embedding these into routine operational and committee reporting, to support consistent and effective performance management arrangements. A 2015/16 service plan should be prepared in parallel with the 2015/16 budget.</p>		<p>Management Team currently considering options for development of reporting framework of measures to enable members to consider the information.</p> <p>Management Team currently considering development of a corporate plan to address reporting of measures together with delivery of strategic purposes</p> <p>Responsible officer: Deb Poole / Rebecca Dunne Due date: March 2015</p>

Appendix A: Key issues and recommendations (cont)

This appendix summarised the significant recommendations identified during the 2013/14 audit.

No.	Issue and recommendation	Priority	Management response/ responsible office/ due date
4	<p>Threadneedle House. We were asked to review the decision to curtail the lease with Barclays Bank on Threadneedle House. Our review identified weaknesses in the decision making process, in particular, how the proposal was evaluated and how information was communicated to members. We made recommendations for how improvements could be made in the decision making process in any future decisions of this type A detailed report was prepared and an action plan agreed.</p> <p>Recommendation Decisions having significant financial consequences, including future capital projects, must be supported by a clearly communicated business case that is considered before approval is given.</p>	High	<p>Improvements have already been made to the reporting arrangements around decisions on major capital items.</p> <p>Responsible office: Jayne Pickering/ HOS Due date: on-going</p>
5	<p>In view of the current financial position of the Council, we asked the S151 Officer to add additional narrative to support the going concern judgement within the accounts. This is something that should be considered by management as part of the 2015/16 preparation of the accounts.</p> <p>Recommendation Prior to production of the accounts a formal going concern assessment should be made and considered by members.</p>	High	<p>Will be prepared and considered at Audit Committee.</p> <p>Responsible officer: Jayne Pickering Due April 2015</p>

Appendix B: Reports issued and fees

We confirm below the fee charged for the audit.

Fees

	Per Audit plan £	Actual fees £
Audit Fee	76,380	77,280
Grant certification fee	3,872	3,872
Total fees	80,252	81,152

An additional £900 has been added to the scale fee, as reported in the AFR. This has yet to be confirmed as a scale variation by the Audit Commission.

Fees for other services

Service	Fees £
Review of Threadneedle House	5,250

Reports issued

Report	Date issued
Audit Plan	June 2014
Audit Findings Report	September 2014
Certification report	To be issued on completion of work
Annual Audit Letter	September 2014



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