

The Audit Findings for Redditch Borough Council

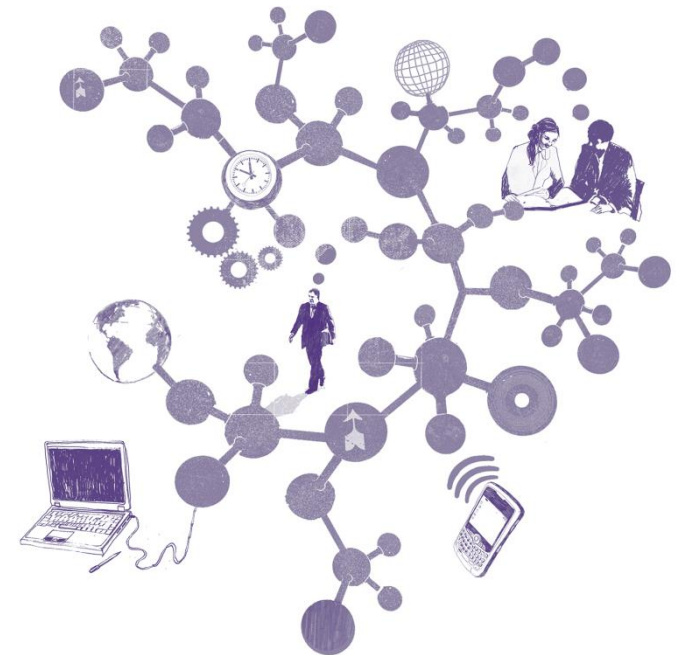
Year ended 31 March 2017

September 2017

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21st September 2017

Dear Members of the Audit, Governance and Standards Committee

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Audit Findings for Redditch Borough Council for the year ending 31 March 2017

This Audit Findings report highlights the key findings arising from the audit that are significant to the responsibility of those charged with governance (in the case of Redditch Borough Council, the Audit, Governance and Standards Committee), to oversee the financial reporting process, 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 auditor we are responsible for performing the audit, in accordance with International Standards on Auditing (UK & Ireland) ('ISA (UK&I)'), 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 faithfully

Richard Percival

Chartered Accountants

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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

We received a full set of financial statements on 27 June. There is significant work to do to meet the earlier statutory deadline of 31 May 2018. The accounts were better prepared than previous years, and were supported by good quality working papers. However, there were more amendments required to the draft accounts than we would expect.

We anticipate giving an unqualified opinion on the financial statements and a qualified Value for Money Conclusion.

Purpose of this report

This report highlights the key issues affecting the results of Redditch Borough Council (the Council) and the preparation of the Council's financial statements for the year ended 31 March 2017. It is also used to report our audit findings to management and those charged with governance in accordance with the requirements of ISA (UK&I) 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 to consider other information published together with the audited financial statements (including the Annual Governance Statement (AGS) and Narrative Report), whether it is consistent with the financial statements, apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Council acquired in the course of performing our audit; or otherwise misleading.

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 year.

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 have not used any of these powers or duties.

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. We have not received any questions.

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 April 2017.

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

- review of the final version of the financial statements which includes the Prior Period Adjustment note to comply with the new "Telling the Story" requirements;
- obtaining and reviewing the management letter of representation; and
- updating our post balance sheet events review, to the date of signing the opinion.

Key audit and financial reporting issues

Financial statements opinion

We have identified two adjustments affecting the Council's reported financial position (details are recorded in section two of this report). The draft and audited financial statements for the year ended 31 March 2017 both recorded net income on cost of services of £33.581 million. However, there were changes made to the Balance Sheet for Assets under Construction and the NNDR year end cash and debtor position. These did not have any overall impact on Net Assets. We have also recommended a number of adjustments to improve the presentation of the financial statements.

The key messages arising from our audit of the Council's financial statements are:

- there was an improvement in the quality of the draft financial statements compared to previous years, but further significant improvements in timeliness are needed to meet the statutory deadline of 31 May from 2018;
- in preparation for the earlier deadline the Council needs to consider available resources within the finance team as the Chief Accountant will not be present for the 2017/18 financial year end, the Council is heavily reliant on a contractor, and while a permanent replacement for the Financial Services Manager has recently been appointed, the person has yet to start working for the Council;
- the financial statements were well supported by working papers and responses to audit queries were generally prompt and efficient. This is an improvement on previous years. However, further improvement is still required to meet the early deadline in 2018 as there were delays in responding to a number of our questions.
- an error has been identified in our testing of payments made in April 2017. We have identified that capital expenditure of £186k in relation to Assets Under Construction (AuC) was omitted from the accounts. AuC and capital creditors were both understated by £186k;

- this error also affected revenue transactions. We identified two invoices totalling an amount of £8,467 that had been incorrectly omitted. We have extrapolated this error and this suggests that revenue expenditure and year end creditors may be understated by £85,806. We have not asked for the accounts to be amended in response to this extrapolation;
- a sum of £468k was identified as part of the bank reconciliation within the receipts accounts. The receipt relates to NNDR and had been processed through the Civica NNDR system but remained as an unallocated receipt within the cash account rather than allocated to NNDR cash receipts in the collection fund on the General Ledger. There is no impact on the Collection Fund revenue account because the account is prepared on income due rather than receipts received. The impact is to the Balance Sheet where it is necessary to increase cash by £468k (from £433k to £901k) and to reduce debtors for the Redditch Borough Council share (£187k) and Preceptors share (£47k) and increase Creditors for the Central Government share (£234k); and
- officers did not provide the Pension Fund administrator with the required returns in order for them to prepare the pension fund figures for the actuary. The Pension Fund administrators therefore had to estimate what the figures would be. Officers have subsequently checked that the estimated figures are reasonable.

We anticipate providing a unqualified audit opinion in respect of the financial statements (see Appendix B).

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. This includes if the AGS and Narrative Report is misleading or inconsistent with the information of which we are aware from our audit.

Based on our review of the Council's Narrative Report and AGS we are satisfied that they are consistent with the audited financial statements. We are also satisfied that, after enhancements, the AGS meets the requirements set out in the CIPFA/SOLACE guidance and that the disclosures included in the Narrative Report are in line with the requirements of the CIPFA Code of Practice.

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:

- Journal authorisation;
- IT access controls.

Further details are provided within section two of this report.

Value for Money

Our review of the Council's arrangements to secure economy, efficiency and effectiveness has highlighted the following issues which will give rise to a qualified VFM conclusion. There are weaknesses in:

- in year financial reporting; and
- Medium term financial sustainability.

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

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 2017. We will report the outcome of this certification work through a separate report to the Audit, Governance and Standards Committee which is due in January 2018.

The way forward

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 made a number of recommendations, which are set out in the action plan at Appendix A. Recommendations have been discussed and agreed with the 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.

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

We have completed our audit of the financial statements earlier than the previous year and there were fewer amendments to the financial statements. However, there is a lot of work still to do in order to meet the deadlines for 2018 and beyond. We would expect to see fewer errors and amendments required as a result of our audit.

We anticipate being able to give an unqualified opinion on the financial statements.

Materiality

In performing our audit, we apply the concept of materiality, following the requirements of ISA (UK&I) 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 £1,324,000 (being 2% of gross revenue expenditure in the previous year). We have considered whether this level remained appropriate during the course of the audit and have made no changes to our overall materiality.

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 £66,000. This remains the same as reported in our audit plan.

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	Materiality level
Related party transactions	Due to the public interest in these disclosures. Individual misstatements will also be evaluated with reference to how material they are to the other party.	£20,000 but individual issues will be evaluated with reference to the other party as well.
Disclosures of officers' remuneration, salary bandings and exit packages in the notes to the financial statements	Due to public interest in these disclosures and the statutory requirement for them to be made.	£20,000

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; Judgments about materiality are made in light of surrounding circumstances, and are affected by the size or nature of a misstatement, or a combination of both; and Judgments about matters that are material to users of the financial statements are based on a consideration of the common financial information needs of users as a group. The possible effect of misstatements on specific individual users, whose needs may vary widely, is not considered. (ISA (UK&I) 320)

Audit findings against significant risks

In this section we detail our response to the significant risks of material misstatement which we identified in the Audit Plan. 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
<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.</p>
<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>We have:</p> <ul style="list-style-type: none"> • reviewed the accounting estimates, judgments and decisions made by management; • reviewed the journal entry process; • selected unusual journal entries for testing back to supporting documentation; and • reviewed any unusual significant transactions. 	<p>Our audit work has not identified any evidence of management over-ride of controls. In particular the findings of our review of journal controls and testing of journal controls and entries has not identified any significant issues.</p> <p>We identified a weakness in the journal authorisation controls. There are no controls within the system to prevent unauthorised personnel approving journals.</p> <p>We set out later in this section of the report our work and findings on key accounting estimates and judgements.</p>

"Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, due to either 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 making the review of unusual significant transactions "the auditor shall treat identified significant related party transactions outside the entity's normal course of business as giving rise to significant risks." (ISA (UK&I) 550)

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
<p>CIES Disclosure Reconfiguration ('Telling the story') CIPFA has been working on the 'Telling the Story' project, for which the aim was to streamline the financial statements and improve accessibility to the user and this has resulted in changes to the 2016/17 Code of Practice.</p> <p>The changes affect the presentation of income and expenditure in the financial statements and associated disclosure notes. A prior period adjustment (PPA) to restate the 2015/16 comparative figures is also required.</p>	<p>We have:</p> <ul style="list-style-type: none"> documented and evaluated the process for the recording of the required financial reporting changes to the 2016/17 financial statements. reviewed the re-classification of the Comprehensive Income and Expenditure Statement (CIES) comparatives to ensure that they are in line with the Authority's internal reporting structure. reviewed the appropriateness of the revised grouping of entries within the Movement In Reserves Statement (MIRS). tested the classification of income and expenditure for 2016/17 recorded within the Cost of Services section of the CIES. tested the completeness of income and expenditure by reviewing the reconciliation of the CIES to the general ledger. tested the classification of income and expenditure reported within the new Expenditure and Funding Analysis (EFA) note to the financial statements. reviewed the new segmental reporting disclosures within the 2016/17 financial statements to ensure compliance with the CIPFA Code of Practice. 	<p>During the audit officers agreed to make some changes to the notes and disclosures in this area, in particular the inclusion of a Prior Period Adjustment note.</p> <p>The amendment explains the reason for the prior period adjustment but is not fully compliant with Code requirements.</p>

Audit findings against significant risks (continued)

Risks identified in our audit plan	Work completed	Assurance gained and issues arising
<p>Valuation of pension fund net liability The Council's pension fund asset and liability as reflected in its balance sheet represent a significant estimate in the financial statements.</p>	<p>We have:</p> <ul style="list-style-type: none"> • identified the controls put in place by management to ensure that the pension fund liability is not materially misstated. • assessed whether these controls were implemented as expected and whether they are sufficient to mitigate the risk of material misstatement. • reviewed the competence, expertise and objectivity of the actuary who carried out your pension fund valuation. • gained an understanding of the basis on which the valuation is carried out. • undertaken procedures to confirm the reasonableness of the actuarial assumptions made. • reviewed the consistency of the pension fund asset and liability and disclosures in notes to the financial statements with the actuarial report from your actuary. • obtained assurance from the external auditor of the Worcestershire County Council Pension Fund (WCCPF) regarding the relevant controls and processes in place at the WMPF in order that we can rely on the outputs from the WCCPF. 	<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>Whilst audit work has not identified any issues which indicate the pension net liability is materially misstated, we have identified an internal control weakness which has been included in section two of this report.</p> <p>The Council has not been completing its PCF1 returns to the administering authority (Worcestershire County Council). These are monthly payroll returns. This meant that the administering authority had to estimate the year end position.</p>

Audit findings against other risks


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

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
Employee remuneration	<p>Payroll expenditure represents a significant percentage of the Council's gross expenditure.</p> <p>We identified the completeness of payroll expenditure in the financial statements as a risk requiring particular audit attention:</p> <ul style="list-style-type: none"> Employee remuneration accruals understated (Remuneration expenses not correct). 	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> walkthrough of your controls in place over payroll expenditure. reviewed the year-end reconciliation of your payroll system to the general ledger. trend analysis of the monthly payroll runs for the year. employee deductions testing for the year. 	<p>Our audit work has not identified any issues in respect of Employee Remuneration.</p>
Operating expenses	<p>Non-pay expenditure represents a significant percentage of the Council's gross expenditure. Management uses judgement to estimate accruals of un-invoiced non-pay costs.</p> <p>We identified the completeness of non-pay expenditure in the financial statements as a risk requiring particular audit attention:</p> <ul style="list-style-type: none"> Creditors understated or not recorded in the correct period (Operating expenses understated). 	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> walkthrough of your controls in place over operating expenditure. reviewed the completeness of subsidiary interfaces and control account reconciliations. obtained an understanding of the accruals process and tested a sample of accruals (and other creditors balances). cut off testing of a sample of payments after the year end. 	<p>Our testing of payments made early in 2017/18 has identified that work in progress is not being accounted for properly. We identified capital expenditure in the amount of £186k that should have been included in Assets under Construction. We also identified two revenue invoices totalling £8,467 that should have been included as expenditure. Our extrapolation suggests that expenditure may be understated by £85,806. We have not asked for the accounts to be amended for this extrapolation.</p> <p>Invoices from suppliers or contractors are not being sent to one consistent address, and this makes it more difficult for the finance team to keep track of expenditure.</p>

"In respect of some risks, the auditor may judge that it is not possible or practicable to obtain sufficient appropriate audit evidence only from substantive procedures. Such risks may relate to the inaccurate or incomplete recording of routine and significant classes of transactions or account balances, the characteristics of which often permit highly automated processing with little or no manual intervention. In such cases, the entity's controls over such risks are relevant to the audit and the auditor shall obtain an understanding of them." (ISA (UK&I) 315)

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
<p>Revenue recognition</p>	<p>Revenue from the sale of goods is recognised when the Authority transfers the significant risks and rewards of ownership to the purchaser and it is probable that economic benefits or service potential associated with the transaction will flow to the Authority.</p> <p>Revenue from the provision of services is recognised when the Authority can measure reliably the percentage of completion of the transaction and it is probable that economic benefits or service potential associated with the transaction will flow to the Authority.</p> <p>Interest receivable on investments and payable on borrowings is accounted for respectively as income and expenditure on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract.</p> <p>Where revenue and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Where debts may not be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.</p>	<p>We have considered the:</p> <ul style="list-style-type: none"> • Appropriateness of the Council's policies under International Financial Reporting Standards, as adopted through the Code of Practice on Local Authority Accounting for 2016/17. • Adequacy of disclosure of accounting policies. We note that there is no accounting policy on accruals, and would suggest that one is included in future years. <p>Our review has not highlighted any other issues which we wish to bring to your attention</p>	<p style="text-align: center;">  (Green) </p>



Assessment

● (Red) Marginal accounting policy which could potentially attract attention from regulators

● (Amber) Accounting policy appropriate but scope for improved disclosure

● (Green) Accounting policy appropriate and disclosures sufficient

Accounting policies, estimates and judgements (continued)

Accounting area	Summary of policy	Comments	Assessment
<p>Judgements and estimates</p>	<p>Key estimates and judgements include:</p> <ul style="list-style-type: none"> – Valuation of Property, Plant and Equipment – Provision for NNDR appeals 	<p>Valuation of property, plant and equipment</p> <p>The Council revalues its Council Dwellings every year and all other assets on a rolling basis over a five year period. We have undertaken the following:</p> <ul style="list-style-type: none"> • reviewed management's processes and assumptions for the calculation of the estimate; • reviewed the competence, expertise and objectivity of the valuation expert, the instructions issued to them and the scope of their work; and • tested the revaluations made during the year to ensure they are input correctly into the Council's asset register and financial statements. <p>The Code requires that the Council ensures that the carrying value at the balance sheet date is not materially different from current value. We are satisfied that this is the case. However, we asked officers to enhance the disclosures on asset valuations to show the year when different asset categories were last revalued. This is a CIPFA Code requirement.</p> <p>Business Rates Appeal Provision</p> <p>The Council has made a provision for the Business Rate appeals that have been received but not settled 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 and overall we are satisfied with the approach taken and that the provision is not materially misstated.</p>	<p style="text-align: center;">  (Amber) </p> <p style="text-align: center;">  (Green) </p>



Assessment

● Marginal accounting policy which could potentially attract attention from regulators

● Accounting policy appropriate but scope for improved disclosure

● Accounting policy appropriate and disclosures sufficient

Accounting policies, estimates and judgements (continued)

Accounting area	Summary of policy	Comments	Assessment
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 assessment and are satisfied with management's assessment that the going concern basis is appropriate for the 2016/17 financial statements.	 (Green)
Other accounting policies	Various	We have reviewed the Council's policies against the requirements of the CIPFA Code of Practice. The Council's accounting policies are appropriate and consistent with previous years. Some amendments to accounting policies have been identified. These are summarised in the misclassification and disclosure changes section of the report.	 (Amber)

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	We have previously discussed the risk of fraud with the Audit, Standards & 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	From the work we carried out, we have not identified any related party transactions which have not been disclosed.
3.	Matters in relation to laws and regulations	You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work. However, officers have made us aware of an ongoing investigation into contract management and procurement within the housing department.
4.	Written representations	A standard letter of representation has been requested from the Council, which is included in the Audit, Standards & Governance Committee papers.
5.	Confirmation requests from third parties	We requested from management permission to send confirmation requests to banks and councils with whom the Council had investments or borrowing. This permission was granted and the requests were sent. All of these requests were returned with positive confirmation.
6.	Disclosures	We identified changes to a number of other disclosures in the financial statements which the Council have agreed to amend.
7.	Matters on which we report by exception	We have not identified any issues that we are required to report by exception in our audit opinion. We agreed a number of amendments to improve the clarity of the disclosure within the Annual Governance Statement and Narrative Report.
8.	Specified procedures for Whole of Government Accounts	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. Work is not required as the Council does not exceed the threshold.

Internal controls

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 13 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.




	Assessment	Issue and risk	Recommendations
1.	 (Amber)	<p>IT systems review Grant Thornton IT specialists have carried out a review of IT controls at Bromsgrove District Council. It was identified that there are an inappropriate number of staff with administrator rights within Active Directory. This issue also affects Redditch Borough Council.</p> <p>The number of staff with administrator rights within the Active Directory is not limited. There are 26 staff members with Administrator rights and 78 people are Domain Admins, which is excessive.</p> <p>This poses the risk that internal access to information assets and administrative functionality may not be restricted on the basis of legitimate business need. The excessive numbers heighten the risk concerned and hence the priority of this recommendation.</p>	<p>A review of the staff assigned administrator rights should be performed on a periodic basis to ensure that administrator level access is given on a needs only basis. Least privilege should be the guiding principle when granting all system access.</p> <p>The Agresso accounts should be removed as the system has been replaced this year.</p> <p><u>Management Response:</u></p> <p>A review of administrator rights within active directory has been implemented.</p> <p>Date due for completion 21.7.17</p> <p>Agresso is switched off and only accessed by a formal request from Finance.</p>

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
 (Red) Significant deficiency – risk of significant misstatement
 (Amber) Deficiency – risk of inconsequential misstatement

"The purpose of an audit is for the auditor to express an opinion on the financial statements. Our audit included consideration of internal control 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. The matters being reported are limited to those deficiencies that the auditor has identified during the audit and that the auditor has concluded are of sufficient importance to merit being reported to those charged with governance." (ISA (UK&I) 265)

Internal controls (continued)

	Assessment	Issue and risk	Recommendations
2.	 (Red)	<p>Pension fund returns The Council has not been completing monthly pension returns to Worcestershire County Council. This meant that the year end figures use for the pension fund had to be estimated.</p> <p>There is a risk that the figures generated by the actuary could be inaccurate, leading to inaccurate disclosures in the accounts.</p>	<p>The Council should ensure that all necessary returns are made to the County Council on a timely basis.</p> <p><u>Management Response:</u> Agreed. Awaiting a fix from Frontier (software supplier) but will find a manual way of calculating if this is not available by the 30th September 2017.</p>
3.	 (Red)	<p>Work in progress The Council does not account for Work in Progress of capital projects.</p> <p>There is a risk that capital expenditure is not recognised appropriately in the financial statements.</p>	<p>The Council should introduce commitment accounting to ensure that expenditure on capital projects is recognised appropriately.</p> <p><u>Management Response:</u> Agreed. This is mainly housing projects but an approach across all capital projects will be introduced for 2017/18 year end to obtain works completed to 31st March 2018.</p>
4.	 (Amber)	<p>Creditor process We have identified from our review of invoices that:</p> <ul style="list-style-type: none"> • there is not a consistent process as to where invoices are sent for payment; • there is a lack of consistency regarding the name on the invoice; and • there is a high volume of non purchase order invoices. <p>There is a risk that invoices are not received in the finance team in a timely manner and therefore do not get appropriately included in the financial statements.</p> <p>There is a risk that expenditure is incurred inappropriately.</p>	<p>All invoices should be sent to a central location for processing, and be addressed to the Council. All invoices should be supported by a purchase order.</p> <p><u>Management Response:</u> Agreed. This is an ambition that we are implementing but it does require a disciplined approach.</p>

Internal controls (continued)

	Assessment	Issue and risk	Recommendations
5.	 (Amber)	<p>Accruals policy The Council's accounting policies do not include an appropriate policy for accruals.</p> <p>There is a risk that expenditure is not properly recognised in the accounts.</p>	<p>The Council should adopt and follow an appropriate accounting policy for accruals.</p> <p><u>Management Response:</u> Agreed. A new accounting policy will be introduced for 2017/18.</p>
6.	 (Amber)	<p>Journal authorisation There are no controls within the system to prevent unauthorised personnel approving journals.</p> <p>There is a risk that journals are processed inappropriately and potentially could be fraudulently.</p>	<p>Parameters within the ledger should be reviewed to ensure that only those individuals set up to authorize journals can complete that process.</p> <p><u>Management Response:</u> Agreed. Preference is to remove the ability to create and post a journal but need to speak to the software provider (ABS).</p>

Internal controls – review of issues raised in prior year

	Assessment	Issue and risk previously communicated	Management update on actions taken to address the issue
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 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><u>Recommendation</u></p> <p>The Council should ensure that there are adequate controls to prevent and detect duplicate payroll payments and incorrect pay rates.</p>	<p>The duplicate mileage payment was when it was possible to submit a paper as well as a claim through HR21. The Council now only use HR21.</p> <p>Hourly rates are now checked by accountancy when there is a change e.g. pay award.</p>
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> <p><u>Recommendation</u></p> <p>The Council should seek to simplify the ledger coding structure.</p>	<p>A review of the coding structure has been completed and expenditure codes have been reduced with a view that income codes will be reviewed within in the coming year.</p> <p>We are also reviewing the ledger structure to have a standard structure across both councils to make it easier for users of the system especially on the new budget monitoring system that we are implementing.</p> <p>A new approach has been taken with respect of getting the information for journal testing for 2016/17 and this has been more efficient than in previous years.</p>
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> <p><u>Recommendation</u></p> <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.</p>	<p>A full review has been undertaken and the figure on the balance sheet is now fully supported by evidence.</p>

Assessment

- ✓ Action completed
- X Not yet addressed

IT controls – update of issues identified in prior year

We complete our review of the IT control environment on a risk assessed cyclical basis. For Redditch Borough Council the latest review was undertaken in 2015/16. In 2016/17 we have conducted an update to ascertain progress against the improvements identified. As not all of the improvements have been implemented we report the outstanding ones to you below.

	Issue and risk previously identified	Update on actions taken to address the issue
1.	<p>Changes to E-Financials database is not logged</p> <p>Data-level edits can be made directly to the database. System administrators can access the database using a separate account to make changes to the database. There is no audit logging of the database.</p> <p>There is a generic account that three system administrators use to make direct changes to the database tables outside of the front end application controls. There is a single password used by all users which negates the value of any audit trail.</p> <p><u>This condition poses the following risk to the organisation:</u></p> <p>Unauthorised change can be made to the database. This may result in a risk where data is no longer accurate and complete. Use of a generic account means that individual user cannot be held accountable for unauthorised changes, which may increase the risk of fraud.</p> <p><u>Recommendation:</u></p> <p>Management should assign unique user accounts to all users. Only users whose role requires this should be granted such permission. The password of the generic user name should be changed and kept securely.</p> <p>Any edits that are made directly to the database should be requested and logged through the Council's change management system.</p> <p>Management should also enable audit logging to record any changes made to the database. These audit logs will enable management to see which user has made changes if users are assigned unique user accounts as recommended above. The audit log should be reviewed and signed off on a regular basis by an individual who does not have access to the database to ensure that all changes have been appropriately authorised.</p>	<p><u>Initial Management response:</u></p> <ul style="list-style-type: none"> • Systems admin will liaise with software provider to utilise further any audit tools within the system, ensuring these are run quarterly. Identifying an appropriate method of auditing systems admin log ins outside of the systems admin team. • Generic user log in password changed and saved with ICT keychain. • System changes to be logged on change control management system. <p><u>Updated Management response for 2016/17:</u></p> <p>Transformation of the service and system is nearly complete. As part of the review system permissions are being clarified and audits timetable introduced.</p> <p>Due to be complete End of August.</p>

IT controls – update of issues identified in prior year (continued)

	Issue and risk previously identified	Update on actions taken to address the issue
2.	<p>Absence of proactive reviews of logical access within Civica IBS and E-Financial</p> <p>User accounts and associated permissions within the E-Financial system are not formally and proactively reviewed for appropriateness. On previous audits, user access review for Civica IBS was reviewed on a quarterly basis. Since the previous audit, an upgrade of the system was implemented and this has prevented management to run user access privilege reports. User access review therefore cannot be performed this year.</p> <p><u>This condition poses the following risks to the organisation:</u></p> <ul style="list-style-type: none"> a) Gaps in user administration processes and controls may not be identified and dealt with in a timely manner b) Access to information resources and system functionality may not be restricted on the basis of legitimate business need c) Enabled, no-longer-needed user accounts may be misused by valid system users to circumvent internal controls d) No-longer-needed permissions may granted to end-users may lead to segregation of duties conflict e) Access privileges may become disproportionate with respect to end users' job duties. <p><u>Recommendation:</u></p> <p>Regular reviews of Civica IBS and E-Financial user accounts should take place at least annually. Sufficient evidence should be maintained to enable a third-party to confirm when the reviews were performed, who was involved, and what access changed as a result. Management should request third-party support provider, Civica IBS, to enable the function that allows users' privilege report to be generated.</p>	<p><u>Initial Management response:</u></p> <p>Civica IBS</p> <p>Issues have been resolved and the report is now being generated.</p> <p>We have implemented the quarterly reviews again.</p> <p>E-Financial</p> <p>Leavers are reviewed monthly by cross reference from HR reports sent on a monthly basis</p> <p>System access is reviewed quarterly as diarised by systems admin, user data is extracted into excel and users are grouped into menu roles and manually checked for anomalies, these anomalies being escalated to management level to determine level of access is still relevant and then reduced if not required. The user list is also cross referenced with the authorised signatories list available on the orb.</p> <p><u>Updated Management response for 2016/17:</u></p> <p>Transformation of the service and system is nearly complete. As part of the review system permissions are being clarified and audits timetable introduced.</p> <p>Due to be complete End of August.</p>

IT controls – update of issues identified in prior year (continued)

	Issue and risk previously identified	Update on actions taken to address the issue
3.	<p>Lack of documented batch administration policies and procedures</p> <p>Documented policies and procedures have not been formally established addressing batch administration processes and related control requirements for Civica IBS and E-Financials.</p> <p>This issue was also identified in the 2014-15 audit but has not been resolved.</p> <p><u>This condition poses the following risks to the organisation:</u></p> <p>a) Batch management processes and control requirements may not be formalised or communicated to those within the organisation responsible for observing and/or implementing them.</p> <p>b) Effectiveness of batch management processes and controls may be diminished due to environmental and/or operational changes.</p> <p>c) Batch processes may not be effectively administered, leading to loss of data integrity and/or system down-time.</p> <p><u>Recommendation:</u></p> <p>Documented policies and procedures addressing batch administration processes and related control requirements within Civica and E-Financial should be established.</p>	<p><u>Initial Management response:</u></p> <p>Civica utilise the PTC module for automation of these processes.</p> <p>E-Financial a call has been raised with supplier to investigate the automation of these processes.</p> <p><u>Updated Management response for 2016/17:</u></p> <p>Additional access has been granted at manager level due to the single system project. This access will be reviewed as part of the single system project.</p> <p>Transformation of the service and system is nearly complete. As part of the review batch processing is being investigated.</p> <p>Single system implementation is planned to be completed by August 17. As part of the configuration of new system the procedure for batch processing will be further automated.</p> <p>Due to be complete End of August.</p>

Adjusted misstatements

A number of adjustments to the draft accounts have been identified during the audit process. We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management. The table below summarises the adjustments arising from the audit which have been processed by management.

Impact of adjusted misstatements

All adjusted misstatements are set out in detail below along with the impact on the key statements and the reported net expenditure for the year.

Detail	Comprehensive Income and Expenditure Statement £'000	Balance Sheet £'000	Impact on total net expenditure £000
1 Capital invoices not accrued for correctly: Assets under Construction (Dr £186k) Capital Creditors (Cr £186k)		186 (186)	
2 Mispostings within the NNDR reconciliation Dr Cash Cr Debtors Cr Creditors		468 (234) (234)	
Overall impact	£0	£0	£0

Unadjusted misstatements

We have not identified any adjustments during the audit which have not been made within the final set of financial statements.

Misclassifications and disclosure changes

We set out below details of other disclosure amendments made to the draft financial statements.

	Reference	Commentary
1.	Narrative report	A number of minor amendments were made to the Narrative Report.
2.	Telling the Story	Enhanced disclosures have been made regarding the 2016/17 Code changes and in particular the addition of a Prior Period Adjustment note. However, the amended disclosures are still not fully compliant with the CIPFA Code.
3.	CIES	The £37.7m gain on revaluation of council dwellings has been included within "Local Authority Housing" in the CIES. This distorts the expenditure so that it looks negative – IE. Income of £20m. Officers have amended the accounts to show the revaluation gain separately.
4.	Note 14 Property, Plant and Equipment	A table stating the dates of valuation of properties within Plant, Property and Equipment has been added.
5.	Note 16 Financial Instruments	Amendments have been made to debtors and creditors disclosures to reflect the removal of statutory debts which are not classed as "Financial Instruments".
6.	Note 35 Defined Benefit Pension Scheme	A number of changes were made to reflect the figures for Place Partnership & Regulatory Services.

Misclassifications and disclosure changes (continued)

	Reference	Commentary
7.	Related parties	The draft related party note states that the Council discloses 'material' transactions. The Council has now amended this to state that they have considered the value of the transaction from both the Council's and related party perspective.
8.	Throughout financial statements	There were a number of typographical errors and formatting throughout the accounts which needed to be amended.
9.	Accounting policies	Our review of disclosures found the following required amendment: <ul style="list-style-type: none"> • Xvii) Materiality note has been amended • Xviii) overheads and support services refer to SEROP which is no longer applicable. This note has been updated • An accounting policy has been added for Assets Held for Sale • Note 1 – general principles state that the accounts are prepared under SERCOP which is no longer applicable • There is no accrual policy. The accruals policy needs to be included in the accounting policies. • 2016/17 is the last year that the Council is able to use the Major Repairs Allowance as a proxy for depreciation.
10.	Note 2 – Accounting Standards That Have Been Issued but Have Not Yet Been Adopted	This note has been extended to refer to the specific standards.
11.	Note 4 - Assumptions	The references to 'bad debts' have been amended to 'impairment'.

Section 3: Value for Money

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 intend to issue a qualified Value for Money. The Council has made some progress in the areas we identified as risks. Some risks have been addressed completely, for example, the reporting of the impact on reserves. Others are work in progress, for example, in-year financial reporting and savings tracking. Some areas however have made little tangible progress, for example, some of the schemes to address the long term financial challenge.

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 2016. AGN 03 identifies one single criterion for auditors to evaluate:

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

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 in and identified a number of significant risks in respect of specific areas of proper arrangements using the guidance contained in AGN03. We communicated these risks to you in our Audit Plan dated April 2017.

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.

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. In arriving at our conclusion, our main considerations were:

- In year financial reporting - We have previously identified that improvement is needed in reliable and timely financial reporting that supports the delivery of strategic purposes.
- Financial sustainability - We have previously identified that improvement is needed to planning finances effectively to support the sustainable delivery of strategic purposes and maintain statutory functions in the medium term.

We have also considered the further progress against the statutory recommendations we issued 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 on pages 32 to 34.

Overall conclusion

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

- except for the matters we identified in respect of in year financial reporting and financial sustainability, the Council had proper arrangements in all significant respects. We therefore propose to give a qualified 'except for' conclusion on your arrangements for securing economy, efficiency and effectiveness in your use of resources.

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

Recommendations for improvement

We discussed findings arising from our work with management and have agreed recommendations for improvement as follows:

- All savings plans are appropriately supported by a business case, all aspects of the savings are identified, it is clear when the planned savings will be delivered and what needs to happen to realise the savings.
- Further improvements to the overall reporting of savings is needed, including a clear picture of planned savings to be delivered, progress to date, risk to full achievement and mitigating actions.
- Progress against the action plans supporting the delivery of the Council Plan needs to be monitored and reported on a quarterly basis to Executive.
- Priority is given by Executive to ensuring that the management restructure is progressed on a timely basis.
- The performance dashboard needs to include qualitative aspects and be reported to Members and Officers on a regular basis.

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	Work to address	Findings and conclusions
<p>In year reporting to Members We have previously identified that improvement is needed in reliable and timely financial reporting that supports the delivery of strategic purposes. We have identified the following risks for in year reporting to Members:</p> <ul style="list-style-type: none"> • Is the current and forecast financial position clearly identified? • Is the delivery of savings to date and the risks to their achievement reported? • Are changes from the start point budget tracked through, and is the impact on balances and reserves clear? • Are budget variances identified and the reasons for the variance and mitigating actions explained in sufficient detail? 	<p>We have:</p> <ul style="list-style-type: none"> • reviewed the financial monitoring reports to determine whether any changes to the original budget are adequately explained to Members; • reviewed reporting to Members to determine whether the impact on reserves and balances is clear; • reviewed how the Council is monitoring the delivery of the Council Plan. 	<p>We concluded that there were continuing weaknesses in the Council's arrangements for Informed decision making – “Reliable and timely financial reporting that supports the delivery of strategic priorities”.</p> <p>Our 2014/15 statutory recommendations included the following: “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 have noted some improvements to reconciling budgets per monitoring reports to the originally agreed budget, but the supporting explanations need to be clearer. Reporting of savings has improved, but is still weak – it does not provide a clear picture of planned savings to be delivered, progress to date, risk to full achievement and mitigating actions. There is no RAG rating or similar.</p> <p>The updated MTFP is much clearer on the impact of proposals on General Fund balances.</p> <p>The revised Council Plan was agreed in 2016/17, but the action plans supporting this will not be in place until 2017/18. Officers have advised us that action plans have been developed and are now being agreed with Members. Delivery against these will then be monitored. We have not seen any evidence of this process and the arrangements were not embedded in 2016/17.</p> <p>We note that, with the exception of the management structure review, all other action plan recommendations were agreed for implementation by 1 April 2017.</p> <p>Overall, although we have seen progress since we issued our statutory recommendation, this is not yet sufficient to address the issues identified.</p>

Key findings

Significant risk	Work to address	Findings and conclusions
<p>Financial sustainability</p> <p>We have previously identified that improvement is needed to planning finances effectively to support the sustainable delivery of strategic purposes and maintain statutory functions. We have identified the following risks:</p> <ul style="list-style-type: none"> • How robust is the MTFP and how well developed are savings plans? • How is the performance dashboard for Members being implemented? 	<p>We have:</p> <ul style="list-style-type: none"> • reviewed how the Council is monitoring delivery of the Efficiency Plan; • examined how robust the MTFP is by testing a sample of individual schemes to determine whether they are worked through appropriately and realistic; • considered progress on the review of the management structure; • reviewed how the Corporate Performance Strategy is being implemented. 	<p>We concluded that there were weaknesses in the Council's arrangements for sustainable resource deployment – “Planning finances effectively to support the sustainable delivery of strategic priorities and maintain statutory functions”, and Informed decision making – “Understanding and using appropriate cost and performance information (including, where relevant, information from regulatory/monitoring bodies) to support informed decision making and performance management”.</p> <p>We noted that the Overview & Scrutiny Committee reports and minutes refer to quarterly updates being provided on monitoring delivery of the Efficiency Plan. Reporting does not give any indication of how far adrift from plan the Council is or what action is being taken to bring it back into line. On the basis of the evidence provided we have to conclude that the monitoring of Efficiency Plan delivery is weak.</p> <p>We examined the business cases, decision making process and delivery of some of the major savings schemes in the MTFP. These were:</p> <ul style="list-style-type: none"> • £480,000 from Change model of delivery of Leisure services • £165,000 from Review of fleet costing to HRA • £250,000 from Management restructure • £109,000 from Cremations - non resident fee • £105,000 from Savings from lease costs following purchase of vehicles <p>Overall we found that only the £105,000 savings were fully worked up and on track to be delivered. However, this is not a genuine saving, but a correction of a budget error. The £165,000 savings are likely to be achievable in the timescale, but still needed work when we reviewed the scheme. The other savings plans, totalling £1,004,000 needed more work and a lot of progress to be deliverable.</p> <p>For the £480,000 leisure services model, the forecast savings are reasonable and based on independent consultant analysis. However, the Council needs to press on with this in order to realise the full year benefit from 2018/19.</p> <p>The management restructure £250,000 savings are deliverable over a four year period and details had not been fully worked up. Implementation has been disappointingly slow, with no tangible progress at the time of drafting this report. This needs to happen quickly to allow for revised structures to be put in place. Reserves will be used to fund any redundancy costs, but this is not clear from the MTFP.</p>

Key findings

Significant risk	Work to address	Findings and conclusions
<p>Financial sustainability We have previously identified that improvement is needed to planning finances effectively to support the sustainable delivery of strategic purposes and maintain statutory functions. We have identified the following risks.</p> <ul style="list-style-type: none"> • How robust is the MTFP and how well developed are savings plans? • How is the performance dashboard for Members being implemented? 	<p>We have:</p> <ul style="list-style-type: none"> • reviewed how the Council is monitoring delivery of the Efficiency Plan; • examined how robust the MTFP is by testing a sample of individual schemes to determine whether they are worked through appropriately and realistic; • considered progress on the review of the management structure; • reviewed how the Corporate Performance Strategy is being implemented. 	<p>The cremations savings of £109,000 assume no change in demand despite costs increasing by £100. No sensitivity analysis or market testing / comparison with other councils costs has been undertaken.</p> <p>Savings plans generally are not well developed and insufficient progress has been made in implementing the schemes.</p> <p>The MTFP should only include savings which have been agreed by Members and these plans should have a robust business case to support them. One of the existing Member led groups would be well placed to agree business plans before they are included in the MTFP.</p> <p>Although Members now have better access to information this is limited to numeric measures and does not include the impact on people or services. More work needs to be completed on this.</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

We have not used any statutory powers or 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.

	Issue	Commentary
1.	Public interest report	<ul style="list-style-type: none"> We have not identified any matters that would require a public interest report to be issued.
2.	Written recommendations	<ul style="list-style-type: none"> We have not made any written recommendations that the Council is required to respond to publicly. We have provided an update on progress in addressing the 2014/15 statutory recommendations on pages 37 and 38.
3.	Application to the court for a declaration that an item of account is contrary to law	<ul style="list-style-type: none"> We have not used this duty.
4.	Issue of an advisory notice	<ul style="list-style-type: none"> We have not used this duty.
5.	Application for judicial review	<ul style="list-style-type: none"> We have not used this duty.

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 four recommendations under section 11 (3) of the Audit Commission Act 1998 (this Act has now been superseded) to which we required a formal response. We have provided an update below.

	Recommendation	Progress update
1.	<p>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.</p> <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>There has been an improvement in the quality of the draft financial statements compared to previous years, but further significant improvements in timeliness are needed to meet the statutory deadline of 31 May from 2018. We comment on pages 6 “In preparation for the earlier deadline the Council needs to consider available resources within the finance team as the Chief Accountant will not be present for the 2017/18 financial year end, the Council is heavily reliant on a contractor, and while a permanent replacement for the Financial Services Manager has recently appointed, the person has yet to start working for the Council.”</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>See comments above. There is a significant risk that the 2017/18 financial statements will not be prepared by 31 May and that the audit will not be complete by 31 July.</p>

	Recommendation	Progress update
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>We comment on page 32 “The savings plans generally are not well developed and are overly simplistic. Insufficient progress has been made in implementing the schemes.</p> <p>The MTFP should only include savings which have been agreed by Members and these plans should have a robust business case to support them. One of the existing Member led groups would be well placed to agree business plans before they are included in the MTFP.”</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 comment on page 30 “We have noted some improvements to reconciling budgets per monitoring reports to the originally agreed budget, but the supporting explanations need to be clearer. Reporting of savings has improved, but is still weak– it does not provide a clear picture of planned savings to be delivered, progress to date, risk to full achievement and mitigating actions. There is no RAG rating or similar.”</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 have yet to finalise our audit fee.

We have no independence issues to report.

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

Fees

	Proposed fee £	Final fee £
Council audit	57,960	TBC
Grant certification	23,291	TBC
Total audit fees (excluding VAT)	81,251	TBC

The final fees for the year have yet to be confirmed pending discussions with officers and agreement by Public Sector Audit Appointments Ltd (PSAA).

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'.

Independence and ethics

- Ethical Standards and ISA (UK&I) 260 require us to give you timely disclosure of matters relating to our independence.
- 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 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.
- For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council. The table below summarises all non-audit services which were identified.

Fees for other services

Service	Fees £
Audit related service	
Pooling of Housing Capital Receipts	1,654 (estimated)
Non-audit services	
CFO insights (to be confirmed)	7,500 (estimated)

Independence and non-audit services

We have considered whether non-audit services might be perceived as a threat to our independence as the Council's auditor and have ensured that appropriate safeguards are put in place

	Service provided to	Fees	Threat?	Safeguard
Certification of the Pooling of Housing Capital Receipts return	Redditch Borough Council	1,654 (estimated)	Self Interest	This is a recurring fee and therefore a self-interest threat exists. However, the level of this recurring fee taken on its own is not considered to be a threat to independence as the fee for this work in comparison to the total fee for the audit for the Council and in particular to Grant Thornton UK LLP overall turnover is very low.
CFO insights – a data analytics tool through subscription (to be confirmed)	Redditch Borough Council	7,500 (estimated)	None	This fee is for one year only, and does not involve any members of the audit team.
	TOTAL	£9,154		

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

We have communicated matters appropriately.

Communication to those charged with governance

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.

This document, The Audit Findings, outlines those key issues and other matters arising from the audit, which we consider should be communicated in writing rather than orally, 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.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, or emphasis of matter		✓
Unadjusted misstatements and material disclosure omissions		✓
Significant matters arising in connection with related parties		✓
Significant matters in relation to going concern	✓	✓

Appendices

A. Action Plan

B. Audit Opinion

A. Action plan

Financial Statements

Rec no.	Recommendation	Priority	Management response	Implementation date and responsibility
1.	<p>2017/18 financial statements production</p> <p>Officers need to develop a robust and realistic project plan to ensure that the high quality financial statements are prepared by 31 May 2018, and that officers are able to support auditors to complete the audit and provide an opinion by 31 July.</p>	Red	<p>Agreed.</p> <p>The timetable is being reviewed to bring forward the timetable (EG. Revaluations) and the Council is exploring the purchase of CIPFA's Big Red Button (BRB) to automate the financial statement.</p> <p>Final account support to be procured</p> <p>Financial Services Manager to be in place by 1/12/17</p>	<p>Review Timetable 31/10/17 – Chief Accountant</p> <p>Purchase BRB and final accounts support 31/10/17– Director of Finance</p>
2.	<p>IT Systems review</p> <p>A review of the staff assigned administrator rights should be performed on a periodic basis to ensure that administrator level access is given on a needs only basis. Least privilege should be the guiding principle when granting all system access.</p> <p>The Agresso accounts should be removed as the system has been replaced this year.</p>	Amber	<p>A review of administrator rights within active directory has been implemented.</p> <p>Date due for completion 21/7/17</p> <p>Agresso is switched off and only accessed by a formal request from Finance.</p>	<p>21/7/17</p> <p>Completed</p>
3.	<p>Pension fund returns</p> <p>The Council should ensure that all necessary returns are made to the County Council on a timely basis.</p>	Red	<p>Agreed.</p> <p>This is an issue with the software. If a fix is not found by 30/9/17 a manual process will be identified.</p>	<p>Software solutions or manual fix by 30/9/17 – Business Support</p>

Priority
 ● High – (Red)
 ● Medium – (Amber)

A. Action plan (continued)

Financial Statements (continued)

Rec no.	Recommendation	Priority	Management response	Implementation date and responsibility
4.	<p>Work in progress</p> <p>The Council should introduce commitment accounting to ensure that expenditure on capital projects is recognised appropriately.</p>	Red	Agreed. This is mainly housing projects but an approach across all capital projects will be introduced for 2017/18 year end to obtain works completed to 31st March 2018.	Will be part of the timetable process to be completed by 31/10/17 – Chief Accountant
5.	<p>Creditor process</p> <p>All invoices should be sent to a central location for processing, and be addressed to the Council. All invoices should be supported by a purchase order.</p>	Amber	Agreed. This is an ambition that we are implementing but it does require a disciplined approach.	31/12/17 Financial Services Manager
6.	<p>Accruals policy</p> <p>The Council should adopt and follow an appropriate accounting policy for accruals.</p>	Amber	Agreed. A new accounting policy will be introduced for 2017/18.	Will be part of the 2017/18 accounting policies reported to Audit Committee by 30/04/18 – Financial Services Manager
7.	<p>Journal authorisation</p> <p>Parameters within the ledger should be reviewed to ensure that only those individuals set up to authorize journals can complete that process.</p>	Amber	Agreed. Preference is to remove the ability to create and post a journal but need to speak to the software producer (ABS).	31/12/17 – Financial Services Manager

A. Action plan (continued)

Value for Money

Rec no.	Recommendation	Priority	Management response	Implementation date and responsibility
8.	All savings plans are appropriately supported by a business case, all aspects of the savings are identified, it is clear when the planned savings will be delivered and what needs to happen to realise the savings.	Red	Business case framework agreed to be used for development and presentation of business cases for 2018/19. This will include detailed calculations of planned saving and the rationale for the proposal.	November 2017 Executive Director of Finance and Resources
9.	Further improvements to the overall reporting of savings is needed, including a clear picture of planned savings to be delivered, progress to date, risk to full achievement and mitigating actions.	Red	Reporting is currently under review using templates from best practice councils as identified by the auditors. This is to be used for quarter 2 to improve capturing and reporting to members.	November 2017 Executive Director of Finance and Resources
10.	Progress against the action plans supporting the delivery of the Council Plan needs to be monitored and reported on a quarterly basis to Executive.	Amber	Officers are in discussion with members as to the most appropriate mechanism for reporting. Overview and Scrutiny have requested updates on the council plan actions.	October 2017 Head of Transformation
11.	Priority is given by Executive to ensuring that the management restructure is progressed on a timely basis.	Red	Proposals to be developed by Senior Management Team to be presented to Executive in late 2017.	December 2017 Chief Executive
12.	The performance dashboard needs to be reported to Members and Officers on a regular basis.	Amber	We will be undertaking a review of the dashboard in line with changes to our thinking as the organisation continues to change and transform. We will be reporting performance to Members at both Councils in line with the Corporate Performance Strategy – this will commence in November 2017.	November 2017 Head of Transformation

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 2017 under the Local Audit and Accountability Act 2014 (the "Act"). The financial statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement, the Housing Revenue Account Income and Expenditure Statement, the Movement on the Housing Revenue Account Statement, the Collection Fund and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.

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 Authority's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the Executive Director of Finance and Resources and auditor

As explained more fully in the Statement of Responsibilities, the Executive Director of Finance and Resources is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17, 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, the Code of Audit Practice published by the National Audit Office on behalf of the Comptroller and Auditor General (the "Code of Audit Practice") and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of

whether the accounting policies are appropriate to the Authority's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Executive Director of 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 2017 and of its expenditure and income for the year then ended; and
- the financial statements have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 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 for the financial year for which the financial statements are prepared 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: Framework (2016)" published by CIPFA and SOLACE; or
- we have reported a matter in the public interest under section 24 of the Act in the course of, or at the conclusion of the audit; or
- we have made a written recommendation to the Authority under section 24 of the Act in the course of, or at the conclusion of the audit; or
- we have exercised any other special powers of the auditor under the Act.

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

Conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

Respective responsibilities of the Authority and auditor

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

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 for securing economy, efficiency and effectiveness in its use of resources

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria issued by the Comptroller and Auditor General in November 2016, 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 this criteria as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2017.

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

Basis for qualified conclusion

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

In year reporting to Members

The Authority's in year budgetary monitoring reports to Members do not adequately explain changes to the originally agreed budget. Reporting of savings is weak, and does not provide a clear picture of planned savings to be delivered, progress to date, risk to full achievement and mitigating actions. There is no risk assessment on the deliverability of schemes. Reports to Members do not give any indication of progress with delivery of the Authority's Efficiency Plan or actions being taken to bring it back into line.

This matter is evidence of weaknesses in proper arrangements for informed decision making – reliable and timely financial reporting that supports the delivery of strategic priorities.

Financial Sustainability

The Authority updated its Medium Term Financial Plan (MTFP) covering the period to 31 March 2021, in February 2017 in line with its annual planning process. The MTFP includes savings which have not been agreed by Members and not all savings plans included have a robust business case to support them.

This matter is evidence of weaknesses in proper arrangements for sustainable resource deployment – Planning finances effectively to support the sustainable delivery of strategic priorities and maintain statutory functions. It is also evidence of weaknesses in Informed decision making – Understanding and using appropriate cost and performance information (including, where relevant, information from regulatory/monitoring bodies) to support informed decision making and performance management.

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 2016, except for the effects of the matters described in the Basis for qualified conclusion paragraphs above, we are satisfied that, in all significant respects, the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2017.

Certificate

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

Richard Percival

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

The Colmore Building
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Birmingham
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XX September 2017



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