

The Audit Findings for Redditch Borough Council

Year ended 31 March 2019

29 July 2019



Contents



Your key Grant Thornton team members are:

Richard Percival

Engagement Lead

T: 0121 232 5434

E: richard.d.percival@uk.gt.com

Neil Preece

Manager

T: 0121 232 5292

E: neil.a.preece@uk.gt.com

Denise Mills

Audit Executive

T: 0121 232 5306

E: Denise.F.Mills@uk.gt.com

Section	Page
1. Headlines	3
2. Statutory Recommendation	5
3. Financial statements	7
4. Value for money	19
5. Independence and ethics	27
Appendices	
A. Action plan	28
B. Follow up of prior year recommendations	29
C. Audit adjustments	30
D. Fees	33
E. Audit Opinion	34

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 for the purpose of expressing our opinion on the financial statements. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose all defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. 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.

Grant Thornton UK LLP is a limited liability partnership registered in England and Wales: No.OC307742. Registered office: 30 Finsbury Square, London, EC2A 1AG. A list of members is available from our registered office. Grant Thornton UK LLP is authorised and regulated by the Financial Conduct Authority. Grant Thornton UK LLP is a member firm of Grant Thornton International Ltd (GTIL). GTIL and the member firms are not a worldwide partnership. Services are delivered by the member firms. GTIL and its member firms are not agents of, and do not obligate, one another and are not liable for one another's acts or omissions.

Headlines

This table summarises the key findings and other matters arising from the statutory audit of Redditch Borough Council ('the Council') and the preparation of the group and Council's financial statements for the year ended 31 March 2019 for those charged with governance.

Statutory duties

The Local Audit and Accountability Act 2014 ('the Act') also requires us to:

- report to you if we have applied any of the additional powers and duties ascribed to us under the Act; and
- To certify the closure of the audit.

Our powers and duties under the Act include making written recommendations to the Council under section 24 of the Act. The Council is required by the Act to hold a public meeting to consider such recommendations and publicly respond to them.

We have concluded that it is appropriate for us to use our powers to make a recommendation under section 24 of the Act due to the Council's current and forecast financial position. Section one details our recommendation, the reasons why we are making the recommendation and what the Council needs to do to respond to the recommendation.

We have completed the majority of work under the Code and expect to be able to certify the completion of the audit when we give our audit opinion.

Financial Statements

Under International Standards of Audit (UK) (ISAs) and the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion, the group and Council's financial statements:

- give a true and fair view of the financial position of the group and Council and the group and Council's income and expenditure for the year; and
- have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting and prepared in accordance with the Local Audit and Accountability Act 2014.

We are also required to report whether other information published together with the audited financial statements (including the Annual Governance Statement (AGS), and Narrative Report), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

Our audit work was completed on site during June and July. Our findings are summarised on pages 7 to 18. We have identified five adjustments to the financial statements, one of which officers declined to make.

During the audit an ongoing legal case around pensions was resolved, affecting all bodies admitted to the Local Government Pension Scheme (LGPS), and other public sector schemes. This required the Council to obtain a further actuarial report. At the same time the actuary took the opportunity to update the value of the pension fund assets for further information received. For Redditch Borough Council this has the effect of increasing the Council Gross Expenditure on Net Cost of Services by £974k. The Net Pension Fund Deficit increases by the same amount, but as the asset value has increased by £1,381k the overall effect is to reduce the deficit by £407k.

There were two adjustments to the Property, Plant & Equipment note. These had the effect of reducing the Balance Sheet value and increasing total expenditure by £113k.

Depreciation of buildings is understated by £68k. Officers declined to adjust for this on the basis that it is immaterial. This matter is included in our Letter of Representation, and the Audit, Governance and Standards Committee is asked to agree the non adjustment. Were the adjustment to be made the value of land and buildings would decrease by £68k, and total expenditure increase by the same amount.

Audit adjustments are detailed in Appendix C.

Our anticipated audit report opinion will be unmodified (Appendix E).

Headlines

Financial Statements (cont.)

Our work is substantially complete and there are no matters of which we are aware that would require modification of our audit opinion (Appendix E) or material changes to the financial statements, subject to the following outstanding matters;

- final review of audit work by the Engagement Lead and consideration of the overall sufficiency of audit evidence;
- update of our subsequent events review to the date of sign off;
- receipt of management representation letter; and
- review of the final set of financial statements.

We have concluded that the other information to be published with the financial statements is consistent with our knowledge of your organisation and the financial statements we have audited.

Value for Money arrangements

Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report if, in our opinion, the Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources ('the value for money (VFM) conclusion').

We have completed our risk based review of the Council's value for money arrangements. The Council is rapidly approaching an extremely serious financial situation. Urgent action is needed to ensure that the Council lives within its' financial means and continues to be financially viable. As things stand it is highly likely that in 18 months the Council will have exhausted its working balances of £1,200k.

We have concluded that Redditch Borough Council does not have proper arrangements to secure economy, efficiency and effectiveness in its use of resources in regard to financial sustainability. We therefore anticipate issuing a qualified 'Adverse' value for money conclusion, as detailed in Appendix E. Our findings are summarised on pages 19 to 26.

Acknowledgements

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. We note however that the audit has been challenging to complete and further improvements are required to the quality of supporting information and to the timeliness and quality of responses to audit queries.

Statutory recommendation

Recommendation made under section 24 of the Local Audit and Accountability Act 2014

The Council needs to take urgent action to prevent both its General Fund and HRA balances being exhausted by the end of 2020/21. Failure to take effective action will put the Council at risk of breaching its statutory duty to set a balanced budget.

It must agree and implement an achievable financial strategy that ensures a sustainable level of General Fund and HRA balances is maintained in the medium term (at least the next three years up to and including 2021/22), taking into account the current uncertainties about future local authority funding.

This must include the following.

- A full assessment of the deliverability of the £1.13 million savings challenge for 2019/20 and the agreement and monitoring of actions by the Executive that either prevent or minimise the further use of both General Fund and HRA balances in 2019/20.
- A financial plan for 2020/21 that includes the identification of further deliverable savings and income generation schemes, cost base reductions and Council Tax increases that eliminates the planned £1.17 million use of General Fund balances and ensures there are no further calls on HRA balances. This will require Members to take difficult decisions about sustainable levels of service and increases in Council Tax.
- Agreement of a realistic financial plan for 2021/22 that has deliverable savings and seeks to ensure that there are no further planned uses of General Fund and HRA balances that would put them below a financial sustainable level.

Our responsibilities

As well as our responsibilities to give an opinion on the financial statements and assess the arrangements for securing economy, efficiency and effectiveness in the Council's use of resources, we have additional powers and duties under the Act. These include powers to issue a public interest report, make written recommendations, apply to the Court for a declaration that an item of account is contrary to law, and to give electors the opportunity to raise questions about the Council's accounts and to raise objections received in relation to the accounts.

We have concluded that it is appropriate for us to use our powers to make a recommendation under section 24 of the Act due to the Council's current and forecast financial position.

Reasons for making the recommendation

The scale of the Council's financial pressure and the savings delivery challenge is significant. We are concerned that if the Council does not take effective action to agreed and implement a balanced budget, without the need to use balances, there will be insufficient resources to manage its financial risks in 2020/21.

Savings delivery plan from 2020 onwards

As at the 31 March 2019 the Council had a General Fund balance of £1.22 million, a reduction of £800,00 since 31 March 2016. This reflects the failure to fully identify and deliver savings plans in previous years. The Medium-Term Financial Plan, approved in February 2019, identified a savings requirement of £1.13 million for 2019/20. Savings schemes totalling £949,000 are being implemented, but £181,000 of savings are currently unidentified. The Financial Plan also identified a £1.17 million financial gap in 2020/21, which if not addressed will leave £55,000 of General Fund balances available as a risk contingency.

Statutory recommendation

In 2018/19 the Council used £0.56 million of balances, rather than the £89,000 planned. This was due to the decision to fund expenditure from balances, rather than identify further savings, and budget overspends in some areas. The budget included £1.50 million savings, of which £1.30 million was delivered. It is likely that some use of General Fund balances will be needed in 2019/20 to balance any under delivery of savings and budget pressures. The Council has not yet reported on the in-year financial position for 2019/20. The quarter one report is due to be reported to the Executive on 10 September 2019.

We have noted that:

- savings of £1.17 million still need to be identified for 2020/21, increasing to £1.52 million by 2022/23
- the budget gap in 2020/21, assuming cumulative savings delivery of £841,000, is £1.17 million which would exhaust the current General Fund balance
- although earmarked reserves are currently £5.12 million, we understand that these amounts are largely committed, in particular the £3.25 million Business Rate Retention Reserve, and therefore provide little scope to support the overall financial position if General Fund balances are exhausted
- from April 2021 the Council will, even if all of the forecast savings are achieved, be spending £30,000 a week more than it receives, with no balances left and the budget gap growing to £1.33 million in 2021/22
- the HRA balance has decreased from £1.48 million at 31 March 2018 to £0.77 million at 31 March 2019, with a further £0.4 million planned to be used in 2019/20. The balance remaining will then be around half of the £0.6 million minimum which the Council has itself set.

There is very limited capacity for the Council to use balances in future years and every effort needs to be made to ensure that savings of £1.13 million are delivered in full in 2019/20 and further savings are delivered to minimise the use of balances in 2020/21 and beyond.

Previous statutory recommendations

In 2015 we issued four recommendations under section 11 (3) of the Audit Commission Act 1998 (now superseded by section 24 of the Local Audit and Accountability Act). These recommendations concerned the Council's accounts production and budgeting process and have been addressed. It is both disappointing and concerning that we again find it necessary to take this unusual step to ensure that the Council takes appropriate action to manage its finances.

What does the Council need to do next?

Schedule 7 of the Local Audit and Accountability Act 2014 requires the following:

The local authority must consider the recommendation at a meeting held before the end of the period of one month beginning with the day on which it was sent to the authority

At that meeting the authority must decide

- whether the recommendation is to be accepted, and
- what, if any, action to take in response to the recommendation.

Schedule 7 specifies meeting publication requirements that the authority must comply with.

Summary

Overview of the scope of our audit

This Audit Findings Report presents the observations arising from the audit that are significant to the responsibility of those charged with governance to oversee the financial reporting process, as required by International Standard on Auditing (UK) 260 and the Code of Audit Practice ('the Code'). Its contents have been discussed with management.

As auditor we are responsible for performing the audit, in accordance with International Standards on Auditing (UK) and the Code, 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.

Audit approach

Our audit approach was based on a thorough understanding of the group's business and is risk based, and in particular included:

- An evaluation of the Council's internal controls environment, including its IT systems and controls;
- Substantive testing on significant transactions and material account balances, including the procedures outlined in this report in relation to the key audit risks; and
- Reviewing the figures and consolidation for Rubicon.

We have not had to alter or change our audit plan, as communicated to you on 25 April 2019.

Key messages

As reported last year, our audit identified a higher number of amendments than we would expect. Some of the working papers initially supplied did not provide the requisite assurance or could not be agreed to the financial statements. In many instances the initial response was inadequate and necessitated additional audit time in raising further questions. We discussed this with the Deputy and Executive Director, and the quality of responses improved towards the end of our audit.

As we reported last year, the Finance Team needs to ensure that next year enough time is allowed for a robust and thorough quality review of the accounts and working papers before they are presented for audit. The Finance Team also needs to quality review proposed responses to the audit team before they are sent to the audit team – a "right first time" approach.

Many of the changes we identified were repeated from last year. It is disappointing and time consuming to have to raise the same issues in successive years. The Finance Team needs to ensure that the template Statement of Accounts for 2019/20 start with the final audited 2018/19 Statement.

Recommendations for management as a result of our audit work are set out in Appendix A. The other key messages arising from our audit of the Council's financial statements are as follows.

- there is one unadjusted misstatement relating to depreciation on buildings;
- there was one adjustment to your primary statements, in relation to the McCloud case impacting on the Net Cost of Services and LGPS deficit;
- there was one adjustment to your primary statements, in relation to updated pension fund asset values impacting on the Net Cost of Services and LGPS deficit; and
- there were two adjustments arising from incorrect accounting for asset valuations.

Summary

Our approach to materiality

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law.

Materiality calculations remain the same as reported in our audit plan and are detailed below.

Conclusion

We have substantially completed our audit of your financial statements and subject to outstanding queries being resolved, we anticipate issuing an unqualified audit opinion following the Audit, Governance and Standards Committee meeting on 29 July 2019, as detailed in Appendix E. These outstanding items include:

- final review of audit work by the Engagement Lead and consideration of the overall sufficiency of audit evidence;
- update of our subsequent events review to the date of sign off;
- receipt of management representation letter; and
- review of the final set of financial statements.

	Amount (£)	Qualitative factors considered
Materiality for the financial statements	1,300,000	<ul style="list-style-type: none"> • Business environment – the Council operates in a stable, publicly funded environment • Control environment – no significant deficiencies identified.
Performance materiality	800,000	<ul style="list-style-type: none"> • No history of significant deficiencies but high number of deficiencies • History of a large number of immaterial misstatements.
Trivial matters	65,000	<ul style="list-style-type: none"> • Matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria.
Specific materiality: - Senior officer remuneration	100,000	<ul style="list-style-type: none"> • Public interest

Significant findings – audit risks

Risks identified in our Audit Plan	Commentary
<p>1 The revenue cycle includes fraudulent transactions (rebutted)</p>	<p>Auditor commentary</p> <p>Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the Authority, 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 • the culture and ethical frameworks of local authorities, including Redditch Borough Council, mean that all forms of fraud are seen as unacceptable. <p>Therefore we do not consider this to be a significant risk for Redditch Borough Council.</p> <p>Our audit work has not identified any issues in respect of revenue recognition.</p>
<p>2 Management override of controls</p>	<p>Auditor commentary</p> <p>To address this risk we have:</p> <ul style="list-style-type: none"> • evaluated the design effectiveness of management controls over journals • analysed the journals listing and determined the criteria for selecting high risk unusual journals • tested unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration • gained an understanding of the accounting estimates and critical judgements applied made by management and considered their reasonableness with regard to corroborative evidence • evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions. <p>Obtaining a journals listing which was complete and reconciled back to the financial statements took longer than planned and required officers to run a number of different reports. Our audit work has not identified any issues in respect of management override of controls.</p>

Significant findings – audit risks

Risks identified in our Audit Plan

Commentary

3

Valuation of land and buildings

Auditor commentary

To address this risk we have:

- evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work
- evaluated the competence, capabilities and objectivity of the valuation expert
- written to the valuer to confirm the basis on which the valuation was carried out
- challenged the information and assumptions used by the valuer to assess completeness and consistency with our understanding
- tested revaluations made during the year to see if they have been input correctly into the Authority'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 at year end.

We experienced significant difficulties in completing our work in this area. In particular:

- It was unclear how in-year depreciation had been calculated. When challenged, officers did not understand the workings either, and it took some time to resolve.
- A number of properties that the Council asked the Valuer to revalue in year were missed, and Officers did not ensure these valuations were obtained. It transpired that these properties were included in both the General Fund and HRA asset register, and some were shown as being sold. Resolving this issue took a lot of auditor and officer time.
- We challenged officers and the valuer on the valuation of Council Dwellings. A full valuation is conducted every five years. In line with DCLG guidance interim reviews are undertaken annually on a desktop basis to avoid major fluctuations between full valuations dates. We will compare the values used during the interim review with similar properties recently sold on the open market to obtain assurance that the interim valuation process prevents material misstatement in the balance sheet. At the time of writing this report we have yet to complete this work.
- We identified three free to use car parks which were incorrectly valued using the Fair Value Existing Use basis. The valuation should have been based on Depreciated Replacement Cost as there is no income, and it is amenity land.

Our audit work to date has not identified any other issues in respect of valuation of land and buildings. At the time of drafting this report our audit work was subject to completion and final Engagement Lead review.

Significant findings – audit risks

Risks identified in our Audit Plan	Commentary
<p>4 Valuation of the pension fund net liability</p>	<p>Auditor commentary</p> <p>To address this risk we have:</p> <ul style="list-style-type: none"> • update our understanding of the processes and controls put in place by management to ensure that the Authority's pension fund net liability is not materially misstated and evaluate the design of the associated controls • evaluate the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work • assess the competence, capabilities and objectivity of the actuary who carried out the Authority's pension fund valuation • assess the accuracy and completeness of the information provided by the Authority to the actuary to estimate the liability • test the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial report from the actuary • undertake procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performing any additional procedures suggested within the report • obtain assurances from the auditor of Worcestershire Pension Fund as to the controls surrounding the validity and accuracy of membership data; contributions data and benefits data sent to the actuary by the pension fund and the fund assets valuation in the pension fund financial statements. <p>Our audit to date has identified one issue in relation to accounting for the impact of the McCloud Court of Appeal judgement. This is considered under section "Significant findings – other issues" on the next page.</p> <p>Our audit work has not identified any other issues in respect of valuation of the valuation of the pension fund liability. At the time of drafting this report our audit work was subject to completion and final Engagement Lead review.</p>

Significant findings - other issues

This section provides commentary on new issues and risks which were identified during the course of the audit that were not previously communicated in the Audit Plan and a summary of any significant control deficiencies identified during the year.

Issue	Commentary	Auditor view
<p>1 Impact of the McCloud judgement</p> <p>The Court of Appeal has ruled that there was age discrimination in the judges and firefighters pension schemes where transitional protections were given to scheme members.</p> <p>Our Grant Thornton view was that this gave rise to a past service cost and liability within the scope of IAS 19 as the ruling created a new obligation.</p> <p>The Government applied to the Supreme Court for leave to appeal this ruling, but this was rejected in late June 2019. The case will now be remitted back to employment tribunal for remedy.</p> <p>The legal ruling has implications for pension schemes where transitional arrangements have been implemented, including the Local Government Pension Scheme (LGPS).</p> <p>This was confirmed on 15 July 2019 in a statement released by The Chief Secretary to the Treasury. The quote below confirms that remedies will need to be applied to the LGPS and hence supports the Authority's stance in the recognition of increased liabilities:</p> <p><i>“As ‘transitional protection’ was offered to members of all the main public service pension schemes, the government believes that the difference in treatment will need to be remedied across all those schemes. This includes schemes for the NHS, civil service, local government, teachers, police, armed forces, judiciary and fire and rescue workers. Continuing to resist the full implications of the judgment in Court would only add to the uncertainty experienced by members.”</i></p>	<p>The decision as to the appropriate accounting treatment is one for the Council. At the Council's request the actuary has re-run the valuation report with their best estimate of the impact re-McCloud.</p> <p>We have agreed with Officers that the financial statements will be amended to reflect the estimated decrease in the net deficit in the scheme for the Council from £73,337k to £72,930k. This is a function of an increase in the deficit due to the additional past service costs of £974k, and a decrease in the deficit of £1,381k due to the increase in asset values arising from better information since the earlier actuarial report.</p>	<p>We have reviewed the analysis performed by the actuary, and consider that the approach that has been taken to arrive at this estimate is reasonable.</p> <p>Our audit procedures have confirmed the relevant adjustments have been made to the financial statements in regard to the LGPS.</p>

Significant findings – key judgements and estimates

Accounting area	Summary of management's policy	Audit Comments	Assessment
Provisions for NNDR appeals	The Council is responsible for repaying successful rateable value appeals. The calculation of the provision required is based upon the latest information about outstanding rates appeals provided by the Valuation Office Agency (VOA) and previous success rates. Due to a reduction in outstanding appeals, the provision has decreased by £560k from £2,630k in 2017/18 to £2,070k in 2018/19.	Our testing has confirmed the appropriateness of the underlying information used to determine the estimate. The estimate calculated is reasonable.	 (Green)
Land and Buildings – Council Housing -	The Council owns 5,716 dwellings and is required to revalue these properties in accordance with DCLG's Stock Valuation for Resource Accounting guidance. The guidance requires the use of beacon methodology, in which a detailed valuation of representative property types is then applied to similar properties. The year end valuation of Council Housing was £279,599k, a net increase of £17,441k from 2017/18 (£262,158k).	We have set out our findings in relation to the valuation of land and buildings on page 10. In relation to Council Houses, we have tested that properties are included in the correct beacon, and that the valuations used are appropriate given the area and reduction for the social use factor. At the time of drafting this report our audit work was subject to completion and final Engagement Lead review. Based on the work completed, we are satisfied that the judgements and estimates used by management in determining the value of Council Housing are appropriate for the Council.	 (Work is incomplete)

Assessment

-  We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
-  We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
-  We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
-  We consider management's process is appropriate and key assumptions are neither optimistic or cautious

Significant findings – key judgements and estimates

	Summary of management's policy	Audit Comments	Assessment
Land and Buildings – Other	The Authority revalues its land and buildings as a minimum on a rolling five-yearly basis with interim reviews. If the value of an asset class is projected to materially change during the period since the last valuation then further valuations are instructed. Some asset classes are currently valued annually.	<p>We have set out our findings in relation to the valuation of other land and buildings on page 10.</p> <p>At the time of drafting this report our audit work was subject to completion and final Engagement Lead review. Based on the work completed, we are satisfied that the judgements and estimates used by management in determining the value of land and buildings are appropriate for the Council.</p>	 (Work is incomplete)
Net pension liability	A full actuarial valuation is required every three years. The latest full actuarial valuation was completed in 2016. A roll forward approach is used in intervening periods, which utilises key assumptions such as life expectancy, discount rates, salary growth and investment returns. Given the significant value of the net pension fund liability, small changes in assumptions can result in significant valuation movements.	<p>We have set out our findings in relation to the net pension liability on pages 11 and 12. We are satisfied that the judgements and estimates used by management in determining the pension fund asset and liability are consistent with those used by the actuary and appropriate for the Council.</p> <p>We have noted that the net liability has increased as a result of a legal case, which has national implications.</p>	 (Green)

Assessment

-  We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
-  We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
-  We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
-  We consider management's process is appropriate and key assumptions are neither optimistic or cautious

Significant findings – key judgements and estimates

Summary of management's policy	Audit Comments	Assessment																								
<p>Net pension liability</p> <p>The Council's net pension liability at 31 March 2019 is £72.93m.</p> <p>The Council uses Mercer to provide actuarial valuations of the Council's assets and liabilities derived from these schemes. A full actuarial valuation is required every three years.</p> <p>The latest full actuarial valuation was completed in 2016. A roll forward approach is used in intervening periods, which utilises key assumptions such as life expectancy, discount rates, salary growth and investment returns.</p> <p>Given the significant value of the net pension fund liability, small changes in assumptions can result in significant valuation movements.</p>	<p>We have:</p> <ul style="list-style-type: none"> Undertaken an assessment of management's expert Reviewed and assessed the actuary's roll forward approach taken, Used an auditors expert (PwC) to assess the actuary and assumptions made by the actuary <table border="1" data-bbox="758 394 1798 848"> <thead> <tr> <th>Assumption</th> <th>Actuary Value</th> <th>PwC range</th> <th>Assessment</th> </tr> </thead> <tbody> <tr> <td>Discount rate</td> <td>2.4%</td> <td>2.4% - 2.5%</td> <td>●</td> </tr> <tr> <td>Pension increase rate</td> <td>2.3%</td> <td>2.4% - 2.5%</td> <td>●</td> </tr> <tr> <td>Salary growth</td> <td>3.7%</td> <td>Scheme and employer specific</td> <td>●</td> </tr> <tr> <td>Life expectancy – Males currently aged 45 / 65</td> <td>25.1.1/ 22.8</td> <td>23.7 – 24.4/ 21.5 – 22.8</td> <td>●</td> </tr> <tr> <td>Life expectancy – Females currently aged 45 / 65</td> <td>28.2/ 25.8</td> <td>26.2 – 26.9/ 24.1 – 25.1</td> <td>●</td> </tr> </tbody> </table> <p>We have reviewed:</p> <ul style="list-style-type: none"> Completeness and accuracy of the underlying information used to determine the estimate Impact of any changes to valuation method Reasonableness of the Council's share of LPS pension assets. Reasonableness of increase/decrease in estimate Adequacy of disclosure of estimate in the financial statements <p>In October 2018, the High Court ruled that defined benefit pension schemes must remove any discriminatory effect that guaranteed minimum pension entitlements (GMPs) have had on members benefits. GMPs must be equalised between men and women and that past underpayments must be corrected. Actuaries have taken differing approaches to this issue. Mercer have not made any allowance for (GMPs). We have estimated an impact of 0.1% of gross pension liabilities. We do not consider this to be material.</p>	Assumption	Actuary Value	PwC range	Assessment	Discount rate	2.4%	2.4% - 2.5%	●	Pension increase rate	2.3%	2.4% - 2.5%	●	Salary growth	3.7%	Scheme and employer specific	●	Life expectancy – Males currently aged 45 / 65	25.1.1/ 22.8	23.7 – 24.4/ 21.5 – 22.8	●	Life expectancy – Females currently aged 45 / 65	28.2/ 25.8	26.2 – 26.9/ 24.1 – 25.1	●	<p>● (Green)</p>
Assumption	Actuary Value	PwC range	Assessment																							
Discount rate	2.4%	2.4% - 2.5%	●																							
Pension increase rate	2.3%	2.4% - 2.5%	●																							
Salary growth	3.7%	Scheme and employer specific	●																							
Life expectancy – Males currently aged 45 / 65	25.1.1/ 22.8	23.7 – 24.4/ 21.5 – 22.8	●																							
Life expectancy – Females currently aged 45 / 65	28.2/ 25.8	26.2 – 26.9/ 24.1 – 25.1	●																							

Assessment

- We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- We consider management's process is appropriate and key assumptions are neither optimistic or cautious

Significant findings - Going concern

Our responsibility

As auditors, we are required to “obtain sufficient appropriate audit evidence about the appropriateness of management's use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the entity's ability to continue as a going concern” (ISA (UK) 570).

Going concern commentary

Management's assessment process

Management do not undertake a formal assessment of whether the Council is a going concern.

The Council has a sound income stream through Council Tax (£6.1m) and Business Rates (£1.7m). It has delivered a balanced budget year on year and has a realistic Medium Term Financial Plan.

The Council also has usable, non earmarked reserves of £1.2m.

Auditor commentary

This is reasonable as the Council has a realistic Medium Term Financial Plan and sufficient reserves to cover any unexpected need for the next 12 months. It would be considered a going concern even if it demised and the services transferred to another body. Our Informing the Audit Risk Assessment report, presented to Audit, Governance and Standards Committee on 25 April, shows on pages 15 to 16 the arrangements in place to demonstrate that the Council is a going concern.

Work performed

Our audit work, including our VFM work, has not raised any doubts around the going concern assumption. Also, in the public sector, going concern is taken to mean that the services are transferred / delivered by another body. As the Council services / functions would be delivered by any successor body, the threat of re-organisation does not apply.

Auditor commentary

Our audit did not identify any events or conditions which may cast significant doubt on going concern assumption.

The reported position of the Council at 31 March 2019 per the draft financial statements shows that they have total current assets of £14.7m compared to £16.7m current liabilities, £1.1m and £4.5m of total current assets are cash and short term investments respectively and are therefore highly liquid.

The borrowings of the Council, while significant are almost entirely with PWLB and therefore low risk.

The Council will not remain a going concern throughout the life of the current MTFP however as there are inadequate working balances to support the budget after 2020/21.

Concluding comments

We have concluded that it is appropriate for us to use our powers within the Local Audit and Accountability Act 2014 ('the Act') to make a recommendation under section 24 of the Act due to the Council's current and forecast financial position. The detail is set out on pages 5 and 6. We are satisfied that the Council has sufficient financial reserves and resilience to be able to continue to deliver statutory services to 31 July 2020. Consequently, we do not have any concerns regarding going concern.

We are satisfied that the preparation of the financial statements using the going concern principal is reasonable. Based on the above comments, we anticipate being able to issue an unmodified opinion.

Other communication requirements

We set out below details of other matters which we, as auditors, are required by auditing standards and the Code to communicate to those charged with governance.

Issue	Commentary
① Matters in relation to fraud	<ul style="list-style-type: none"> We have previously discussed the risk of fraud with the Audit, Governance and Standards Committee. We have not been made aware of any material incidents in the period and no other issues have been identified during the course of our audit procedures.
② Matters in relation to related parties	<ul style="list-style-type: none"> We are not aware of any related parties or related party transactions which have not been disclosed.
③ Matters in relation to laws and regulations	<ul style="list-style-type: none"> You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work.
④ Written representations	<ul style="list-style-type: none"> Our letter of representation requested from the Council, includes the adjustments which officers have declined to make. The Audit, Governance and Standards Committee is asked to agree this approach.
⑤ Confirmation requests from third parties	<ul style="list-style-type: none"> 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	<ul style="list-style-type: none"> Our review found no material omissions in the financial statements. We identified changes to a number of disclosures in the Statement of Accounts which the Council has agreed to amend.
⑦ Audit evidence and explanations/significant difficulties	<ul style="list-style-type: none"> All information and explanations requested from management was provided. We have reported the significant difficulties with accounts our audit of the draft accounts and working papers on page 7.

Other responsibilities under the Code

Issue	Commentary
<p>① Other information</p>	<p>We are required to give an opinion on whether the other information published together with the audited financial statements (including the Annual Governance Statement and Narrative Report), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.</p> <p>No inconsistencies have been identified. We plan to issue an unmodified opinion in this respect – refer to Appendix E.</p>
<p>② Matters on which we report by exception</p>	<p>We are required to report on a number of matters by exception in a numbers of areas:</p> <ul style="list-style-type: none"> • If the Annual Governance Statement does not meet the disclosure requirements set out in the CIPFA/SOLACE guidance or is misleading or inconsistent with the other information of which we are aware from our audit • If we have applied any of our statutory powers or duties <p>We have concluded that it is appropriate for us to use our powers within the Local Audit and Accountability Act 2014 ('the Act') to make a recommendation under section 24 of the Act due to the Council's current and forecast financial position. The detail is set out on pages 5 and 6.</p>
<p>③ Specified procedures for Whole of Government Accounts</p>	<p>We are required to carry out specified procedures (on behalf of the NAO) on the Whole of Government Accounts (WGA) consolidation pack under WGA group audit instructions.</p> <p>Work is not required as the Council does not exceed the threshold.</p>
<p>④ Certification of the closure of the audit</p>	<p>We intend to certify the closure of the 2018/19 audit of Redditch Borough Council in the audit opinion, as detailed in Appendix E.</p>

Value for Money

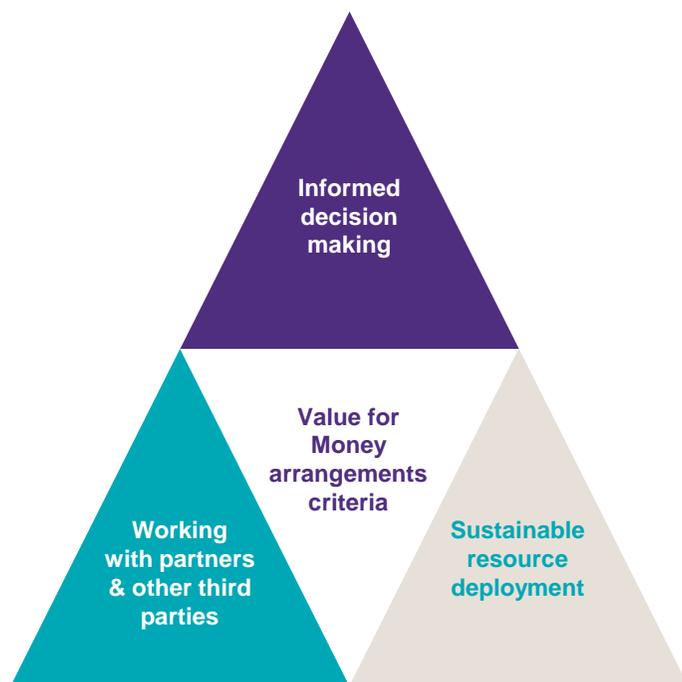
Background to our VFM approach

We are required to satisfy ourselves that the Council has made 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. In carrying out this work, we are required to follow the NAO's Auditor Guidance Note 3 (AGN 03) issued in November 2017. 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."

This is supported by three sub-criteria, as set out below:



Risk assessment

We carried out an initial risk assessment in December 2018 and identified two 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 31 January 2019.

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 difficulties in undertaking our work

We did not identify any significant difficulties in undertaking our work on your arrangements which we wish to draw to your attention.

Significant matters discussed with management

There were no matters where no other evidence was available or matters of such significance to our conclusion or that we required written representation from management or those charged with governance.

Value for Money

Our work

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:

- the financial sustainability of the Council; and
- procurement and contract management in the housing department.

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 21 to 26.

Overall conclusion

Because of the significance of the matters we identified in respect of financial sustainability, we are not satisfied that the Council has made proper arrangements to secure economy, efficiency and effectiveness in your use of resources. We therefore propose to give a qualified 'adverse' conclusion.

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

Owing to weaknesses in financial sustainability we have issued an "Except for" Value for Money Conclusion in previous years. In 2017/18 we reported "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."

One year on and the Council finds itself in an even more challenging financial position. Short term decision making and an inability or unwillingness to take difficult decisions now means that the Council is likely to exhaust its available reserves by the end of March 2021, even if the extremely challenging savings targets are met in full.

In 2018/19 the Council had intended to use £85k of balances in year, but actually used £565k, an increase of £480k, in order to fund other pressures identified during the year. Savings of around £1.1m were delivered which included £700k as identified as part of the budget process and a further £400k towards the unidentified savings during the year. The General Fund balance has now decreased to £1,225k at 31 March 2019.

The table below summarises the financial challenge for the next four years:

Year	Savings required (£000)	Further gap (£000)	Net Revenue Budget (£000)
2019/20	1,127	0	9,543
2020/21	841	1,170	10,269
2021/22	846	1,332	10,469
2022/23	816	1,521	10,757
Total	3,630	4,023	10,757

We also note that the HRA balance reduced to £770k at 31 March 2019 (5% of expenditure excluding revaluation impact). This means there is now very little contingency to manage unforeseen expenditure.

Recommendation for improvement

We discussed findings arising from our work with management and have agreed one Statutory Recommendation as set out on pages 5 and 6. Management's response to this can be found in the Action Plan at Appendix A

Key findings

We set out below our key findings against the significant risks we identified through our initial risk assessment and further risks identified through our ongoing review of documents.

Significant risk	Findings	Conclusion
<p>1 Financial sustainability</p> <p>How robust is the MTFP 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.</p> <p>1) We will review the February 2019 MTFP and select a number of new savings or income generation schemes to test.</p> <p>2) We will assess the progress being made to put the Council on a long term financially viable footing.</p> <p>3) We will monitor implementation of the Leisure LATC and the savings arising from it.</p> <p>4) We will review the impact of the Commercialisation Programme Board.</p> <p>5) We will monitor progress on the management restructure.</p>	<p>1) We tested a number of schemes, and found the majority of them to be based on reasonable assumptions. For example, a total of £120k additional income a year from the Lifeline contract with Cannock Chase District Council. Although at the time of our work the contract had not been signed. Also, £54k a year savings from a new printing contract.</p> <p>The robustness of unallocated savings of £181k a year is much less clear. This is comprised:</p> <ul style="list-style-type: none"> • £95k Part year potential management restructure • £25k Investment income • £61k transformational service redesign <p>The management restructure has been planned for several years, and progress has been slow. However, savings are being delivered from three vacant CMT posts and a part time interim arrangement in place for leisure services. Investment income and transformational service redesign savings are dependent on other factors - including purchasing property and service redesign. These savings are "at high risk" of delivery.</p> <p>2) There is little evidence of members taking difficult decisions to secure the long term financial sustainability of the Council. For example, the S.151 Officer planned a council tax increase of 2.99%, but an increase of 2.2% was approved by Council. The council tax setting report shows a base number of properties of 26,096. Reducing the council tax increase has saved each property less than £2 a year, but cost the council £200k over the four years of the MTFP. Further, there is little evidence of services being re-designed in a way that will address the financial pressures. From April 2021 the Council will, even if all of the forecast savings are achieved, be spending £30k a week more than it receives, with no balances left.</p>	<p>Auditor view</p> <p>The Council is rapidly approaching an extremely serious financial situation. Urgent action is needed to ensure that the Council lives within its financial means and is financially viable. As things stand it is highly likely that in 18 months the Council will have exhausted its balances and still be spending £30k a week more than it receives.</p> <p>Short term decision making and the failure to take difficult decisions has left the Council finances in a precarious state.</p> <p>While most of the schemes we looked at were soundly based and should achieve the income generation or savings anticipated, they are not sufficient to address the financial challenge. The Council's primary source of income is Council Tax and the Council needs to ensure that it raises sufficient revenues to sustain its financial viability.</p> <p>It is noted that officers are fully aware of this situation and have recommended numerous ways to address the situation – including recommending the maximum council tax increase for 2019/20. Members now need to address the situation with some urgency.</p>

Key findings

1

Significant risk

Financial sustainability

How robust is the MTFP and how well developed are savings plans?

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

1) We will review the February 2019 MTFP and select a number of new savings or income generation schemes to test.

2) We will assess the progress being made to put the Council on a long term financially viable footing.

3) We will monitor implementation of the Leisure LATC and the savings arising from it.

4) We will review the impact of the Commercialisation Programme Board.

5) We will monitor progress on the management restructure.

Conclusion

Management response

Officers and Members are fully committed to ensuring that robust plans for making savings and increasing income are put in place.. Whilst significant savings have been made over the last 5 years and the commercialisation agenda has commenced, it is appreciated that urgent reviews of costs and income need to be undertaken to give assurance that clear options can be provided to ensure financial stability

There are a number of actions that have been put in place to address the projected financial position including:

- Portfolio Holder and CMT workshop arranged to consider future direction (priorities and non-priorities) against the backdrop of the financial position to enable robust and deliverable saving proposals to be made
- Present to members from September options for savings and additional income generation to be proposed for medium term financial plan
- Delivery of financial strategy for October Executive to address concerns on financial sustainability
- Detailed review of 2018/19 actual v 2019/20 budget to enable any additional budget allocated to be released for the period 2019/20-2021/23
- Immediate freeze on non essential spend to ensure the protection of the balances position for 2019/20
- Immediate recruitment freeze to all posts other than business critical posts. Consideration of all vacant posts by Head of Service and Strategic Lead to ensure any excess vacant posts are released for the period 2019/20-2021/23
- Review of costs associated with support services and robust estimates of savings realised from new systems and automation to be made
- Full and detailed review of the Capital Programme to assess need of spend against projects and vehicles (including replacement period of vehicles)
- Maximise asset sales to receive capital receipts where appropriate to balance revenue streams within the Council
- Maximise rental income from assets
- Consideration by budget scrutiny to enable challenge of savings proposed
- Work with Grant Thornton and other Councils to identify best practice in the identification and monitoring of savings
- Further review of use of agency staff to reduce spend

1

Significant risk**Financial sustainability (cont.)**

How robust is the MTFP and how well developed are savings plans?

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

1) We will review the February 2019 MTFP and select a number of new savings or income generation schemes to test.

2) We will assess the progress being made to put the Council on a long term financially viable footing.

3) We will monitor implementation of the Leisure LATC and the savings arising from it.

4) We will review the impact of the Commercialisation Programme Board.

5) We will monitor progress on the management restructure.

Findings

3) A permanent Managing Director, the former Head of Leisure Services, started in post on 18 February, and another Countryside Centre has moved into Rubicon Leisure.

Evidence presented to us indicates that savings of £346k will be achieved directly by the outsourcing, which is as expected.

4) Review of the Commercialisation Programme Board minutes shows that the core membership is all of the senior officers we would expect, plus a few others, with particular officers brought in when their areas are being discussed. The meetings cover a range of topics, including investment in commercial premises, possible new crematorium, fees & charges, working with other councils.

The Board has recognised that, in some areas, for example marketing, external support may be required.

Currently, there is little in the way of tangible outputs or changes arising from the work of the Board.

5) The Management Restructure is still in progress. One Head of Service has moved to Rubicon and two have left the Council.

Conclusion**Auditor view**

Rubicon is expected to deliver the savings forecast, but the Commercialisation Programme Board has so far had very little impact. Progress on the Management Restructure has been delayed due to a number of HR related issues which have now been resolved. Implementation now needs to be completed as a matter of urgency.

1

Significant risk**Financial sustainability (cont.)**

How robust is the MTFP and how well developed are savings plans?

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

- 1) We will review the February 2019 MTFP and select a number of new savings or income generation schemes to test.
- 2) We will assess the progress being made to put the Council on a long term financially viable footing.
- 3) We will monitor implementation of the Leisure LATC and the savings arising from it.
- 4) We will review the impact of the Commercialisation Programme Board.
- 5) We will monitor progress on the management restructure.

Conclusion**Management response**

The commercialisation programme board has only been in place for just over 18 months and it is clear that significant commercial opportunities have a longer lead in period to deliver savings. The Board has considered a number of key areas to include:

- Income – full review of fees and charges to include cost recovery and how chargeable service meets the strategic priorities of the Council. This has led to better information in relation to setting of fees and charges to both budget scrutiny and Council
- Assets & Investments – considered a number of investment opportunities including one that has recently secured a successful bid (subject to member decision and due diligence). In addition the Board has considered the development on housing land and the sale of land should this be of best value for the Council
- Contracts – consideration of training to improve efficiency of managers letting contracts which in turn leads to further savings. Agreement on changes to the use of agency staff to reduce costs and to protect staff employed by the Council
- Savings achieved through improved procurement and better contracts
- Improving the branding and marketing of Council income opportunities
- Consideration of further solar panel installations on council buildings to generate income
- Procured support via the LGA Productivity Expert Programme
- Procured Aylesbury Vale DC to carry out commercialism training with all managers
- Procured external support to look at business opportunities in Our Bereavement Services including Redditch Crematorium
- Successfully bid to deliver lifeline and out of hours service for another Local Authority
- Procured external commercialism support on a 1 plus 1 contract which will start in August 2019

Significant risk	Findings	Conclusion
<p>2 Procurement and contract management in the housing department</p> <p>Are planned changes to the housing department being made?</p> <p>1) We will review progress against the Strategic Improvement / Action Plan.</p> <p>2) We will review progress to deliver savings and ensure the HRA is not reporting a deficit each year.</p>	<p>The Council is making adequate progress in turning around the housing department.</p> <p>1) The HRA Progress report was presented to Executive in February 2019. It sets out the significant improvement in reducing the number of void properties, and provides an update on progress against the action plan. A Stock Condition survey is in progress in order to allow a fully developed capital programme to be developed.</p> <p>The Council has identified 10 surplus sites, and work is beginning on obtaining planning permission for two of these for new homes.</p> <p>Internal service staffing structures have been developed and are being costed.</p> <p>2) The HRA balance is now approaching the £600k minimum level having decreased from £1,475k at 31 March 2018 to £770k at 31 March 2019. The budget set for 2019/20 anticipates the use of £400k reserves in order to achieve balance. This will reduce the HRA balance to £370k – well below the minimum amount the Council has set. From 2020/21 rent will start increasing again at CPI plus 1% which will help bring the account back into balance without the reliance on the use of balances.</p> <p>Progress is being made to turn void properties around sooner.</p>	<p>Auditor view</p> <p>The Council has made reasonable progress in addressing the challenges presented by the housing department. The sheer scale of those challenges means that it will take time for the reforms and improvements to embed and have an impact.</p> <p>HRA balances are now very low, and anticipated to fall below the Council’s own recommended minimum balance by 31 March 2020. There is a low level of financial resilience in the HRA in the short-term. The Council needs to manage HRA budgets effectively to ensure the minimum level of balances is maintained.</p>

2

Significant risk

Procurement and contract management in the housing department (cont.)

Are planned changes to the housing department being made?

- 1) We will review progress against the Strategic Improvement / Action Plan.
- 2) We will review progress to deliver savings and ensure the HRA is not reporting a deficit each year.

Conclusion

Management response

The Council is committed to ensuring that the HRA is financially resilient to address the costs that have been associated with the many challenges the service has been addressing over the last few years. The Housing Strategic Improvement / Action Plan was originally endorsed by Members in September 2018 and included a number of actions aimed at addressing the financial position of the HRA. The current position on the actions includes:

- All budgets are reviewed on a monthly basis with the departmental management team to ensure that overspends are captured quickly and actions put in place to address
- The senior service structures have been completed to enable a robust structure for the future delivery of the services
- A short to medium term budget has been created incorporating feedback from CMT, removing budgets no longer required. Agreement by Executive to charge affordable rents on acquisitions and new build given the primary focus is revenue. The capital programme has been scaled back pending outcomes from the stock condition survey. Future modelling around repairs & maintenance will also then be undertaken
- Officers reviewing & updating recharges and tenant service charges to ensure income is generated where relevant and appropriate
- A full review of the repairs and maintenance service is scheduled to look at how the efficiency of the in house work force can be improved alongside the use of contractors therefore reducing overall spend significantly
- A new Housing Management System is being procured that will in the longer term achieve efficiency savings
- Maximise asset sales to receive capital receipts where appropriate to balance revenue streams within the Council
- A refresh of the 30 year HRA Business Plan

Independence and ethics

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Financial Reporting Council's Ethical Standard and confirm that we, as a firm, and each covered person, 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 Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.

Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in December 2017 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

Details of fees charged are detailed in Appendix D.

Audit and 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 following non-audit services were identified, as well as the threats to our independence and safeguards that have been applied to mitigate these threats.

	Fees £	Threats identified	Safeguards
Audit related			
Certification of Housing capital receipts grant	2,250	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £2,250 in comparison to the total fee for the audit of £44,629 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.
Certification of 2018/19 Housing Benefit subsidy claim	24,000	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £24,000 in comparison to the total fee for the audit of £44,629 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level. This work will be completed after we issue our opinion on the financial statements.
Non-audit related			
None			

None of the services provided are subject to contingent fees.

Action plan

We have identified two recommendations for the Council, arising from our work on the Statement of Accounts, as a result of issues identified during the course of our audit. We have agreed our recommendations with management and we will report on progress on these recommendations during the course of the 2019/20 audit. 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	Issue and risk	Recommendations
<p>1</p> <p> (Red)</p>	<p>Statement of Accounts production</p> <p>Many of the changes we identified as a result of our audit were repeated from last year. It is disappointing and time consuming to have to raise the same amendments in successive years. The Council needs to ensure that the template Statement of Accounts for 2019/20 start with the final audited 2018/19 Statement.</p>	<p>The Council needs to ensure that amendments to the structure of the Statement of Accounts for 2019/20 and the titles and headings used therein reflects the changes agreed this year.</p> <p>Management response</p> <p>The Council will ensure that in future years a greater amount of time will be allocated to quality checking at a senior level.</p>
<p>2</p> <p> (Red)</p>	<p>Quality of working papers and responses</p> <p>We noted some improvement in the quality of the working papers initially provided to us. However, those improvements were insufficient to avoid a very high number of questions being raised. For the majority of our audit the responses we received were frequently inadequate, necessitating further questions.</p> <p>Officers need to properly address the recommendation made last year and to ensure that responses to audit questions are “Right first time”.</p>	<p>Officers need to properly address the recommendation made last year and to ensure that responses to audit questions are “Right first time”.</p> <p>Management response</p> <p>A training plan will be put in place to address improvements in working papers and responses to audit queries. This will be developed in consultation with Grant Thornton.</p>

Controls

-  High – Significant effect on control system
-  Medium – Effect on control system
-  Low – Best practice

Follow up of prior year recommendations

We identified the following issues in the audit of Redditch Borough Council's 2017/18 financial statements, which resulted in two recommendations being reported in our 2017/18 Audit Findings report. Our work this year has identified that neither of these has been addressed.

	Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
1	<p>X</p> <p>While the financial statements were presented for audit by 31 May, there is scope to improve the quality of the statements and the supporting working papers.</p> <p>Recommendation</p> <p>Officers should ensure that sufficient time is built into the financial statements production process to allow for a robust and thorough quality review of both the statements and supporting working papers.</p>	<p>We noted some improvement in the quality of the working papers initially provided to us. However, those improvements were insufficient to avoid a very high number of questions being raised. For the majority of our audit the responses we received were frequently inadequate, necessitating further questions.</p> <p>Officers need to properly address the recommendation made last year and to ensure that responses to audit questions are "Right first time".</p>	
2	<p>X</p> <p>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>Recommendation</p> <p>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.</p>	<p>Our Value for Money Conclusion work this year has identified inadequate progress in developing a financially sustainable long term position. The financial position is now even more challenging than it was last year. We have therefore issued an "Adverse" VFM Conclusion concluded that it is appropriate for us to use our powers within the Local Audit and Accountability Act 2014 ('the Act') to make a recommendation under section 24 of the Act due to the Council's current and forecast financial position.</p>	

Assessment

- ✓ Action completed
- X Not yet addressed

Audit Adjustments

We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted 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 ending 31 March 2019.

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000
1 Increase in the Council pension fund deficit arising from the McCloud ruling. Cr. Net Pensions Liability Dr. Cost of Services	974	(974)	974
2 Decrease in the Council pension fund deficit arising from the updated return on assets. Cr. Remeasurement of the net defined benefit liability in the CIES Dr. Net Pensions Liability	(1,381)	1,381	(1,381)
Overall impact of McCloud	(407)	407	(407)
3 Three free to use car parks were incorrectly valued using Fair Value Existing Use basis, instead of Depreciated Replacement Cost (as there is no income, and it is amenity land). Values overstated by £165k. Cr. PPE Operational Assets Dr. Revaluation Reserve Dr. CIES	33	(165) 132	33
4 Two general fund properties included in the HRA asset register as well in error. They should only be in the General Fund. Cr. HRA Dwellings Dr. CIES	80	(80)	80
Overall impact of other adjustments	113	(113)	113

Audit Adjustments

Misclassification and disclosure changes

The list below provides details of the main misclassification and disclosure changes identified during the audit which have been made in the final set of financial statements.

- Enhancements to the Narrative Report, including to properly reflect the significant financial challenge the Council faces;
- Changes to the Annual Governance Statement in order to comply with requirements and also to properly reflect the issues in the Housing Department (these were also reported last year);
- Changes to some Headings and Statement Titles to comply with requirements (these were also reported last year);
- Five adjustments to the prior year financial statement figures as the final audited version was not used.

Audit Adjustments

Impact of unadjusted misstatements

The table below provides details of adjustments identified during the 2018/19 audit which have not been made within the final set of financial statements. The Audit, Governance and Standards Committee is required to approve management's proposed treatment of all items recorded within the table below:

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000	Reason for not adjusting	
1 General Fund assets included in Operational Land & Buildings are under depreciated by £68k. If adjusted this would reduce the Balance Sheet value and increase expenditure by £68k. Dr. CIES Cr. Operational Land & Buildings		68	(68)	68	The amount is immaterial.
Overall impact	68	(68)	68		

Fees

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

Audit Fees

	Proposed fee (£)	Final fee (£)
Council Audit	44,629	TBC
Total audit fees (excluding VAT)	£44,629	TBC

The final audit fee is to be confirmed, pending discussions with Officers and PSAA regarding additional fee as a result of:

- the significant extra work required to reach a Value For Money Conclusion and issue a Statutory Recommendation (estimated £4,000);
- the extra work required arising from the McCloud case (estimated £2,000);
- the additional work required to form a conclusion on the valuation of council dwellings (estimated £1,000);
- the additional work required to form a conclusion on the valuation of other land and buildings (estimated £1,500); and
- the additional work required to resolve the very high number of questions we raised, inadequate explanations to our questions, and the number of amendments required to the Statement of Accounts (estimated £4,500).

Non Audit Fees

Fees for other services	Fees £
Audit related services:	
Certification of Housing capital receipts grant	2,250
Certification of 2018/19 Housing Benefit subsidy claim	24,000
	£26,250

Audit opinion

We anticipate we will provide the Group with a modified audit report

Independent auditor's report to the members of Redditch Borough Council

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Redditch Borough Council (the 'Authority') and its subsidiary (the 'group') for the year ended 31 March 2019 which comprise the Movement in Reserves Statement for the Council and Group, the Comprehensive Income and Expenditure Statement, the Group Comprehensive Income and Expenditure Statement, the Balance Sheet, the Group Balance Sheet, the Cash Flow Statement, the Group Cash Flow Statement, the Housing Revenue Account, the Movement on the HRA Statement the Collection Fund Statement and notes to the financial statements, including a summary of significant accounting policies. The notes to the financial statements include the Notes to the Core Financial Statements, Notes to the Housing Revenue Account and Notes to the Collection Fund Statement. 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 2018/19.

In our opinion, the financial statements:

- give a true and fair view of the financial position of the group and of the Authority as at 31 March 2019 and of the group's expenditure and income and the Authority's expenditure and income for the year then ended;
- have been prepared properly in accordance with the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2018/19; and
- have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the 'Auditor's responsibilities for the audit of the financial statements' section of our report. We are independent of the group and the Authority in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Executive Director of Finance and Resources' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Executive Director of Finance and Resources has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the group's or the Authority's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Other information

The Executive Director of Finance and Resources is responsible for the other information. The other information comprises the information included in the Statement of Accounts, other than the Authority and group financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

Audit opinion

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge of the group and Authority obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Other information we are required to report on by exception under the Code of Audit Practice

Under the Code of Audit Practice published by the National Audit Office on behalf of the Comptroller and Auditor General (the Code of Audit Practice) we are required to consider whether the Annual Governance Statement does not comply with the 'Delivering Good Governance in Local Government: Framework (2016)' published by CIPFA and SOLACE or is misleading or inconsistent with the information of which we are aware from our audit. We are not required to consider whether the Annual Governance Statement addresses all risks and controls or that risks are satisfactorily addressed by internal controls.

We have nothing to report in this regard.

Opinion on other matter required by the Code of Audit Practice

In our opinion, based on the work undertaken in the course of the audit of the financial statements and our knowledge of the Authority gained through our work in relation to the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources, the other information published together with the financial statements in the Statement of Accounts for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

Under the Code of Audit Practice, we are required to report to you if:

- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make a written recommendation to the Authority under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014, in the course of, or at the conclusion of the audit.

We have nothing to report in respect of the above matters, except on 29 July we made written recommendations to the Authority under section 24 of the Local Audit and Accountability Act 2014 in relation to financial sustainability. The Council needs to take urgent action to prevent both its General Fund and HRA balances being exhausted by the end of 2020/21. Failure to take effective action will put the Council at risk of breaching its statutory duty to set a balanced budget.

Responsibilities of the Authority, the Executive Director of Finance and Resources and Those Charged with Governance for the financial statements

As explained more fully in the Statement of Responsibilities set out on pages 11 to 12, the Authority is required to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the Executive Director of Finance and Resources. 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 2018/19, for being satisfied that they give a true and fair view, and for such internal control as

Audit opinion

the Executive Director of Finance and Resources determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Executive Director of Finance and Resources is responsible for assessing the group's and the Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless there is an intention by government that the services provided by the Authority will no longer be provided.

The Audit, Governance & Standards Committee is Those Charged with Governance. Those charged with governance are responsible for overseeing the Authority's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Report on other legal and regulatory requirements - Conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

Adverse Conclusion

On the basis of our work, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in November 2017, because of the significance of the matters described in the basis for adverse conclusion section of our report, we are not 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 2019.

Basis for adverse conclusion

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

The Authority's medium-term financial plan was updated in February 2019 and covers the period to 31 March 2023. Over this period, the plan forecasts that expenditure will exceed income by £4.0 million, with a further £3.6 million of savings to be achieved. As at 31 March 2019 the Council had a General Fund reserves balance of £1.225 million. The Medium Term Financial Plan, approved in February 2019, identified a £1.17 million financial gap in 2020/21, which if not addressed will leave £55,000 of General Fund balances available as a risk contingency.

In 2018/19 the Council used £0.56 million of balances, rather than the £89,000 planned. This was due to the decision to fund expenditure from balances, rather than identify further savings, and budget overspends in some areas. The budget included £1.50 million savings, of which £1.30 million was delivered. It is likely that some use of General Fund balances will be needed in 2019/20 to balance any under delivery of savings and budget pressures. The Medium-Term Financial Plan, approved in February 2019, identified a savings requirement of £1.13 million for 2019/20. Savings schemes totalling £949,000 are being implemented, but £181,000 of savings are currently unidentified. The Council has not yet reported on the in-year financial position for 2019/20. The quarter one report is due to be reported to the Executive on 10 September 2019.

Audit opinion

From April 2021 the Authority will, even if all of the forecast savings are achieved, be spending £30,000 a week more than it receives, with no reserves balance left based on its existing Medium-Term Financial Plan. There are currently no plans to bridge the gap on a sustainable basis.

Additionally, the HRA reserves balance has decreased from £1.475 million at 31 March 2018 to £0.770 million at 31 March 2019, with a further £0.400 million of reserves planned to be utilised in 2019/20. The balance remaining will then be approximately half of the £0.600 million minimum reserves policy which the Authority has set.

These matters identify weaknesses in the Authority's arrangements for setting sustainable budgets. Failure to take effective action will put the Council at risk of breaching its statutory duty to set a balanced budget.

They are evidence of weaknesses in proper arrangements for sustainable resource deployment in planning finances effectively to support the sustainable delivery of strategic priorities and maintain statutory functions.

Responsibilities of the Authority

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.

Auditor's responsibilities for the review of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 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.

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in November 2017, as to whether in all significant respects 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 criterion 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 2019.

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 be satisfied that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

Report on other legal and regulatory requirements - Certificate

We certify that we have completed the audit of the financial statements of the Redditch Borough Council in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice.

Use of our report

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 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.

[Signature]

Richard Percival, Key Audit Partner
for and on behalf of Grant Thornton UK LLP, Local Auditor

Birmingham

[Date]



© 2019 Grant Thornton UK LLP. All rights reserved.

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

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