

# The Annual Audit Letter for Redditch Borough Council

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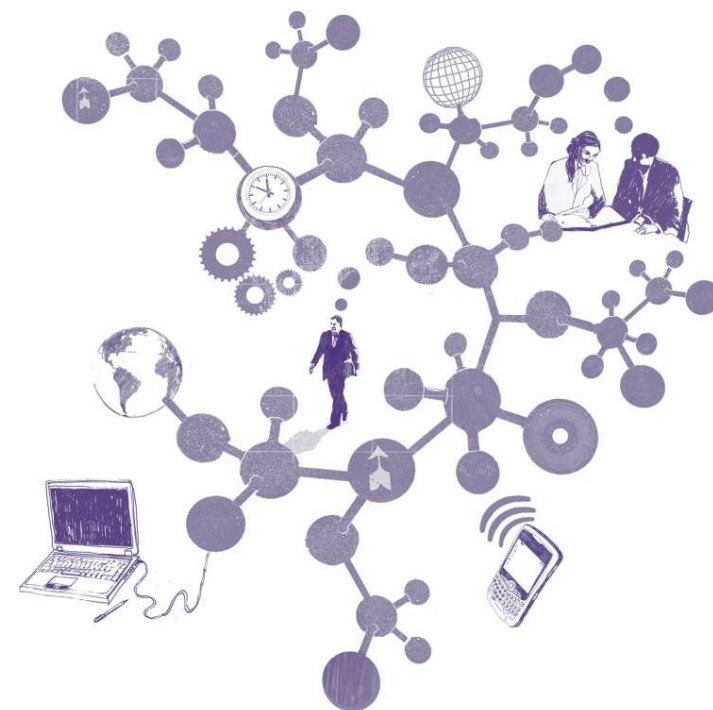
**Year ended 31 March 2015**

December 2015

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# 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 2015.

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 April 2015 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 and Public Sector Audit Appointments Limited.

## **Financial statements audit (including audit opinion)**

We reported our findings arising from the audit of the financial statements in our Audit Findings Report on 24 September, to the Audit and Governance Committee. Due to the delay in completion of the audit, we issued a revised Audit Findings Report on 16 December to officers and to the Chair of the Audit Committee. The key messages reported were:

- we issued an unqualified opinion although after the statutory deadline of 30 September
- we issued a qualified value for money conclusion, and
- we issued a series of Section 11 recommendations.

We issued an unqualified opinion on the Council's 2014/15 financial statements on 16 December 2015, after the deadline set by the Department for Communities and Local Government. This has been reported to Public Sector Appointments in line with their requirements.

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. The opinion on the accounts makes reference to the issue of S11 recommendations. Those recommendations are repeated in Appendix A.

The accounts were presented for audit after the statutory deadline of 30 June. The accounts were not of good quality and material adjustments were made as a result of the audit. The arrangements in place to both produce the accounts and to support the audit were poor and significant improvements need to be made for 2015/16.

# Key messages continued

<b>Value for Money (VfM) conclusion</b>	<p>We issued a qualified VfM conclusion for 2014/15 on 30 September 2015.</p> <p>In seeking to satisfy ourselves that the Council has made proper arrangements for securing financial resilience we found that the Council had weaknesses in its budget setting arrangements. The Code criteria against which we have qualified is the Council's overall strategic planning arrangements.</p> <p>Our work did highlight weakness in other areas and these are reported in more detail in the Audit Findings Report. Our findings give us concern about the general management and planning arrangements of the Council's finance team. We have made detailed recommendations both within the appendix to the Audit Findings Report and in our formal Section 11 recommendations.</p> <p>The Council has adequate levels of reserves and has a forward financial plan which are the key reasons why we have assessed the Council as financially resilient in the medium-term. Since issuing our opinion, officers have considered the impact on the forward financial plan of the Government's Four Year Financial settlement announced in December 2015. The settlement brings forward the anticipated reductions in revenue support grant for the Council and will need to be reflected in the revised medium-term financial plan which will be prepared and agreed over the next few weeks.</p> <p>Within our Audit findings report we raise a number of matters in relation to the Council's arrangements under the VfM assessment criteria. A number of these concerns have been raised in previous years' audit reports. The fact that there has been little progress in addressing our concerns was a factor in our decision to issue formal Section 11 Recommendations this year. There is a statutory requirement for the Council to publish its response to these statutory recommendations.</p>
<b>Certification of housing benefit grant claim</b>	<p>We have completed the audit of the housing benefit subsidy claim. This audit was problematic and more errors were identified from our testing than we expected. The opinion on the claim was qualified, which is consistent with the previous years. This will result in a variation to the audit fee.</p>
<b>Audit fee</b>	<p>Our fee for 2014/15 set out in the audit plan was £77,280 excluding VAT. A fee variation will be requested due to the additional work involved in completing our audit. We will agree that additional fee with the Executive Director (Finance and Resources) and Public Sector Appointments (PSAA).</p>

# Appendix A: Recommendations made under section 11 (3) of the Audit Commission Act 1998

We have made some detailed recommendations in our audit findings report on the accounts production process and value for money arrangements, and these are not all repeated here. The table below repeats the S11 recommendations, to which we are expecting a formal response.

No.	recommendation	Priority	Management response/ responsible office/ due date
1.	<p>The Council should put in place robust arrangements for:</p> <ul style="list-style-type: none"> <li>the production of the 2015/16 financial statements, which meet statutory requirements and international financial reporting standards. In order to achieve this the Council should: <ul style="list-style-type: none"> <li>ensure sufficient resources and specialist skills are available to support the accounts production</li> <li>introduce appropriate project management skills to the production of the financial statements</li> </ul> </li> </ul>	High	<p>A qualified accountant within the team is developing a full and comprehensive timetable which will be informed by the statutory deadlines to ensure that the finance team are aware of all roles and responsibilities to undertake the production of the 2015/16 financial statements. This timetable will be supported by County Council officers in ensuring the deadlines are timely.</p> <p>Regular training for the team has already commenced following identification of the needs for the team. Officers from the County Council are supporting technical training together with external courses on final accounts production being made available to the team. Once the systems improvements have been actioned an assessment will be made of the vacant accountant posts to enable the correct resource to be made available within the team.</p> <p>The timetable and management of the production of the financial statements will be subject to a weekly review by the Director of Finance and Resources together with a monthly update to the Audit and Governance Committee.</p> <p><b>Responsible officer:</b> Jayne Pickering</p> <p><b>Due date:</b> by 30 June 2016, although progress against key milestones reported to each Audit and Governance Committee.</p> <p>The Audit and Governance Committee should provide assurance to Cabinet on progress after every Audit Board meeting.</p>

## Appendix A: : Recommendations made under section 11 (3) of the Audit Commission Act 1998 (continued)

No.	recommendation	Priority	Management response/ responsible office/ due date
2.	<p>The Council should develop a comprehensive project plan for the preparation of the accounts which ensures that:</p> <ul style="list-style-type: none"> <li>the financial statements are compiled directly from the ledger</li> <li>the entries in the accounts are supported by good quality working papers which are available at the start of the audit</li> <li>the financial statements and working papers have been subject to robust quality assurance prior to approval by the Executive Director (Finance and Resources)</li> <li>provides additional training, where necessary, to ensure all staff involved in the accounts production process have the necessary skills and information;</li> <li>the production of the financial statements is monitored through regular reporting to Directors and the Audit and Governance Committee.</li> </ul>	High	<p>As mentioned above, a qualified accountant within the team is developing a full and comprehensive timetable.</p> <p>Alongside this work the following will be prepared:</p> <ul style="list-style-type: none"> <li>full set of template working papers ( agreed with External Audit)</li> <li>full set of reconciliation schedules to be approved monthly by the Director of Finance</li> <li>preparation of the CIPFA Toolkit with all relevant prior year figures populated</li> <li>ensure that the work the “system accounts recovery team “ are undertaking supports the direct preparation of the financial statements from the ledger</li> <li>periods within the timetable to be allocated to ensure quality checking</li> </ul> <p>Training and monitoring is mentioned in the action point above</p> <p>Support will be sourced from the County Council to ensure the information to be provided to the Auditors is of a quality standard</p> <p><b>Responsible officer:</b> Jayne Pickering</p> <p><b>Due date:</b> 31 December 2015 for project plan. Progress on this and the other recommendations to be reported to each Audit and Governance Committee.</p>

## Appendix A: : Recommendations made under section 11 (3) of the Audit Commission Act 1998 (continued)

No.	recommendation	Priority	Management response/ responsible office/ due date
3.	The Council should put in place robust arrangements to ensure that the budget preparation processes are based on sound assumptions which enable an accurate forecast to be made of budget out-turn, including realistic assessments of demand factors, service and demographic changes as well as sound assumptions around turnover and vacancy rates.	High	<ul style="list-style-type: none"><li>• New processes have been put in place to ensure that Heads of Service propose any additional funding / income and savings with clear evidence and data as to the justification for the change to budget</li><li>• All vacancies to be agreed by the Directors / Chief Exec and Portfolio Holders</li><li>• Assessment of 2014/15 actual position to be used to inform any potential changes to the budget for 2016/17</li></ul> <p><b>Responsible office:</b> Jayne Pickering</p> <p><b>Due date:</b> 31 December 2015</p>

## Appendix A: : Recommendations made under section 11 (3) of the Audit Commission Act 1998 (continued)

No.	recommendation	Priority	Management response/ responsible office/ due date
4.	The Council should ensure that budget monitoring processes are timely to enable an accurate forecast to be made in-year of the likely year-end outturn and action to be taken, where necessary, to address budget variances.	High	<p>Heads of Service are to report to both CMT and Portfolio Holders their projected out-turn and the rationale as to why the projections may be different to the current position. A new system of on-line financial planning will be available in 2016 which will enable managers to review their financial position in a more timely way and therefore make more informed projections as to the year end.</p> <p><b>Responsible officer:</b> Jayne Pickering</p> <p><b>Due:</b> December 2015</p>



# Appendix B: Reports issued and fees

We confirm below the fees charged for the audit and non-audit services.

## Fees for audit services

	Per Audit plan £	Actual fees £
Main Audit	77,280	77,280
Additional fee	n/a	tbc
Housing benefit grant certification fee	13,720	tbc
<b>Total audit fees</b>	<b>91,000</b>	<b>tbc</b>

We are proposing a further fee to reflect the additional costs associated with the opinion audit, which included additional days to that planned and the additional involvement of senior staff to deal with the particular issues we faced.

The original fee was agreed based on the assumption that particular quality standards were met in relation to the quality of the accounts, working papers and access to staff. As already discussed with the Executive Director (Finance and Resources) and the Audit and Governance Committee, these standards were not met. The fee will be agreed with Council officers and then be submitted for approval by Public Sector Audit Appointments.

## Reports issued

Report	Date issued
Audit Plan	March 2015
Audit Findings Report	September and December 2015
Annual Audit Letter	January 2016



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