



Annual Audit Letter

Year ending 31 March 2018

Redditch Borough Council
August 2018



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Executive Summary

Purpose

Our Annual Audit Letter (Letter) summarises the key findings arising from the work that we have carried out at Redditch Borough Council (the Council) for the year ended 31 March 2018.

This Letter is intended to provide a commentary on the results of our work to the Council and external stakeholders, and to highlight issues that we wish to draw to the attention of the public. In preparing this Letter, we have followed the National Audit Office (NAO)'s Code of Audit Practice and Auditor Guidance Note (AGN) 07 – 'Auditor Reporting'. We reported the detailed findings from our audit work to the Council's Audit, Governance and Standards Committee as those charged with governance in our Audit Findings Report on 30 July.

Our work

| | |
|---|--|
| Materiality | We determined materiality for the audit of the Council's financial statements to be £1.322 million, which equates to 2% of the gross expenditure for the prior year after adjusting for the HRA revaluation. |
| Financial Statements opinion | We gave an unqualified opinion on the Council's financial statements on 31 July 2018. |
| Whole of Government Accounts (WGA) | We completed work on the Council's consolidation return following guidance issued by the NAO. |
| Use of statutory powers | We did not identify any matters which required us to exercise our additional statutory powers. |
| Value for Money arrangements | We were satisfied that the Council put in place proper arrangements to ensure economy, efficiency and effectiveness in its use of resources except for the underlying gap in the Medium Term Financial Plan and the fact that there are currently no plans to bridge the gap on a sustainable basis. We therefore qualified our value for money conclusion in our audit report to the Council on 31 July 2018. |
| Certification of Grants | We also carry out work to certify the Council's Housing Benefit subsidy claim on behalf of the Department for Work and Pensions. Our work on this claim is not yet complete and will be finalised by 30 November 2018. We will report the results of this work to the Audit, Governance and Standards Committee in our Annual Certification Letter. |
| Certificate | We certify that we have completed the audit of the accounts of Redditch Borough Council in accordance with the requirements of the Code of Audit Practice. |

Respective responsibilities

We have carried out our audit in accordance with the NAO's Code of Audit Practice, which reflects the requirements of the Local Audit and Accountability Act 2014 (the Act). Our key responsibilities are to:

- give an opinion on the Council financial statements (section two)
- assess the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources (the value for money conclusion) (section three).

In our audit of the Council financial statements, we comply with International Standards on Auditing (UK) (ISAs) and other guidance issued by the NAO.

Executive Summary

Key messages

Financial statements

The financial statements were available for audit before the end of May deadline and we were able to conclude our audit and issue our unqualified audit opinion by the end of July deadline. This is a significant improvement on previous years, reflecting the work carried out by the finance team to achieve this.

We did, however, have some issues with the quality of the working paper supplied and the volume of matters arising from our audit work. Although officers responded positively to our questions and were very helpful, our audit took longer than planned. There is scope for further improvement in the accounts production process. In particular ensuring that there is sufficient time included in the process for effective quality assurance of both the financial statements and the working papers.

We agreed a range of presentational and disclosure amendments to the accounts. We did not find any adjustments that would have resulted to a change in the reported financial position in the draft accounts.

Value for money conclusion

We are required to give a conclusion on whether the Council has proper arrangements in place to secure value for money in the use of its resources. Our work focused on:

- financial sustainability;
- in year financial reporting to Members; and
- procurement and contract management in the Housing Department.

We have previously identified that improvement is needed to planning finances effectively to support the sustainable delivery of strategic purposes and maintain statutory functions.

The Council is not in a financially sustainable long term position, and does not have sufficiently developed plans to address this. There is a financial gap of £1.3 million by 2020/21, and use of balances to cover this is not realistic. At the 31 March 2018 the General Fund working balance was £1.8 million.

Although there are savings plans supported by appropriate business cases, these are not sufficient to close the financial gap. The Council has not demonstrated that the underlying deficit is being addressed effectively.

Financial reporting to members continues to improve. The high level savings figures presented to Members are underpinned by appropriate levels of information and analysis. However, Members would be provided with better assurance that the MTFP is on track, if savings and income generation were reported against the MTFP targets, rather than the Efficiency Plan.

There was an independent investigation into the procurement and management of housing repairs contracts. We have concluded that the Council's response to investigating the issue was appropriate and proportionate. We have also noted that improvements have been made to procurement and contract management.

Based on the work we performed we concluded that except for the matter we identified in respect of financial sustainability, the Council had proper arrangements in all significant respects. We therefore gave a qualified 'except for' conclusion on the Council's arrangements for securing economy, efficiency and effectiveness in your use of resources.

Working with the Council

During the year we have delivered a number of successful outcomes with you:

- An efficient audit – we delivered the accounts audit before the earlier deadline of 31 July, which is a significant achievement for officers and the audit team alike. Our audit team are knowledgeable and experienced in your financial accounts and systems. Our relationship with your team provides you with a financial statements audit that continues to finish ahead of schedule releasing your finance team for other important work.
- Providing training – we provided your Officers with bespoke training on Housing Benefit certification, specifically tailored to their needs. We also provided final accounts production training.
- Sharing our insight – we provided regular audit committee updates covering best practice. We also shared our thought leadership reports

We would like to record our appreciation for the assistance and co-operation provided to us during our audit by the Council's staff.

Grant Thornton UK LLP
August 2018

Audit of the Accounts

Our audit approach

Materiality

In our audit of the Council's financial statements, we use the concept of materiality to determine the nature, timing and extent of our work, and in evaluating the results of our work. We define materiality as the size of the misstatement in the financial statements that would lead a reasonably knowledgeable person to change or influence their economic decisions.

We determined materiality for the audit of the Council's accounts to be £1,322,000, which is 2% of the Council's gross revenue expenditure for the prior year after adjusting for the HRA revaluation. We used this benchmark as, in our view, users of the Council's financial statements are most interested in where the Council has spent its revenue in the year.

We also set a lower level of specific materiality for the disclosure note on senior manager's remuneration. In view of the sensitivity of this note to the reader of the accounts, we have set a materiality level of £100,000.

We set a lower threshold of £66,000, above which we reported errors to the Audit, Governance and Standards Committee in our Audit Findings Report.

The scope of our audit

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

- the accounting policies are appropriate, have been consistently applied and adequately disclosed;
- the significant accounting estimates made by management are reasonable; and
- the overall presentation of the financial statements gives a true and fair view.

We also read the remainder of the Statement of Accounts and the narrative report and annual governance statement published alongside the Statement of Accounts to check they are consistent with our understanding of the Council and with the financial statements included in the Statement of Accounts on which we give our opinion.

We carry out our audit in accordance with ISAs (UK) and the NAO Code of Audit Practice. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our audit approach is based on a thorough understanding of the Council's business and is risk based.

We identified key risks and set out overleaf the work we performed in response to these risks and the results of this work.

Audit of the Accounts

Significant Audit Risks

These are the significant risks which had the greatest impact on our overall strategy and where we focused more of our work.

| Risks identified in our audit plan | How we responded to the risk | Findings and conclusions |
|---|--|--|
| <p>Management override of controls</p> <p>Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities.</p> <p>We identified management override of controls as a risk requiring special audit consideration.</p> | <p>As part of our audit work we:</p> <ul style="list-style-type: none"> gained an understanding of the accounting estimates, judgements applied and decisions made by management and considered their reasonableness obtained a full listing of journal entries, identified and tested unusual journal entries for appropriateness evaluated the rationale for any changes in accounting policies or significant unusual transactions. | <p>Our audit work did not identify any issues in respect of management override of controls.</p> |
| <p>Valuation of property, plant and equipment</p> <p>The Council revalues its land and buildings on a five year rolling basis to ensure that carrying value is not materially different from fair value. This represents a significant estimate by management in the financial statements.</p> <p>We identified the valuation of land and buildings revaluations and impairments as a risk requiring special audit consideration</p> | <p>As part of our audit work we:</p> <ul style="list-style-type: none"> reviewed management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work considered the competence, expertise and objectivity of any management experts used discussed with the valuer the basis on which the valuation was carried out and challenged the key assumptions reviewed and challenged the information used by the valuer to ensure it was robust and consistent with our understanding tested revaluations made during the year to ensure they were input correctly into the Council's asset register evaluated the assumptions made by management for those assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value. | <p>Our audit work has not identify any changes to the disclosure of property, plant and equipment.</p> |

Audit of the Accounts

| Risks identified in our audit plan | How we responded to the risk | Findings and conclusions |
|--|---|---|
| <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 identified the valuation of the pension fund net liability as a risk requiring special audit consideration</p> | <p>As part of our audit work we:</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. We also assessed whether these controls were implemented as expected and whether they are sufficient to mitigate the risk of material misstatement • evaluated the competence, expertise and objectivity of the actuary who carried out your pension fund valuation. We gained an understanding of the basis on which the valuation was carried out. • undertook procedures to confirm the reasonableness of the actuarial assumptions made • checked the consistency of the pension fund asset and liability and disclosures in notes to the financial statements with the actuarial report from your actuary. | <p>Our audit work identified changes to the pension fund disclosures, but these did not affect the net liability as reported in the accounts.</p> |

Audit of the Accounts

Audit opinion

We gave an unqualified opinion on the Council's financial statements on 31 July 2018, meeting the national deadline.

Preparation of the accounts

The Council presented us with draft accounts in accordance with the national deadline, and provided working papers to support them. The finance team responded promptly and efficiently to our queries during the course of the audit.

However, our audit identified a higher number of relatively minor amendments than we would expect. A number of the working papers initially supplied did not provide the requisite assurance, or could not be agreed to the financial statements. While officers responded very positively to our questions the Council needs to ensure that next year sufficient time is allowed for a robust and thorough quality review of the accounts and working papers before they are presented for audit.

Issues arising from the audit of the accounts

We reported the key issues from our audit to the Council's Audit, Governance and Standards Committee on 30 July 2018. These are:

- The Narrative Report was enhanced and expanded in order to meet the Code requirements.
- The Annual Governance Statement did not fully comply with Code requirements and, importantly, did not make sufficient reference to the Housing Repairs investigation, which is now included as a "Significant Governance Issue".
- Note 8 - Expenditure and Income Analysed by Nature, shows that employee benefits have increased by £3.083m (21%) year on year. Our work identified that, for 2016/17 employee costs were reported as £14.450m, but applying the same approach as that followed for 2017/18, the figure would be £16.985m. Officers have restated the previous year and provided explanations for the difference.
- The Fair Value figures for PWLB loans disclosed in Note 16 were incorrect and have been amended from £125.797m to £114.325m. This has no impact on the amount of borrowing shown on the balance sheet.

- Pension fund disclosures were amended to show the correct sensitivity analysis, as required by the Code, and to correct typographical errors.
- The financial statements include disclosure of operating leases where the Council is lessor (Note 34). The total income expected over the life of the leases is £3.447 million (£3.901 million in 2016/17). The 2016/17 financial statements stated "The Council has no operating leases." We have tested the leases underlying this disclosure, with no issues identified, but report the incorrect disclosure in the previous year.

Annual Governance Statement and Narrative Report

We are required to review the Council's Annual Governance Statement and Narrative Report. It published them on its website in line with the national deadlines.

Both documents were prepared in line with the CIPFA Code and relevant supporting guidance. We confirmed that both documents were consistent with the financial statements prepared by the Council and with our knowledge of the Council.

Certificate of closure of the audit

We are also required to certify that we have completed the audit of the accounts of Redditch Borough Council in accordance with the requirements of the Code of Audit Practice.

We issued our certificate of audit completion with our audit opinion on 31 July 2018.

Value for Money conclusion

Background

We carried out our review in accordance with the NAO Code of Audit Practice, following the guidance issued by the NAO in November 2017 which specified the 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.

Key findings

Our first step in carrying out our work was to perform a risk assessment and identify the key risks where we concentrated our work. In arriving at our conclusion, our main considerations were:

- financial sustainability;
- in year financial reporting to Members; and
- procurement and contract management in the Housing Department.

Our key findings were as follows

The Council is not in a financially sustainable long term position, and does not have sufficiently developed plans to address this. There is a financial gap of £1.3 million by 2020/21, and use of balances to cover this is not realistic. The Council has not demonstrated that the underlying deficit is being addressed effectively.

Financial reporting to members continues to improve. However, Members would be provided with better assurance that the MTFP is on track, if savings and income generation were reported against the MTFP targets, rather than the Efficiency Plan.

that the Council's response to investigating the Housing Department's procurement and contract management issues was appropriate and proportionate.

We made the following recommendation:

Officers and Members need to avoid having too many priorities, and to adopt a clear approach on de-prioritisation. The Council needs to make some difficult and challenging decisions in order to ensure it can live within its means in the longer term.

Our consideration of the key risks is set out overleaf.

Overall Value for Money conclusion

Based on the work we performed, we concluded that except for the matter we identified in respect of financial sustainability, the Council had proper arrangements in all significant respects. We therefore gave a qualified 'except for' value for money conclusion on the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources.

Value for Money conclusion

Key Value for Money Risks

| Risks identified in our audit plan | How we responded to the risk | Findings and conclusions |
|--|---|---|
| <p>Financial sustainability</p> <p>How robust is the MTFs and how well developed are savings plans?</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 will follow up recommendations from our 2016/17 Audit Findings Report to determine the progress made in addressing these issues.</p> <p>1) 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.</p> <p>2) Priority is given by Executive to ensuring that the management restructure is progressed on a timely basis.</p> | <p>1) We tested a number of schemes to identify whether our recommendations had been addressed. We found there are appropriate business cases in place, commensurate with the savings being considered. However, there is still a financial gap in the MTFP of £1.3 million in 2020/21, and use of balances to cover this is not realistic. At the 31 March 2018 the General Fund working balance was £1.8 million. This level of General Fund working balances will only cover the financial gap for a short period and would then leave the Council with very little financial contingency reserves. There are currently no plans to bridge the gap on a sustainable basis. The Council has not demonstrated that the underlying deficit is being addressed effectively.</p> <p>Officers are also aware that, after 2019/20, the HRA rent reduction scheme is scheduled to end, and councils will be able to begin increasing rents again. Officers intend to revisit the HRA Business Plan to make sure that the HRA is sustainable in the longer term, and that reserves don't fall any lower.</p> <p>While there is no financial impact on the current MTFP, the Council Acquisition and Investment Strategy is proposing borrowing £20m from PWLB to finance investments within the local area. Officers will need to prepare a paper for Members that assesses the impact of the revised Statutory Investment Guidance on their plans. In particular, the Guidance is clear that: "Authorities must not borrow more than or in advance of their needs purely in order to profit from the investment of the extra sums borrowed." [paragraph 46, Statutory Guidance on Local Authority Investment].</p> <p>The LGA Peer review highlighted the need for the Council to avoid having too many priorities, and to adopt a clear approach on de-prioritisation. The Council needs to make some difficult and challenging decisions in order to ensure it can live within its means in the longer term.</p> | <p>Savings plans are supported by appropriate business cases, however the Council is not in a financially sustainable long term position, and does not have sufficiently developed plans to address this. If the current MTFP is delivered the Council will have insufficient balances to be able to support spending at the proposed level beyond 2020/21.</p> <p>On this basis, we concluded that the Council does not have robust plans in place to ensure it remains financially sustainable..</p> <p>Should the Council decide to proceed with the Acquisition and Investment Strategy a paper will be needed which clearly sets out how the Council is complying with the Statutory Investment Guidance</p> <p>We were satisfied that the Council put in place proper arrangements to ensure economy, efficiency and effectiveness in its use of resources except for planning finances effectively to support the sustainable delivery of strategic purposes and maintain statutory functions.</p> |

Value for Money conclusion

Key Value for Money Risks

| Risks identified in our audit plan | How we responded to the risk | Findings and conclusions |
|--|--|--|
| <p>Financial sustainability (cont.)</p> <p>How robust is the MTFs and how well developed are savings plans?</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 will follow up recommendations from our 2016/17 Audit Findings Report to determine the progress made in addressing these issues.</p> <p>1) 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.</p> <p>2) Priority is given by Executive to ensuring that the management restructure is progressed on a timely basis.</p> | <p>2) The management restructure has not progressed. There are three main factors which have caused delay:</p> <p>a) the proposal to outsource or restructure Redditch Borough Council leisure services which could reduce the number of Heads of Service;</p> <p>b) the investigation into Redditch Borough Council housing procurement. The Head of Service was suspended while the investigation took place. This makes any restructuring very difficult. This investigation process has now concluded.</p> <p>c) Leaders of both Redditch BC and Bromsgrove DC wanted to see the outcome of the LGA Peer Review before making any decisions.</p> <p>The LGA Peer Review highlighted the need to “define a new shared culture from the bottom up” and “establish a single workforce and reduce duplication and time spent navigating two structures and systems of governance”. The management review is an essential part of responding to this challenge.</p> | <p>The management restructure has not progressed as planned, but we are satisfied that there are valid reasons for this. It is however important that the restructure is now progressed as part of the wider response to the issues identified in the LGA Peer Review.</p> |

Value for Money conclusion

Key Value for Money Risks

| Risks identified in our audit plan | How we responded to the risk | Findings and conclusions |
|---|---|--|
| <p>In year financial reporting to Members</p> <p>How informative is in year financial reporting to Members?</p> <p>We have previously identified that improvement was needed in reliable and timely financial reporting that supports the delivery of strategic purposes.</p> <p>We said we would follow up recommendations from our 2016/17 Audit Findings Report to determine the progress made in addressing the following issues.</p> <p>3) Further improvement to the overall reporting of savings, including a clear picture of planned savings to be delivered, progress to date, risk to full achievement and mitigating actions;</p> <p>4) Monitoring of progress against the actions plans supporting the delivery of the Council Plan and quarterly reporting to the Executive.</p> | <p>3) Savings are reported against the Efficiency Plan monitoring report in a one page summary. As such it does not contain much detail, but Members are able to ask questions or see more detail if they wish. Our work demonstrated that Service Managers and accountants have worked together to reduce budgets or increase income projections where appropriate. There are no business cases to support this, but we have seen email correspondence and workings to support the savings figures. The work undertaken is proportionate for the type and amount of savings. We discussed with Officers that, as time moves on, it may now be more appropriate to monitor and report savings and income generation against the MTFP, rather than the Efficiency Plan, as this is more current.</p> <p>4) Corporate Performance is now presented bi-monthly using a new format. The first report was presented to Executive on 6 March 2018. The report is very comprehensive and thorough, and is also easily understandable. This report notes the strategic measures that are currently used to understand the purpose 'keep my place safe and looking good'. These are reported, along with others relevant to the strategic purpose. The Council is now adequately reporting progress against the Council Plan and the key indicators for each strategic purpose to Executive.</p> | <p>Savings reporting continues to improve. The high level figures presented to Members are underpinned by appropriate levels of information and analysis. However, in reporting against the Efficiency Plan officers are reporting against old measures, which are difficult to reconcile to the latest MTFP. It would be more transparent and provide Members with better assurance that the MTFP is on track, if savings and income generation were reported against the MTFP.</p> <p>The Council is now adequately reporting progress against the Council Plan and the key indicators for service areas to Executive.</p> |

Value for Money conclusion

Key Value for Money Risks

| Risks identified in our audit plan | How we responded to the risk | Findings and conclusions |
|--|--|--|
| <p>Procurement and contract management in the Housing Department</p> <p>There was an independent investigation into the procurement and management of housing repairs contracts.</p> <p>We said we would monitor the investigation and the Council response to determine whether there are any implications for our VFM Conclusion.</p> | <p>Following the identification of anomalies in the housing repairs contracts in 2017 internal and external investigations have been carried out. During these investigations eight members of the Housing Repairs team were suspended.</p> <p>Both investigations are now complete and their findings reported to the Chief Executive and Monitoring Officer. We have been briefed on the findings by the Monitoring Officer.</p> <p>The external investigation concluded that there was no evidence of fraud, but there was a failure to comply with Council regulations and processes.</p> <p>A number of officers have left the Council as a result of this process, and an internal re-organisation has led to a more prominent role in procurement and contract management for the Monitoring Officer.</p> | <p>We considered how the Council has responded to this issue, both with respect to its investigation and ensuring that appropriate arrangements are put in place to strengthen procurement and contract management.</p> <p>We concluded that the Council's response to investigating the issue was appropriate and proportionate. We also noted that improvements have been made to procurement and contract management.</p> |

A. Reports issued and fees

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

Reports issued

| Report | Date issued |
|-----------------------|--------------|
| Audit Plan | January 2018 |
| Audit Findings Report | July 2018 |
| Annual Audit Letter | August 2018 |

Fees

| | Planned £ | Actual fees £ | 2016/17 fees £ |
|-------------------------------------|---------------|------------------|-------------------|
| Statutory Council audit | 57,960 | 62,460 | 57,960 |
| Housing Benefit Grant Certification | 18,199 | TBC | 23,291 |
| Total fees | 76,159 | TBC | 81,251 |

The final audit fee has yet to be agreed. Our fees for grant certification cover only housing benefit subsidy certification, which falls under the remit of Public Sector Audit Appointments Limited. This work will be completed in November. Fee variations are subject to approval by Public Sector Audit Appointments Ltd.

Fees for non-audit services

| Service | Fees £ |
|---|----------------------|
| Audit related services | |
| - Certification of Housing capital receipts grant | 1,654 (estimated) |
| Non-Audit related services | |
| - CFO insights (TBC) | 7,500 (estimated) |

Non-audit services

- For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council. The table above summarises all non-audit services which were identified.
- 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.



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