

The Audit Findings for Redditch Borough Council

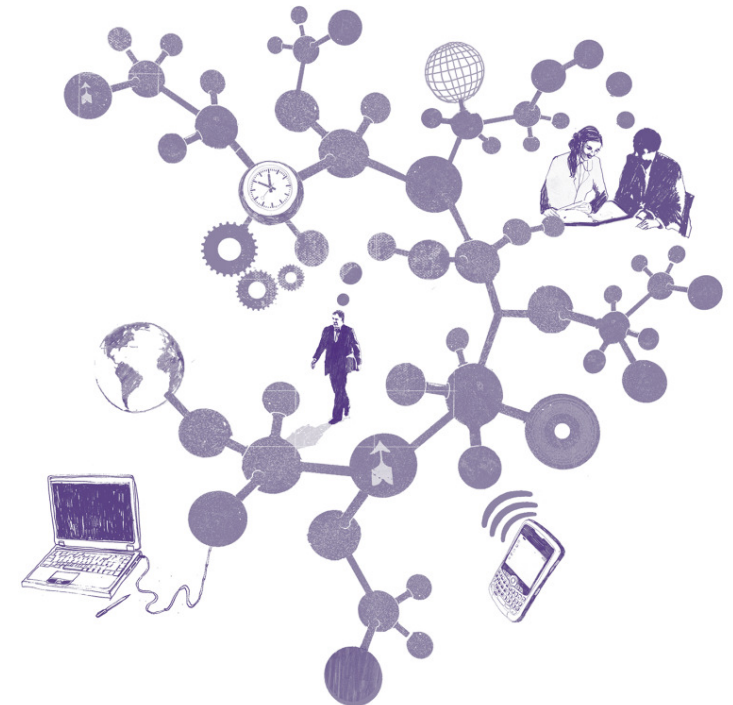
Year ended 31 March 2016

September 2016

Richard Percival
Engagement Lead
T 0121 232 5434
E richard.d.percival@uk.gt.com

Suzanne Joberns
Manager
T 0121 232 5320
E suzanne.joberns@uk.gt.com

Kathryn Kenderdine
Executive
T 0121 232 5316
E kathryn.A.Kederdine@uk.gt.com



Redditch Borough Council
Council House
Walter Stranz Square
Redditch
B98 8AH

Grant Thornton UK LLP
Colmore Plaza
20 Colmore Circus
Birmingham
West Midlands
T +44 (0) 121 212 4000
www.grant-thornton.co.uk

www.grant-thornton.co.uk

22nd September 2016

Audit for Redditch Borough Council for the year ending 31 March 2016

Dear Members of the Audit, Standards and Governance Committee

This Audit Findings report highlights the key findings arising from the audit for the benefit of those charged with governance (in the case of Redditch Borough Council, the Audit, Standards and Governance Committee), as required by International Standard on Auditing (UK & Ireland) 260, the Local Audit and Accountability Act 2014 and the National Audit Office Code of Audit Practice. Its contents have been discussed with officers.

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

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

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

Yours sincerely

Richard Percival
Engagement lead

Chartered Accountants

Grant Thornton UK LLP is a limited liability partnership registered in England and Wales: No.OC307742. Registered office: Grant Thornton House, Melton Street, Euston Square, London NW1 2EP. A list of members is available from our registered office. Grant Thornton UK LLP is authorised and regulated by the Financial Conduct Authority.
Grant Thornton UK LLP is a member firm of Grant Thornton International Ltd (GTIL). GTIL and the member firms are not a worldwide partnership. Services are delivered by the member firms. GTIL and its member firms are not agents of, and do not obligate, one another and are not liable for one another's acts or omissions. Please see grant-thornton.co.uk for further details.

Contents

Section	Page
1. Executive summary	4
2. Audit findings	9
3. Value for Money	24
4. Other statutory powers and duties	30
5. Fees, non-audit services and independence	33
6. Communication of audit matters	35

Appendices

- A Action plan
- B Audit opinion

Section 1: Executive summary

01. Executive summary

02. Audit findings

03. Value for Money

04. Other statutory powers and duties

05. Fees, non audit services and independence

06. Communication of audit matters

Purpose of this report

This report highlights the key issues affecting the results of Redditch Borough Council ('the Council') and the Council's financial statements for the year ended 31 March 2016. 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 (UK & Ireland) 260, and the Local Audit and Accountability Act 2014 ('the Act').

Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion, the Council's financial statements give a true and fair view of the financial position of the Council and its income and expenditure 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 consider other information published together with the audited financial statements, whether it is consistent with the financial statements and in line with required guidance.

We are required to carry out sufficient work to satisfy ourselves on whether the Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources ('the value for money (VFM) conclusion').

Auditor Guidance Note 7 (AGN07) clarifies our reporting requirements in the Code and the Act. We are required to provide a conclusion whether in all significant respects, the Council has put in place proper arrangements to secure value for money through economic, efficient and effective use of its resources for the relevant period.

The Act also details the following additional powers and duties for local government auditors, which we are required to report to you if applied:

- a public interest report if we identify any matter that comes to our attention in the course of the audit that in our opinion should be considered by the Council or brought to the public's attention (section 24 of the Act);

- written recommendations which should be considered by the Council and responded to publicly (section 24 of the Act);
- application to the court for a declaration that an item of account is contrary to law (section 28 of the Act);
- issue of an advisory notice (section 29 of the Act); and
- application for judicial review (section 31 of the Act)

We are also required to give electors the opportunity to raise questions about the accounts and consider and decide upon objections received in relation to the accounts under sections 26 and 27 of the Act.

Introduction

In the conduct of our audit we have not had to alter or change our audit approach, which we communicated to you in our Audit Plan dated March 2016, and our amendment to the plan dated May 2016.

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

- clearance of audit queries and final review of audit work in the following areas;
 - consideration of investment properties
 - PPA disclosure of Threadneedle.
- review of the final version of the financial statements
- obtaining and reviewing the management letter of representation
- review of revised versions of the Annual Governance Statement and
- updating our post balance sheet events review, to the date of signing the opinion
- Whole of Government Accounts

Key audit and financial reporting issues

Financial statements opinion

The draft financial statements for the year ended 31 March 2016 recorded net expenditure of £1.027million. We made two adjustments to this (page 21) and also identified one issue that would impact on this, if adjusted (see page 23) . We have also made a number of adjustments to improve the presentation and classification of income and expenditure within the financial statements.

Subject to the clearance of our audit queries, receipt of the final documentation and completion of our final checks we anticipate issuing an unqualified opinion on the financial statements (a copy of the opinion will be provided to members at the committee meeting)

In previous years we have commented on the qualitative aspects of the Trusts financial statement production, in particular the number of errors and delays in and the quality of working papers. We issued statutory recommendations at the conclusion of our 2014/15 audit which included improving arrangements for the production of the accounts.

Revised arrangements were put in place by the Executive Director of Finance and Resources for 2015/16 to improve the quality of the financial statements and supporting working papers. These arrangements ensured the accounts were submitted on the 30th June 2016 deadline.

There were improvements in the quality of the financial statements and supporting working papers, but further work is needed in this area, specifically:

- working papers to support entries in the accounts must be available at the start of the audit and clearly link to the item in the financial statements.
- audit queries need to be resolved in an efficient and timely way to support the delivery of the audit.

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

Other financial statement responsibilities

As well as an opinion on the financial statements, we are required to give an opinion on whether other information published together with the audited financial statements is consistent with the financial statements. We are required to report 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 information of which we are aware from our audit.

Significant governance issues relating to our statutory recommendations were not adequately explained in the draft version of the Council's Annual Governance Statement. We agreed with the Executive Director of Finance and Resources that amendments would be made to give more information regarding the responses to our statutory recommendations.

Controls

Roles and responsibilities

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

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

Findings

We draw your attention in particular to control issues identified in relation to:

- complexity of the ledger coding structure
- Inaccuracies in payroll payments
- supporting evidence for charges

We have also followed up the internal control issues we identified in 2014/15. Further details are provided within section two of this report.

Other statutory powers and duties

We have not identified any issues that have required us to apply our statutory powers and duties under the Act in 2015/16.

At the end of the 2014/15 audit we issued four recommendations under the section 11 of the Audit Commission Act 1998. These were

- The Council should put in place robust arrangements for: the production of the 2015/16 financial statements, which meet statutory requirements and international financial reporting standards.
- The Council should develop a comprehensive project plan for the preparation of the accounts
- The Council should put in place robust arrangements for the preparation of its budget
- 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

Our overall view is that improvements have been made since we issued our recommendations, but further progress is needed. The key actions we expect the Council to take:

- improve the quality and timeliness of financial statements production and the supporting working papers and resolution of audit queries, to ensure the deadlines for both accounts production and audit completion is achieved in 2018;
- improve the reporting of the annual budget and Medium Term Financial Strategy (MTFS) to Members, specifically to include the impact of future spending plans on reserves and balances; and
- improve the clarity and consistency of in year reporting of budget variances and forecasts of year-end outturn, including the actions to address adverse budget variances.

Further details of our work on other statutory powers and duties is set out in section four of this report.

Value for Money

We are propose issuing a qualified 'except for' value for money conclusion. Due to the need to implement improvements in budget monitoring and financial planning we have concluded that there are weaknesses in the Councils arrangements for:

- reliable and timely financial reporting that supports the delivery of strategic purposes;
- planning finances effectively to support the sustainable delivery of strategic purposes and maintain statutory functions; and
- governance arrangements.

Further detail of our work on Value for Money are set out in section three of this report.

Grant certification

In addition to our responsibilities under the Code, we are required to certify the Council's Housing Benefit subsidy claim on behalf of the Department for Work and Pensions. At present our work on this claim is in progress and is not due to be finalised until 30 November 2016. We will report the outcome of this certification work through a separate report to Audit, Standards and Governance Committee.

Matters arising

Matters arising from the financial statements audit and our review of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources have been discussed with the Executive Director of Finance and Resources. We have also discussed issues arising from the implementation of our 2014/15 statutory recommendations.

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

Acknowledgement

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 2016

Section 2: Audit findings

01. Executive summary

02. Audit findings

03. Value for Money

04. Other statutory powers and duties

05. Fees, non audit services and independence

06. Communication of audit matters

Materiality

In performing our audit, we apply the concept of materiality, following the requirements of International Standard on Auditing (UK & Ireland) (ISA) 320: Materiality in planning and performing an audit. The standard states that 'misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements'.

As we reported in our audit plan, we determined overall materiality to be £983k (being 1.5% of gross revenue expenditure). We identified that expenditure was lower than forecast at our interim visit and that led us to revise our overall materiality to £971k.

We also set an amount below which misstatements would be clearly trivial and would not need to be accumulated or reported to those charged with governance because we would not expect that the accumulated effect of such amounts would have a material impact on the financial statements. We have defined the amount below which misstatements would be clearly trivial to be £48k. Our assessment of the value of clearly trivial matters has been adjusted to reflect our revised materiality calculation.

As we reported in our audit plan, we identified the following items where we decided that separate materiality levels were appropriate. These remain the same as reported in our audit plan.

Balance/transaction/disclosure	Explanation
Cash and cash equivalents	Although the balance of cash and cash equivalents is immaterial, all transactions made by the Council affect the balance and it is therefore considered to be material by nature.
Disclosures of officers' remuneration, salary bandings and exit packages in notes to the statements	Due to public interest in these disclosures and the statutory requirement for them to be made.
Disclosure of auditors' remuneration in notes to the statements	Due to public interest in these disclosures and the statutory requirement for them to be made.

Audit findings against significant risks

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

In this section we detail our response to the significant risks of material misstatement which we identified in the Audit Plan, or reported to you during the course of our audit. 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>The revenue cycle includes fraudulent transactions</p> <p>Under ISA (UK&I) 240 there is a presumed risk that revenue may be misstated due to the improper recognition of revenue.</p> <p>This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.</p>	<p>Having considered the risk factors set out in ISA240 and the nature of the revenue streams at Redditch Borough Council, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:</p> <ul style="list-style-type: none"> • there is little incentive to manipulate revenue recognition • opportunities to manipulate revenue recognition are very limited; and • the culture and ethical frameworks of local authorities, including Redditch Borough Council, mean that all forms of fraud are seen as unacceptable. 	<p>Our audit work has not identified any issues in respect of revenue recognition in grants or fees and charges.</p> <p>Long term Debtors</p> <p>The Councils is has a number of long term debtors where they have a legal charge on a property totalling £659k We selected a sample of 9 for testing and found:</p> <ul style="list-style-type: none"> • 3 loans (£23k) where no supporting evidence of the charge could be located • 1 loan where the carrying amount (£18k) as different to the supporting evidence (£24.5k) <p>We have included a recommendation that the Council review its record keeping in this area.</p>
2.	<p>Management over-ride of controls</p> <p>Under ISA (UK&I) 240 it is presumed that the risk of management over-ride of controls is present in all entities.</p>	<p>Our work has included</p> <ul style="list-style-type: none"> • review of entity controls • testing of journal entries • review of accounting estimates, judgements and decisions made by management • review of unusual significant transactions. 	<p>Our audit work did not identify any issues with journals.</p> <p>Our testing of journals has taken considerably longer than planned. The Council struggled to produce reports with the required information and there were delays in responding to our audit queries. This is in part due to the overly complex ledger structure and we have included a recommendation on this.</p>

Audit findings against significant risks (continued)

We have also identified the following significant risks of material misstatement from our understanding of the entity. We set out below the work we have completed to address these risks.

	Risks identified in our audit plan	Work completed	Assurance gained and issues arising
3.	<p>Production of the 2015/16 financial statements</p> <p>Due to the issues identified in the audit of the 2014/15 financial statements we issued statutory recommendations to strengthen the production process for 2015/16.</p>	<p>We have</p> <ul style="list-style-type: none"> examined the accounts closedown process and the controls in place to ensure materially accurate accounts are produced had regular and early discussions with the finance team on the key accounting issues such as the IFRS 13 requirements for valuation of assets and the classification of investment properties 	<p>The draft accounts were submitted by the 30th June 2016 deadline.</p> <p>The quality and timeliness of the working papers supporting the accounts was better than the previous year. There are, however, areas that continue to be problematic specifically</p> <ul style="list-style-type: none"> a full set of working papers was not available at the start of the audit and when provided did not always clearly link to the relevant amounts in the financial statements. audit queries were not resolved in an efficient and timely way to support the delivery of the audit. <p>The Council needs to ensure further improvements are made so that it can meet the earlier closedown and audit timetables in 2018.</p>
4	<p>Accounting for recharged income and expenditure</p> <p>During the 2014/15 financial statement audit we identified material amendments to the CIES and Segmental Reporting note in relation to the Councils treatment of recharged. We have concluded that there is a potential risk of material misstatement in the 2015/16 accounts if similar errors are made.</p>	<p>We have</p> <ul style="list-style-type: none"> had early discussion with finance team on their proposed treatment of recharges undertaken detailed review of the recharges included in the financial statements including the controls in place to ensure that they are materially correct and comply with the accounting treatment required by the CIPFA Accounting Code. 	<p>We undertook an early review of the finance team's proposal for segmental reporting (financial statements note 27). On receipt of the financial statement we found that the note had been amended and a clear audit trail was not kept of the changes. Further changes were made to the note as a result of our audit.</p>

Audit findings against significant risks (continued)

	Risks identified in our audit plan	Work completed	Assurance gained and issues arising
6.	<p>Valuation of pension fund net liability</p> <p>The Council's pension fund asset and liability as reflected in its balance sheet represent significant estimates in the financial statements.</p>	<p>We have completed the following:</p> <ul style="list-style-type: none"> documentation of the key controls that were put in place by management to ensure that the pension fund liability was not materially misstated walkthrough of the key controls to assess whether they were implemented as expected and mitigate the risk of material misstatement in the financial statements review of the competence, expertise and objectivity of the actuary who carried out the Council's pension fund valuation gained an understanding of the basis on which the IAS 19 valuation was carried out, undertaking procedures to confirm the reasonableness of the actuarial assumptions made review of the consistency of the pension fund asset and liability and disclosures in notes to the financial statements with the actuarial report from your actuary 	<p>A firm of consulting actuaries (Mercers) is engaged to provide the Council with expert advice about the assumptions to be applied when valuing pension liabilities. These assumptions cover areas such as mortality rates, inflation and future increases in salaries and pensions.</p> <p>We have reviewed</p> <ul style="list-style-type: none"> the assumptions used by the actuary and are satisfied that they are reasonable the competency expertise and objectivity of the actuary the controls in place to ensure the liability is not materially misstated. <p>We also reviewed consistency of the disclosures and officers made a number of minor amendments to these.</p> <p>There are no matters that to bring to your attention.</p>


Audit findings against other risks

In this section we detail our response to the other risks of material misstatement which we identified in our Audit Plan. Recommendations, together with management responses are attached at appendix A.

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
Operating expenses	Creditors related to core activities understated or not recorded in the correct period	<p>We have :</p> <ul style="list-style-type: none"> conducted a walkthrough of the key controls for this system undertaken a search for unrecorded liabilities by reviewing payments after the year end reviewed the Council's accruals process and test according (including goods receipted) tested a sample of GRNI's to identify unaccrued items. 	<p>Our audit work has not identified any issues in respect of the completeness of 2015/16 operating expenditure.</p>
Employee remuneration	Employee remuneration and benefits obligations and expenses understated	<p>We have :</p> <ul style="list-style-type: none"> conducted a walkthrough of the key controls for this system completed a trend analysis on employee remuneration covering the period up to April 2015 - March 2016 reviewed the reconciliation of the payroll system to the general ledger 	<p>Our audit work has not identified any issues in respect of the completeness of 2015/16 employee remuneration.</p> <p>We also tested a sample of individual payments to employees to gain assurance that payments are made to valid employees and for the appropriate values. We found two issues:</p> <ul style="list-style-type: none"> duplication of a payment to a Member for mileage incorrect hourly rate used for a casual worker. <p>These errors were not identified or corrected by the payroll team and we carried out further testing to assess the audit risk.</p> <p>We are satisfied that neither of these errors could result in a material misstatement, but there are weaknesses in the internal control arrangements within payroll. See internal control weaknesses on page 19.</p>

Accounting policies, estimates and judgements

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

Accounting area	Summary of policy	Comments	Assessment
Revenue recognition	<ul style="list-style-type: none"> Revenue from the sale of goods is recognised when the Council transfers the significant risks and rewards of ownership to the purchaser and it is probable that economic benefits or service potential associated with the transaction will follow to the Council. Revenue from the provision of services is recognised when the Council can measure reliably the percentage of completion of the transaction and it is probable that economic benefits or service potential associated with the transaction will flow to the Council. Interest receivable on investments and payable on borrowings accounted for respectively as income and expenditure on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract. Where revenue or expenditure has been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Where it is doubtful that debts will be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected. Accruals will be made for items of income and expenditure in excess of £500, lower amounts will only be actioned at the request of the relevant budget holder 	<p>We have considered the:</p> <ul style="list-style-type: none"> appropriateness of the Council's policies under International Financial Reporting Standards, as adopted through the Code of Practice on Local Authority Accounting for 2015/16 adequacy of disclosure of accounting policy. <p>Our review has not highlighted any issues which we wish to bring to your attention</p>	 Green


Assessment

● Marginal accounting policy which could potentially attract attention from regulators
 © 2016 Grant Thornton UK LLP | Audit Findings Report for Redditch Borough Council | 2015/16

● Accounting policy appropriate but scope for improved disclosure




● Accounting policy appropriate and disclosures sufficient

Audit findings

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 PPE Valuation of investment Properties 	<p>Valuation of property, plant and equipment</p> <p>The Council revalues its assets on a rolling basis over a five year period. We have undertaken the following</p> <ul style="list-style-type: none"> review of management's processes and assumptions for the calculation of the estimate review of the competence, expertise and objectivity of the valuation expert, the instructions issued to them and the scope of their work testing of revaluations made during the year to ensure they are input correctly into the Council's asset register and financial statements <p>During this we noted three issues:</p> <ul style="list-style-type: none"> Three assets that had not been requested but revalued. Subsequent revaluation found that Buildings should be £641k and land revalued downwards by £18k (net £623k) Neighbourhood offices had been revalued as one asset and were still included in the asset register as separate assets. Subsequent investigation found that buildings and land should be revalued downwards and the charge taken to the revaluation reserve by £183k and CIES charged £228k The upwards revaluation of the land at Upper Norgrove had been taken to the CIES and should have been taken to the revaluation reserve <p>Management have adjusted for these (page 21)</p> <p>Valuation of Investment Properties</p> <p>During 2015/16 the Council reviewed its investment properties. It was identified that these assets were not held solely for rental income or capital appreciation and property totalling £5.3 million was reclassified as operational assets.</p> <p>The Council have considered whether a prior period adjustment is required for this material restatement, and concluded that it is not. At the time of drafting this report insufficient evidence had been provided to support this conclusion. We expected the documentation of this judgement to be to be available at the start of our audit.</p>	<p style="text-align: center;">  Green </p> <p style="text-align: center;">Awaiting information</p>

Assessment

Accounting policies, estimates and judgements

Accounting area	Summary of policy	Comments	Assessment
Judgements and estimates	Key estimates and judgements include: <ul style="list-style-type: none"> Provisions 	<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 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. The Council's provision follows the same basis as in the previous year. Overall we are satisfied with the approach taken and that there is a low risk of material estimation uncertainty.</p> <p>Bad Debt Provision</p> <p>We reviewed the Council bad debt provisions and were satisfied that the approach taken was reasonable. However the percentage used has not been reviewed in the last two years and the Council should ensure that the bad debt percentages are reviewed periodically to ensure they remain current.</p>	 Green
Going concern	The Executive Director of Finance and Resources, has a reasonable expectation that the services provided by the Council will continue for the foreseeable future. Members concur with this view. For this reason, the Council continue to adopt the going concern basis in preparing the financial statements.	We have reviewed the Council's forecast financial position for 12 months from the date of our proposed opinion (30 th September 2016 for this purpose). We have concluded that there are sufficient General Fund balances to cover an under delivery of savings in this period.	 Green
Other accounting policies	Various	We have reviewed the Council's accounting policies against the requirements of the CIPFA Code of Practice. We are satisfied that the Council's accounting policies are appropriate and consistent with Code requirements.	 Green

Assessment

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	<ul style="list-style-type: none"> We have previously discussed the risk of fraud with the Audit, Standards and Governance 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	<ul style="list-style-type: none"> 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	<ul style="list-style-type: none"> 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. We are aware that the requirements to advertise the public meeting relating to our statutory recommendations under section 12 of the Audit Commission Act 1998 were not fully complied. In our view this was not a significant issue of non-compliance.
4.	Written representations	<ul style="list-style-type: none"> A letter of representation has been requested from the Council.
5.	Confirmation requests from third parties	<ul style="list-style-type: none"> We requested from management permission to send confirmation requests to Lloyds. This permission was granted and the request were sent and returned with positive confirmation.
6.	Disclosures	<p>We identified changes to a number of other disclosures in the financial statements which the Council have agreed to amend.</p>
7.	Matters on which we report by exception	<p>We have not identified any issues that we are required to report by exception in our audit opinion.</p> <p>We agreed a number amendments to improve the clarity of the disclosure within the Annual Governance Statement and Narrative Report.</p> <ul style="list-style-type: none"> The draft Annual Governance Statement did not adequately explain the significant governance issues with respect to our statutory recommendations. The draft narrative report did not provide an adequate commentary of the Council's financial position and the key financial event in the year.
8.	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>We noted that these were submitted after the deadline of the 12th August 2016. The only work required is to confirm that the Council does not exceed the threshold.</p>

Internal controls

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



Our audit included consideration of internal controls relevant to the preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control. We considered and walked through the internal controls for Employee Remuneration and Operating Expenses as set out on page 14 above.

The matters that we identified during the course of our audit are set out in the table below. These and other recommendations, together with management responses, are included in the action plan attached at Appendix A.

	Assess ment	Issue and risk	Recommendations
1.		<p>Payroll</p> <p>Our testing of individual payments to employees to ensure they are to valid employee and for the appropriate values. We identified two issue:</p> <ul style="list-style-type: none"> • Duplication of a payment to a Member for mileage • Incorrect hourly rate used for a casual worker 	The Council should ensure that there are adequate controls to prevent and detect duplicate payroll payments and incorrect pay rates.
2		<p>Ledger Structure</p> <p>Our testing of journals took considerable time. This is because the Council struggled to produce reports with the required information. This is in part due to the overly complex ledger structure.</p>	The Council should seek to simplify the ledger coding structure.
3		<p>Long Term Debtors</p> <p>Our testing identified debtors where no supporting evidence could be found for the charge on the property</p>	The Council should ascertain the legal status of all charges and whether these should be long term debtors or whether the charge has now ceased to be chargeable

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

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

Internal controls – review of issues previously communicated

	Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
1.	✓	We highlighted in our 2014/15 progress report that not all payroll reconciliations were completed on a routine basis. This fundamental reconciliation should be completed monthly. As at June 2015 these reconciliations had been brought up to date.	Payroll reconciliations were up-to-date, when we carried out our interim and final audit visits for the 2015/16 audit.
2.	✓	We reported in 2014/15 that not all the IT control weaknesses identified had been addressed	Our 2015/16 IT controls review identified four low risks issues. We have received a management response to our recommendation in respect of these issues.
3	✓	In 2014/15 we recommended that the accounts should directly agree to the trial balance in the future.	The 2015/16 accounts did agree to the trial balance.
4	X	In 2014/15 we recommended that there should be no balancing items on the bank reconciliation and the reconciliation should balance to zero	Both the receipts and payments accounts have a reconciling item of £20,139.05 which dates back a number of years. The payments account had a £212.50 un-reconciled amount as at 31 March 2016. Action should be taken to clear these items.
5	X	Suspense accounts should be routinely cleared to zero	At 31 March 2016 there was £5,638.51 on a cash in transit suspense account.

Assessment

- ✓ Action completed
- X Not yet addressed

Adjusted misstatements

The table below provides details of adjustments identified during the audit which have been made within the final set of financial statements.

Detail		Comprehensive Income and Expenditure Statement £'000	Balance Sheet £'000
1	PPE Revaluation (page16) - Assets not included	0	Dr 623 CR 623
	- Neighbourhood office	Dr 288	Cr PPE 212 Cr Revaluation reserve 440
2	Revaluation of Land at Upper Norgrove	Dr 1,471	Cr Revaluation reserve 1,471
	Overall impact	Dr 1,698	Cr 1,698

Misclassifications and disclosure changes

We did not identify any misstatement that required adjustment in the financial statement. All the error found were in relation misclassifications or disclosure notes. 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	58	Note 30, External Audit costs	Amendment required to reflect the correct external audit fee
2 Disclosure	N/A	Note 27 Resource Allocation	Various amendments to Resource Allocation (Segmental Reporting) notes to better reflect the supporting working papers.
3 Disclosure	N/A	Collection Fund notes	Council tax and NDR notes amended to more accurately reflect the position of the Council
5 Disclosure		Notes 15 and 37, Financial Instruments	Various amendment to reflect the actual position of the Council
6 Disclosure	N/A	Note 35, Defined Benefit Pensions	Various amendments to better reflect the Mercers report.
7 Disclosure		Note 1	Accounting policies were amended to reflect typographical errors and better reflect the practices of the Council
8 Disclosure	121	Note 3, Grant Income	Local council tax support grant was included in both credited to services and capital grants. £121k removed from credited to services. This adjustment also impacted on the segmental analysis (Note 27)
9 Disclosure	262	Note 29, Exit Packages.	Amendment required to disclosure of exit packages for both RBC ad BDC.

Unadjusted misstatements

The table below provides details of adjustments identified during the audit which have not been made within the final set of financial statements. The Audit, Standards and Governance Committee is required to approve management's proposed treatment of all items recorded within the table below:

Detail	Comprehensive Income and Expenditure Statement £'000	Balance Sheet £'000	Reason for not adjusting
1 Long term Debtors (Page 11)	Dr 16.5	Cr 16.5	It is not material for 2015/16. Further work will be undertaken to ascertain the legal status of all charges and whether these should be long term debtors or whether the charge has now ceased to be chargeable
2 Valuations disclosure As per paragraph 4.1.4.3.4 of the Code the Council has not added a table showing the effective date of Valuations.	N/A	N/A	Disclosure note will be considered in 2016/17
Overall impact			

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

Background

We are required by section 21 of the Local Audit and Accountability Act 2014 ('the Act') and the NAO Code of Audit Practice ('the Code') to satisfy ourselves that the Council has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the Value for Money (VFM) conclusion.

We are required to carry out sufficient work to satisfy ourselves that proper arrangements are in place at the Council. The Act and NAO guidance state that for local government bodies, auditors are required to give a conclusion on whether the Council has put proper arrangements in place.

In carrying out this work, we are required to follow the NAO's Auditor Guidance Note 3 (AGN 03) issued in November 2015. AGN 03 identifies one single criterion for auditors to evaluate:

In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

AGN03 provides examples of proper arrangements against three sub-criteria but specifically states that these are not separate criteria for assessment purposes and that auditors are not required to reach a distinct judgement against each of these.

Risk assessment

We carried out an initial risk assessment and identified the following significant risks, that we would investigate. We communicated these in our audit progress report which we presented to the Audit, Standards and Governance Committee meeting on the 16th June 2016.

We identified risks in respect of specific areas of proper arrangements using the guidance contained in AGN03.

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. We have also considered progress against the s11 recommendations issues in 2014/15.

Significant qualitative aspects

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. Our main considerations were:

- financial outturn
- the Medium Term Financial Strategy and budget setting
- the Corporate Plan and monitoring of service performance.

We have also considered progress against the s11 recommendations issues in 2014/15. 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 below.

Findings

Corporate Plan and performance monitoring

We considered the consistent use of the six strategic purposes and the new corporate dashboard introduced in January 2016 were sufficient to demonstrate that the Council understands and is using performance information to support informed decision making and performance management

Financial Outturn and MTFS

We found that Council has good arrangements at an officer level to manage the budgets. However our key concerns are around the sufficiency of information reported to Members to support them in making key decision making. As in previous years we have found the in year reporting and the budget setting report unclear and difficult to interpret.

Overall conclusion

We have therefore concluded that there are weaknesses in the Councils arrangements for:

- reliable and timely financial reporting that supports the delivery of strategic purposes; and
- planning finances effectively to support the sustainable delivery of strategic purposes and maintain statutory functions
- Given the issues identified were subject to s11 recommendation in 2014/15 we have also considered whether appropriate governance arrangements are in place. Due to the lack of progress with the financial reporting recommendation we have concluded that there is a failure in governance arrangements.

Based on the work we performed to address the significant risks, we concluded that:

- except for the matter we identified in respect of the reporting financial reporting, financial planning and governance arrangements 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 B.

Recommendations for improvement

We discussed findings arising from our work with officers and agreed that work is still required to address the s11 recommendations in relation to budget setting and reporting,

Management's response to these can be found in the Action Plan at Appendix A.

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 and conclusions																						
<p>Financial Outturn We identified during 2014/15 that the outturn position resulted in a large increase in the general fund balances which was not planned when the budget was set. It is not clear from the Council's management processes how this had been achieved.</p> <p>NAO Criteria: Reliable and timely financial reporting that supports the delivery of strategic priorities</p>	<p>The outturn position presented to Cabinet in July 2016 shows an underspend of £1,031k against a revised budget of £15,874k. However this performance mask's significant movements in the budget during the year making it unclear to Members how this outturn performance has been achieved. The table below sets out the changes to the budget and the forecast spend during the year.</p> <table border="1" style="width: 100%; border-collapse: collapse; text-align: center;"> <thead> <tr style="background-color: #4b4b9b; color: white;"> <th></th> <th>Approved Budget (Feb 15) £000</th> <th>Q1 Monitoring £000</th> <th>Q2 Monitoring £000</th> <th>Q3 Monitoring £000</th> <th>Outturn £000</th> </tr> </thead> <tbody> <tr style="background-color: #d9d9d9;"> <td>Budgeted Net Service Expenditure</td> <td>11,126</td> <td>14,521</td> <td>16,086</td> <td>15,343</td> <td>15,874</td> </tr> <tr> <td>Forecast Outturn</td> <td>N/A</td> <td>N/A</td> <td>15,936</td> <td>15,039</td> <td>14,843</td> </tr> </tbody> </table> <p>We were able to obtain explanations for these movements. They relate to the treatment of capital charges, utilisation of reserves and additional non budgeted income. However, these movements are not explained in the reporting to Cabinet.</p> <p>We found that Council has good arrangements at an officer level to manage the budgets but the in year reporting to Members is inconsistent and difficult to follow. We have therefore concluded that there are weaknesses in the Councils arrangements to demonstrate it can produce reliable and timely financial reporting that supports the delivery of strategic purposes.</p>						Approved Budget (Feb 15) £000	Q1 Monitoring £000	Q2 Monitoring £000	Q3 Monitoring £000	Outturn £000	Budgeted Net Service Expenditure	11,126	14,521	16,086	15,343	15,874	Forecast Outturn	N/A	N/A	15,936	15,039	14,843
	Approved Budget (Feb 15) £000	Q1 Monitoring £000	Q2 Monitoring £000	Q3 Monitoring £000	Outturn £000																		
Budgeted Net Service Expenditure	11,126	14,521	16,086	15,343	15,874																		
Forecast Outturn	N/A	N/A	15,936	15,039	14,843																		

Significant risk	Findings and conclusions																							
<p>MTFS and budget setting We identified during the 2014/15 audit that the budget preparation processes could be strengthened and should be 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</p> <p>NAO Criteria: Planning finances effectively to support the sustainable delivery of strategic priorities and maintain statutory functions</p>	<p>The Councils MTFS has been updated during the year, in line with the annual planning process. The updates include expected and known changes to government funding arrangements, spending pressures and identified savings plans.</p> <p>The 2016/17 budget presented to Cabinet on 22nd February 2016 showed a breakeven position. It assumes savings of £654k which on review are largely smaller savings made from restructures, vacancies and other efficiencies. However the breakdown included in the appendices only provided a breakdown for £619k. The 2017/18 and 2018/19 budgets show further savings.</p> <p>The 2016/17 budget also includes transfer of £479k of balances but no further analysis is provided of this or of the impact of the 2017/18 and 2018/19 budgets on reserves and balances.</p> <table border="1" data-bbox="808 603 2085 991"> <thead> <tr> <th></th> <th>2016/17 £'000</th> <th>2017/18 £'1000</th> <th>2018/19 £'000</th> </tr> </thead> <tbody> <tr> <td>Budget</td> <td>10,225</td> <td>10,853</td> <td>11,178</td> </tr> <tr> <td>Savings (included in above)</td> <td>-654</td> <td>-557</td> <td>-566</td> </tr> <tr> <td>Proposed use of balances</td> <td>-479</td> <td>0</td> <td>0</td> </tr> <tr> <td>Shortfall</td> <td>0</td> <td>-1,572</td> <td>-2,490</td> </tr> </tbody> </table> <p>The Council has a number of options available and is considering further savings plans as part of the production of its Efficiency Plan in October 2016. Given the scale of the challenge the Council faces in 2017/18 and 2018/19 it will need to review the range and nature of non essential services and the level of balances it holds to ensure it can continue to deliver strategic priorities and maintain statutory functions.</p> <p>As in previous years our key concern is around the sufficiency of information reported to Members to support them in making key decision making key decision. The impact of the MTFS (on reserves and balances) is unclear and difficult to interpret and does not enable Members to make decision to support the sustainable delivery of the Councils strategic purposes and maintain statutory functions</p>					2016/17 £'000	2017/18 £'1000	2018/19 £'000	Budget	10,225	10,853	11,178	Savings (included in above)	-654	-557	-566	Proposed use of balances	-479	0	0	Shortfall	0	-1,572	-2,490
	2016/17 £'000	2017/18 £'1000	2018/19 £'000																					
Budget	10,225	10,853	11,178																					
Savings (included in above)	-654	-557	-566																					
Proposed use of balances	-479	0	0																					
Shortfall	0	-1,572	-2,490																					

Significant risk	Findings and conclusions
<p>Corporate plan and monitoring of service performance</p> <p>The corporate plan was last updated in July 2013 and therefore may not address the current strategic purposes of the Council. There is also currently no performance management information routinely reported (other than around customer services which is reported to audit committee). It is not possible to assess the impact of service changes or savings on service quality or priorities as there is no reporting.</p> <p>NAO criteria: Understanding and using appropriate cost and performance information to support informed decision making and performance management</p>	<p>The Corporate Plan was plan last updated in 2013. The six strategic purposes in this document are clearly still in use by the Council. The Corporate Plan has been refreshed and presented to Cabinet on 7th September 2016 but the strategic purposes remain the same.</p> <p>Since January 2016 officers within the Council have utilised a corporate dashboard to monitor performance management information. The dashboard contains a range of performance indicators that have been developed by departments to support delivery of strategic purposes. The indicators are a combination of service performance and statutory targets and each indicator has a target owner responsible for providing commentary on performance. Six Members are currently trialling access to the dashboard with the intention of rolling out access to all Members in September 2016. The Overview and Scrutiny Committees will then be able to hold senior officers to account for service performance.</p> <p>There are currently no plans to produce a summary document for consideration by Cabinet or full Council. Whilst internally (officers and members) will have access to the performance information thought should be given to how to express service performance to the wider public and stakeholders.</p> <p>We have concluded that the arrangements in place are sufficient to demonstrate that the Council understands and is using performance information to support informed decision making and performance management.</p>

Section 4: Other statutory powers and duties

01. Executive summary

02. Audit findings

03. Value for Money

04. Other statutory powers and duties

05. Fees, non audit services and independence

06. Communication of audit matters

Other statutory powers and duties

We set out below details of other matters which we, as auditors, are required by the Act and the Code to communicate to those charged with governance. In 2014/15 we issued 4 recommendations under section 11 (3) of the Audit Commission Act 1998 to which we required a formal response. Those responses and our assessment are below

	Recommendation	Follow up
1	<p>The Council should put in place robust arrangements for:</p> <ul style="list-style-type: none"> the production of the 2015/16 financial statements, which meet statutory requirements and international financial reporting standards. <p>In order to achieve this the Council should:</p> <ul style="list-style-type: none"> ensure sufficient resources and specialist skills are available to support the accounts production introduce appropriate project management skills to the production of the financial Statements. 	<p>We found that the Council had put in place improved arrangements for the production of its financial statements which met the statutory deadlines and international financial reporting standards. The arrangements in place included</p> <ul style="list-style-type: none"> A detailed project plan subject to review by the DoF Specific in house training from CIPFA and attendance at a number of external events Additional experienced external was brought in to support the finance team <p>Whilst this is a significant achievement given the issue identified in the prior year the Council needs to continue with this progress to ensure it can meet the earlier closedown and audit timetables in 2018.</p>
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"> the financial statements are compiled directly from the ledger the entries in the accounts are supported by good quality working papers which are available at the start of the audit the financial statements and working papers have been subject to robust quality assurance prior to approval by the Executive Director (Finance and Resources) provides additional training, where necessary, to ensure all staff involved in the accounts production process have the necessary skills and information; the production of the financial statements is monitored through regular reporting to Directors and the Audit Board. 	<p>We found that the Council had developed a detailed project plan and that the financial statements were compiled directly from the ledger. However further work is needed in this area, specifically:</p> <ul style="list-style-type: none"> Whilst entries in the financial statements were supported by working papers, these require improvement to ensure they are available at the start of the audit and clearly link to the financial statements. Queries were dealt with but further support is needed to ensure they are resolved in an efficient and timely way to support the delivery of the audit. <p>In addition the Council needs to ensure that new plans are developed to meet the new deadlines in place from 2018 and that the level of external support required is reduced.</p>

	Recommendation	Follow up
3	<p>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</p>	<p>The Council has put in place improved arrangements for setting its annual budget. These include</p> <ul style="list-style-type: none"> • Detailed 'bid' forms for every capital and revenue pressure, linked to the strategic purposes • Template forms for savings/additional income to identify where growth could be made • Use of planning information in relation to new homes bonus and council tax • A review of fees and charges. <p>There are also changes in progress for the 2017/18 budget setting.</p> <p>As in previous years our key concern is around the sufficiency of information reported to Members to support them in making key decision making key decision. The impact of the MTFS is unclear and difficult to interpret and does not enable Members to make decision to support the sustainable delivery of the Councils strategic purposes and maintain statutory functions.</p>
4	<p>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.</p>	<p>We found that Council has good arrangements at an officer level to manage the budgets. However the in year reporting to Members is inconsistent and difficult to follow. We have concluded that there are weaknesses in the Councils arrangements to demonstrate it can produce reliable and timely financial reporting that supports the delivery of strategic purposes.</p>

Section 5: Fees, non-audit services and independence

01. Executive summary

02. Audit findings

03. Value for Money

04. Other statutory powers and duties

05. Fees, non audit services and independence

06. Communication of audit matters

We confirm below our final fees charged for the audit and confirm there were no fees for the provision of non audit services.

Fees

	2015/16 £	2014/15 Actual £
Council audit	57,960	57,960
Additional fee for 2014/15 audit work *	n/a	25,770
Grant certification	10,529	13,720
Additional 2014/15 grant certification fee**	TBC	17,735
Total audit fees (excluding VAT)	68, 489	115,185

Grant certification

Our fees for grant certification cover only housing benefit subsidy certification, which falls under the remit of Public Sector Audit Appointments Limited.

Fees in respect of other grant work, such as reasonable assurance reports, are shown under 'Fees for other services'.

*Due to the additional work required on the 2014/15 audit and benefits work we submitted a fee variations to PSAA.

** Our fees for grant certification cover only housing benefit subsidy certification, which falls under the remit of Public Sector Audit Appointments Limited. The deadline for completion of this work is the end of November 2016

Fees for other services

Service	Fees £
Audit related services	0
Non-audit services	0

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 6: Communication of audit matters

01. Executive summary

02. Audit findings

03. Value for Money

04. Other statutory powers and duties

05. Fees, non audit services and independence

06. Communication of audit matters

Communication to those charged with governance

International Standards on Auditing ISA (UK&I) 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 Public Sector Audit Appointments Limited (<http://www.psa.a.co.uk/appointing-auditors/terms-of-appointment/>)

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 at the time of our appointment. 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 NAO (<https://www.nao.org.uk/code-audit-practice/about-code/>). Our work considers the Council's key risks when reaching our conclusions under the Code.

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

Our communication plan	Audit Plan	Audit Findings
Respective responsibilities of auditor and management/those charged with governance	✓	
Overview of the planned scope and timing of the audit. Form, timing and expected general content of communications	✓	
Views about the qualitative aspects of the entity's accounting and financial reporting practices, significant matters and issues arising during the audit and written representations that have been sought		✓
Confirmation of independence and objectivity	✓	✓
A statement that we have complied with relevant ethical requirements regarding independence, relationships and other matters which might be thought to bear on independence.	✓	✓
Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged		
Details of safeguards applied to threats to independence		
Material weaknesses in internal control identified during the audit		✓
Identification or suspicion of fraud involving management and/or others which results in material misstatement of the financial statements		✓
Non compliance with laws and regulations		✓
Expected modifications to 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

Priority

High - Significant effect on control system

Medium - Effect on control system

Low - Best practice

Rec No.	Recommendation	Priority	Management response	Implementation date & responsibility
1	The Council should continue with the progress it has made in the financial statements production to ensure all working papers are available from the start of the audit and clearly link to the financial statements.	High		
2	The Council should ensure the reporting of the annual budget and MTFS to Members is improved, specifically to include the impact on reserves and balances	High		
3	The Council should ensure improvements are made to the clarity and consistency of the in year reporting of the budget to enable accurate forecasts to be made in-year of the likely year-end outturn and action to be taken, where necessary, to address budget variances.	High		

Appendix A: Action plan

Priority

High - Significant effect on control system

Medium - Effect on control system

Low - Best practice

Rec No.	Recommendation	Priority	Management response	Implementation date & responsibility
4	The council should review the percentages used in its bad debt provision periodically to ensure they remain current.	Low		
5	The Council should ensure that there are adequate controls to prevent and detect duplicate payroll payments and incorrect pay rates	Medium		
6	There should not be balancing items on the bank reconciliation which should balance to zero	Medium		
7	Suspense accounts should be routinely cleared to zero	Medium		
8	The Council should ascertain the legal status of all charges and whether these should be long term debtors or whether the charge has now ceased to be chargeable	Medium		

Appendix B: Audit opinion

We anticipate we will provide the Council with an unmodified opinion on the financial statements and a qualified VFM conclusion

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

We have audited the financial statements of Redditch Borough Council (the "Authority") for the year ended 31 March 2016 under the Local Audit and Accountability Act 2014 (the "Act"). The financial statements comprise the Movement in Reserves Statements, the Comprehensive Income and Expenditure Statements, the Balance Sheets, the Cash Flow Statement, the Collection Fund, the Housing Revenue Accounts 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 2015/16.

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Act 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 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.

Respective responsibilities of the Executive Director Finance and Resources and auditor

As explained more fully in the Statement of the Executive Director Finance and Resources' Responsibilities, the Executive Director 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 2015/16, which 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 authorities circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Executive Director Finance and Resources; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Narrative Report and the Annual Governance Statement 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:

- present a true and fair view of the financial position of the Authority as at 31 March 2016 and of the Authority's expenditure and income for the year then ended; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16 and applicable law.

Opinion on other matters

In our opinion, the other information published together with the audited financial statements in the Narrative Report and the Annual Governance Statement is consistent with the audited financial statements.

Matters on which we are required to report by exception

We are required to report to you if:

- in our opinion the Annual Governance Statement does not comply with the guidance included in 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007; or
- we issue a report in the public interest under section 24 of the Act; or
- we make a written recommendation to the Authority under section 24 of the Act; or
- we exercise any other special powers of the auditor under the Act.

We have nothing to report in these respects.

Conclusion on the Authority's arrangements to secure value for money through economic, efficient and effective use of its resources

Respective responsibilities of the Authority and 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 20(1)(c) of the Act 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.

Scope of the review of the Authority's arrangements to secure value for money through economic, efficient and effective use of its resources

We have undertaken our review in accordance with the Code of Audit Practice prepared by the Comptroller and Auditor General as required by the Act (the "Code"), having regard to the guidance on the specified criteria issued by the Comptroller and Auditor General in November 2015, as to whether 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 these criteria as those necessary for us to consider under the Code in satisfying ourselves whether the Authority put in place proper arrangements to secure value for money through the economic, efficient and effective use of its resources for the year ended 31 March 2016.

We planned our work in accordance with the Code. 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 has put in place proper arrangements to secure value for money through economic, efficient and effective use of its resources.

Basis for qualified conclusion

In considering the Authority's arrangements for securing efficiency, economy and effectiveness we identified the following matters:

Budget Reporting

The Authority's reporting of performance against its budget throughout the year is unclear, with unexplained movements in the budget between months. Reports to Members during the year do not clearly explain the reasons for variances from budget or enable them to understand the key drivers of the Authority's financial performance.

This matter is evidence of weaknesses in proper arrangements for understanding and using appropriate and reliable financial and performance information to support informed decision making and performance management; and for reliable and timely financial reporting that supports the delivery of strategic priorities.

Medium Term Financial Strategy (MTFS)

The Authority updated its MTFS covering the period to 31 March 2019, in line with the annual planning process. However, the MTFS does not provide sufficient detail on the use of the Authority's reserves to enable Members to make informed decisions on the adequacy of its reserves and the sustainability of services.

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

Governance Arrangements

We made two written recommendations under section 11 of the Audit Commission Act 1998 in 2014/2015 in respect of the two issues raised above. As identified in the above paragraphs the Authority has not made sufficient progress in addressing our recommendations to improve the arrangements in place. This matter is evidence of weaknesses in proper arrangements for acting in the public interest, through demonstrating and applying the principles and values of sound governance.

Qualified conclusion

On the basis of our work, having regard to the guidance on the specified criteria issued by the Comptroller and Auditor General in November 2015, except for the effects of the matters described in the Basis for qualified conclusion paragraphs, we are satisfied that, in all significant respects, the Authority has put in place proper arrangements to secure value for money through economic, efficient and effective use of its resources for the year ended 31 March 2016.

Certificate

We certify that we have completed the audit of the accounts of the Authority in accordance with the requirements of the Act and the Code.

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

Colmore Plaza
20 Colmore Row
Birmingham
B4 6AT

XX September 2016



© 2016 Grant Thornton UK LLP. All rights served.

'Grant Thornton' refers to the brand under which the Grant Thornton member firms provide assurance, tax and advisory services to their clients and/or refers to one or more member firms, as the context requires.

Grant Thornton UK LLP is a member firm of Grant Thornton International LTD (GTIL). GTIL and the member firms are not a worldwide partnership. GTIL and each member firm is a separate legal entity. Services are delivered by the member firms. GTIL does not provide services to clients. GTIL, and its member firms are not agents of, and do not obligate, one another and are not liable for one another's acts or omissions.

grant-thornton.co.uk