

# The Audit Findings for Bromsgrove District Council

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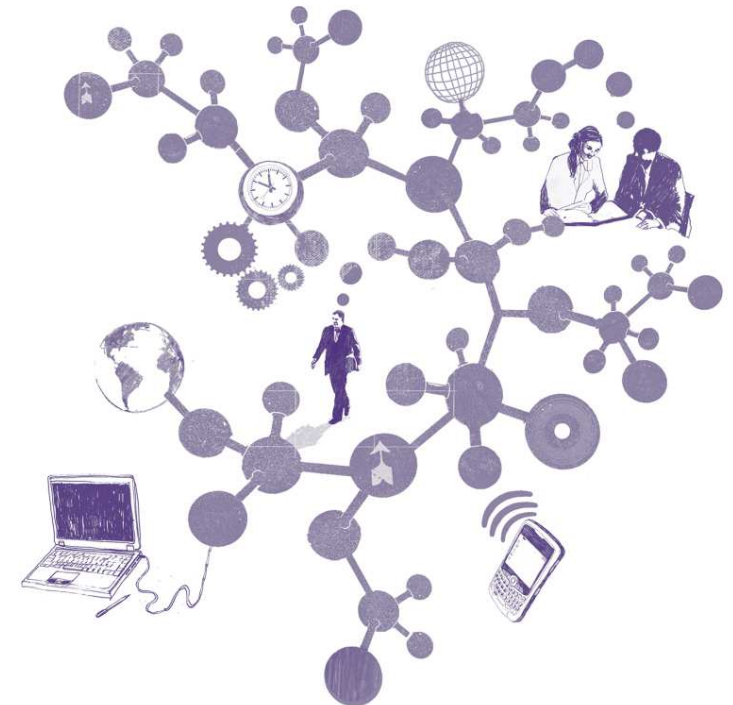
**Year ended 31 March 2014**

September 2014

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The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed primarily for the purpose of expressing our opinion on the financial statements. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify.

We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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# Section 1: Executive summary

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# Executive summary

## Purpose of this report

This report highlights the key matters arising from our audit of Bromsgrove District Council's ('the Council') financial statements for the year ended 31 March 2013. It is also used to report our audit findings to management and those charged with governance in accordance with the requirements of International Standard on Auditing 260 (ISA).

Under the Audit Commission's Code of Audit Practice we are required to report whether, in our opinion, the Council's financial statements present a true and fair view of the financial position, its expenditure and income for the year and whether they have been properly prepared in accordance with the CIPFA Code of Practice on Local Authority Accounting. We are also required to reach a formal conclusion on whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources (the Value for Money conclusion).

## Introduction

In the conduct of our audit we have not had to alter or change our planned audit approach, which we communicated to you in our Audit Plan dated March 2014.

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

- completion of our work on council tax and business rates
- operating segments

- external confirmation of bank balances
- obtaining and reviewing the final management letter of representation
- review of final version of the Annual Governance Statement (AGS)
- updating our post balance sheet events review, to the date of signing the opinion
- Whole of Government Accounts

We received draft financial statements and accompanying working papers at the start of our audit, in accordance with the agreed timetable.

## Key issues arising from our audit

### Financial statements opinion

We anticipate providing an unqualified opinion on the financial statements. No adjustments have been made affecting the Council's overall reported financial position.

The draft financial statements recorded net expenditure of £12,599 k which is unchanged following the audit. Some adjustments have been made to disclosure notes, stated accounting policies and the AGS to improve the presentation of the financial statement and to ensure they are consistent with the requirements of the Statement of Recognised Practice (SORP). However it is pleasing to note that overall the level of adjustments made to the accounts were not significant and arrangements to support the audit were adequate.

There have been changes in key personnel involved in both preparing the overall accounts and some of the key elements, including housing benefits and revenues. This provided some challenges in undertaking the audit, however we worked with your officers to overcome the difficulties presented. It is pleasing to note that there were no significant matters arising from the audit. Your team worked hard to provide accurate working papers and to give responses to queries as quickly as possible and should be congratulated on their commitment to supporting the audit.

There have also been some changes in the accounting for council tax and NDR, including the need to determine an appeals provision for the first time this year. We audited these changes and found that the Council had undertaken these changes in line with requirements.

Group accounts are prepared, to reflect the Council's interest in the 'Artrix' Centre. The accounts reflect the value of the building and the associated capital transactions. The Council provides a grant to support the centre, and we have once again received a question from a member of the public on this, which we are currently responding to.

Further details are set out in section 2 of this report.

### **Whole of Government Accounts (WGA)**

We will complete our work in respect of the Whole of Government Accounts in accordance with the national timetable. We are expecting that the Council will require only limited procedures, as in previous years.

### **Value for Money conclusion**

We are pleased to report that our review of the Council's arrangements to secure economy, efficiency and effectiveness has not highlighted matters that would prevent us from issuing an unqualified value for money conclusion.

The Council has once again underspent against its budget, which has meant that there are general fund balances of over £3.7m. Whilst this provides the Council with resilience in which to manage its financial position, which is important with the continuing pressures on central grant funding, it again points to weaknesses in budget setting and monitoring.

In previous years we have reported our continuing concerns about the reliability of in year financial reporting and budget setting. Significant changes, such as those impacting council tax and business rates inevitably introduce some uncertainty when setting the budget. However we would have expected that by Quarter 3 the Council would have more accurately forecasted the out-turn than it did in both 2012/13 and 2013/14. The finance team needs to work closely with budget holders to improve the accuracy of both budget setting and the reliability of forecasts, to improve confidence in the process.

The Council is continuing to focus on putting in place changes that will deliver continuous improvements and savings through its transformation and shared services agenda. Opportunities for extending existing arrangements are being considered, such as sharing planning services with Redditch.

The Council is also embarking on some significant capital schemes, including the refurbishment of the high street and town centre improvements, the move to new council offices and a new leisure centre. As part of our work on the value for money conclusion we have considered the arrangements for approving these large projects. We concluded that the Council needs to strengthen its arrangements in relation to the preparation of business cases, setting out clearly the costs and benefits of the project, and in relation to improving the transparency of reporting around such significant decisions.

The Council set new strategic ambitions in 2013. These have yet to be fully translated into overall Council and service plans with associated performance measures. We are aware that some 'measures' and quality standards have been developed and are considered at team and departmental meetings. However these are not built into any Council-wide performance monitoring. Without this, it is difficult for all interested parties to have an understanding of the overall success of the council in delivering its priorities, the quality of services and how effectively it is prioritising its spending.

Further details are included in section 3 of the report.

### **Controls**

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

Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we report these to the Council. We have not reported any significant control weakness in relation to key financial systems that impacted on our approach to the audit of the financial statements..

We noted that the Council has taken steps to strengthen its risk management arrangements and departments are using the recently updated 4Risk system and this is becoming more embedded in general management arrangements. We highlighted in our interim report that arrangements around corporate risk management should be strengthened. Corporate risks should relate to strategic priorities and should be reported at Executive level periodically, to support appropriate governance arrangements around the Council's key corporate risks.

In our audit plan we referred to weaknesses in a number of areas in our IT risk assessment. We did not judge that these were significant and they did not impact on our planned audit approach.

Internal audit identified some weakness in internal controls, including the absence of in year reconciliation on council tax and NDR and some weakness in payroll arrangements. We designed our audit testing procedures so that we could obtain sufficient assurance in the areas impacted by internal audit findings. As all relevant matters will be reflected in the revised AGS, we do not feel it necessary to repeat their findings in this report. However, it is important that matters are addressed and that those charged with governance (TCWG) have adequate assurance that this is happening.

During 2014/15, it is likely that the Council will be replacing its financial ledger. This will provide a common financial system with Redditch Council and will support a more integrated financial services team. This is a significant project that needs to be properly resourced and managed. In our experience, where such projects are not effectively managed, the consequences can be significant. It is important that management and TCWG receive regular and appropriate assurances around this project, and we would expect internal audit to have a role in providing this assurance.

### **The way forward**

Matters arising from the financial statements audit and review of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources have been discussed with the Director of Finance and Corporate Resources.

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

### **Acknowledgment**

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

**Grant Thornton UK LLP**  
**September 2014**



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## Section 2: Audit findings

01. Executive summary

**02. Audit findings**

03. Value for Money

04. Fees, non audit services and independence

05. Communication of audit matters

We are anticipating issuing an unqualified opinion on the accounts by the 30 September national deadline.

# Audit findings

In this section we present our findings in respect of matters and risks identified at the planning stage of the audit and additional matters that arose during the course of our work. We set out on the following pages the work we have performed and findings arising from our work in respect of the audit risks we identified in our audit plan, presented to the Audit board in June 2014. We also set out the adjustments to the financial statements arising from our audit work and our findings in respect of internal controls.

## **Changes to Audit Plan**

We have not made any significant changes to our Audit Plan as previously communicated to you in June except for the areas highlighted below. These are all relatively minor in nature and relate to refinements on our approach to improve the efficiency of our work.

## **Audit opinion**

We anticipate that we will provide the Council with an unmodified opinion. Our audit opinion is set out in Appendix B.

# Audit findings against significant risks

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

In this section we detail our response to the significant risks of material misstatement which we identified in the Audit Plan. As we noted in our plan, there are two presumed significant risks which are applicable to all audits under auditing standards.

	Risks identified in our audit plan	Work completed	Assurance gained and issues arising
1.	<p><b>Improper revenue recognition</b></p> <p>Under ISA 240 there is a presumed risk that revenue may be misstated due to improper recognition</p>	<ul style="list-style-type: none"> <li>• review and testing of revenue recognition policies</li> <li>• testing of material revenue streams</li> <li>• review of unusual significant transactions</li> </ul>	<p>Our audit work has not identified any issues in respect of revenue recognition.</p>
2.	<p><b>Management override of controls</b></p> <p>Under ISA 240 there is a presumed risk of management over-ride of controls</p>	<ul style="list-style-type: none"> <li>• review of accounting estimates, judgements and decisions made by management</li> <li>• testing of journal entries</li> <li>• review of unusual significant transactions]</li> </ul>	<p>Our audit work has not identified any evidence of management override of controls. In particular the findings of our review of journal controls and testing of journal entries has not identified any significant issues.</p> <p>We set out later in this section of the report our work and findings on key accounting estimates and judgments.</p>

# Audit findings against other risks

In this section we detail our response to the other risks of material misstatement which we identified in the Audit Plan. Recommendations, together with management responses, are attached at Appendix A. We have made some small amendments to the approach agreed in the audit plan, and this is highlighted below.

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
<p><b>Operating expenses</b></p>	<p>Creditors understated or not recorded in the correct period</p>	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> <li>• documented our understanding of processes and key controls over the transaction cycle</li> <li>• undertaken walkthrough of the key controls to assess the whether those controls are designed effectively</li> <li>• cut off testing of purchase orders and goods received notes(both before and after year end) – here we have amended our approach by testing from full transactions listings</li> <li>• Review of the completeness of the reconciliations to the purchasing system.</li> </ul>	<p>Our audit work has not identified any significant issues in relation to the risk identified</p>
<p><b>Employee remuneration</b></p>	<p>Employee remuneration accrual understated</p>	<p>We have:</p> <ul style="list-style-type: none"> <li>• conducted a walkthrough of the key controls for this system at interim.</li> <li>• reviewed the payroll exception reporting and reconciliations in year to gain assurance over the completeness of employee remuneration recorded in the general ledger</li> <li>• reviewed the completeness of the payroll reconciliation to ensure that information from the payroll system can be agreed to the ledger and financial statements</li> <li>• Tested a sample of payments made in April &amp; May to ensure payroll expenditure is recorded in the correct year – here we have amended our approach to reviewing the full transactions listing rather than a sample.</li> <li>• Undertaken a review of monthly trend analysis of total payroll</li> </ul>	<p>Our audit work has not identified any significant issues in relation to the risk identified</p>

## Audit findings against other risks (cont.)

<b>Welfare expenditure</b>	Welfare benefit expenditure improperly computed (Valuation)	We have <ul style="list-style-type: none"><li>• conducted a walkthrough of the key controls for this system</li><li>• tested a sample of Council Tax Support for the period to end of February 2014</li><li>• tested in accordance with the methodology required to certify the Housing Benefit subsidy claim.</li><li>• tested Council Tax Discount</li></ul>	No significant matters have arisen from our work
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# Group audit scope and risk assessment

ISA 600 requires that as Group auditors we obtain sufficient appropriate audit evidence regarding the financial information of the components and the consolidation process to express an opinion on whether the group financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework.



Component	Significant?	Level of response required under ISA 600	Risks identified	Work completed	Assurance gained & issues raised
Bromsgrove Arts Development Trust	Yes	targeted	PPE valuation	The Council's interest in the 'Artrix Centre' is limited to an interest in the asset. All other transactions associate with running the centre are within a separate Trust, in which the Council has no interest. Our work has focussed on the valuation of the asset and the capital transactions.	Our audit work has not identified any issues in respect of the valuation of property and the associated capital accounting entries.

# Accounting policies, estimates & judgements

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

Accounting area	Summary of policy	Comments	Assessment
<b>Revenue recognition</b>	<ul style="list-style-type: none"> <li>Accounting policy 1.2 summarises the Council's approach to revenue recognition</li> </ul>	<p>The policy adopted is consistent with the prior year and the approach that is considered to be the industry 'norm'.</p> <p>The policy should reflect all material income streams and we have asked that the policy be updated to reflect council tax and NDR income streams.</p>	 <b>Amber</b>
<b>Judgements and estimates</b>	<p>Assumptions made about sources of estimation uncertainty is covered in note 3 for:</p> <ul style="list-style-type: none"> <li>Pensions liability</li> <li>Arrears/ bad debt provisions</li> <li>Earmarked reserves</li> <li>Provision for business rate appeals</li> </ul>	<p>Pensions liabilities : The council is reliant on the pensions administrator (Worcestershire County Council) and the actuary to provide this estimate. The note adequately describes the basis of the estimate. As part of our work we have considered whether it is appropriate to rely on the council experts for this estimate, and have judged that it is reasonable to do so.</p> <p>Provision for business rate appeals: the estimate has been considered as part of our detailed work on the collection fund. The approach adopted is consistent with our experience at other similar councils and is reasonable. No provision has been made for appeals not yet lodged as the Council has judged that it is not possible to make a reasonable estimate and has thus disclosed the potential for future claims in its contingent liability note.</p>	 <b>Green</b>



## Assessment

-  Marginal accounting policy which could potentially attract attention from regulators
-  Accounting policy appropriate and disclosures sufficient



-  Accounting policy appropriate but scope for improved disclosure

# Accounting policies, estimates & judgements

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

Accounting area	Summary of policy	Comments	Assessment
<b>Judgements and estimates - PPE</b>	<ul style="list-style-type: none"> <li>Note 1.18, outlines the accounting policies associated with PPE. Note 50 of the accounts sets out the Council's rolling programme of revaluations.</li> </ul> <p style="text-align: center;"><b>PWJ2</b></p>	<ul style="list-style-type: none"> <li>We are satisfied that the assets have been valued over a five year period and that the council has materially complied with the requirement that similar classes of assets are valued simultaneously.</li> <li>The Council House is being valued as an operational asset as this is the view of your independent valuer and we have no reason to challenge the assumption. As the asset is significantly empty and a decision has been made to sell the building, we consider that this is a significant assumption and should therefore be included in the significant estimates section of the accounts.</li> </ul>	 <b>amber</b>
<b>Other accounting policies</b>	<ul style="list-style-type: none"> <li>We have reviewed the Council's policies against the requirements of the CIPFA Code and accounting standards.</li> </ul>	<ul style="list-style-type: none"> <li>Stated accounting policies are consistent with CIPFA requirements and our testing has not identified any instance of non compliance with stated policies.</li> </ul> <p style="text-align: center;"><b>PWJ3</b></p>	 <b>green</b>

## Assessment

-  Marginal accounting policy which could potentially attract attention from regulators
-  Accounting policy appropriate and disclosures sufficient

-  Accounting policy appropriate but scope for improved disclosure



## Slide 16

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**PWJ2**

What does this sentence mean? Can you explain it more clearly please?

Phil W Jones, 16/09/2014

**PWJ3**

So are we disagreeing with this or do we accept te position? We need to be clearer about our stance.

Phil W Jones, 16/09/2014

# Adjusted misstatements

No significant adjustments have been made to the draft financial statements as none have been identified during the audit process. Some adjustments have been made to prior year comparators.

PWJ4

**Slide 17**

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**PWJ4**

**Are there none or is this incomplete?**

Phil W Jones, 16/09/2014

## Misclassifications & disclosure changes

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

Adjustment type	Value £'000	Account balance	Impact on the financial statements
1 Disclosure	Various	Various	There are a number of non material changes to the prior year comparator figures. A list of these has been provided to the finance team and they have agreed to add explanatory notes on these.
2 Disclosure	n/a	Accounting policies	No accounting policy was included on revenue recognition for council tax and business rates. Wording has been agreed with officers.
3 Disclosure	n/a	PPE	A line should be included in critical judgments on the assumptions on the valuation of the Council house.

# Unadjusted misstatements

There are no unadjusted misstatements

# Internal controls

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

Our audit included consideration of internal controls relevant to the preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control. 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.

These and other recommendations, together with management responses, are included in the action plan attached at Appendix A.

	Assessment	Issue and risk	Recommendations
1.	●	A part of our review of the AGS, we noted some areas of the constitution that were out of date. This included financial regulations, Fraud and corruption policy , whistleblowing policy, and the published members allowances scheme.	<ul style="list-style-type: none"> <li>Key documents should be updated as soon as possible. Any changes should be communicated to staff through team meetings and the induction programme. A rolling programme of review of key council documents contained in the constitution should be put in place. This should be extended to include review of general documents and reports retained on the council website, several of which are considerably out of date.</li> </ul>
2.	●	At our interim audit , we highlighted that we had identified some weakness in IT controls. Whilst we did not judge these as 'significant' and thus do not impact on our procedures, we have yet to receive a response to that report.	<ul style="list-style-type: none"> <li>Matters raised in our IT review should be responded to by management</li> </ul>
3.	●	Bank reconciliation: the reconciliation was overly complicated and included unnecessary processes	<ul style="list-style-type: none"> <li>The bank reconciliation process should be reviewed and streamlined to avoid unnecessary reconciling entries.</li> </ul>

## Assessment

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

## Other communication requirements

We set out below details of other matters which we are required by auditing standards to communicate to those charged with governance.

	Issue	Commentary
1.	<b>Matters in relation to fraud</b>	<ul style="list-style-type: none"> <li>We have previously discussed the risk of fraud with the Audit Committee in April. We have not been made aware of any other incidents in the period and no other issues have been identified during the course of our audit.</li> </ul>
2.	<b>Matters in relation to laws and regulations</b>	<ul style="list-style-type: none"> <li>We are not aware of any significant incidences of non-compliance with relevant laws and regulations.</li> </ul>
3.	<b>Written representations</b>	<ul style="list-style-type: none"> <li>A letter of representation has been requested from the Council.</li> <li>In particular, representations will be requested from management in respect of restructuring costs.</li> </ul>
4.	<b>Disclosures</b>	<ul style="list-style-type: none"> <li>Our review found no material omissions in the financial statements</li> </ul>
5.	<b>Matters in relation to related parties</b>	<ul style="list-style-type: none"> <li>We are not aware of any related party transactions which have not been disclosed</li> </ul>
6.	<b>Going concern</b>	<ul style="list-style-type: none"> <li>Our work has not identified any reason to challenge the Council's decision to prepare the financial statements on a going concern basis.</li> </ul>

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## Section 3: Value for Money

01. Executive summary

02. Audit findings

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04. Fees, non audit services and independence

05. Communication of audit matters



# Value for Money

## Value for money conclusion

The Code of Audit Practice 2010 (the Code) describes the Council's responsibilities to put in place proper arrangements to:

- secure economy, efficiency and effectiveness in its use of resources;
- ensure proper stewardship and governance; and
- review regularly the adequacy and effectiveness of these arrangements.

We are required to give our VFM conclusion based on two criteria specified by the Audit Commission which support our reporting responsibilities under the Code. These criteria are:

**The Council has proper arrangements in place for securing financial resilience** - the Council has robust systems and processes to manage effectively financial risks and opportunities, and to secure a stable financial position that enables it to continue to operate for the foreseeable future.

**The Council has proper arrangements for challenging how it secures economy, efficiency and effectiveness** - the Council is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.

## Key findings

### Securing financial resilience

We have considered the Council's arrangements to secure financial resilience against the following themes:

- Key financial performance indicators
- Financial governance
- Financial planning
- Financial control

Overall our work led us to conclude that the Council has adequate arrangements to secure financial resilience.

The Council has good levels of general fund reserves, which are well above the minimum set by the Council. Medium-term plans are not reliant on these reserves to balance the budget. Forward plans do include the need to make on-going savings, due to the expected reductions in central government grants.

Audit Commission published performance measures, based on published accounts, show that Council spending and balances are not significantly out of line with similar councils.

Improvements have been made at a service level in risk management and it is clear from presentations to the audit committee that risk management is becoming more embedded in management arrangements. To support good governance, the corporate risk register needs to more closely reflect corporate priorities. Key risks should be periodically considered at CMT and Cabinet as part of the Council's arrangements for managing its risks to delivering corporate priorities.

The Council has once again underspent significantly against the out-turn, forecast at Quarter 3. This was also the case in 2012/13 and 2011/12, indicating that improvements are still needed in the accuracy of forecasting. Better reporting and understanding of savings made against savings plans will help officers and members to understand and challenge the base budget. This remains a significant weakness in arrangements.

Internal audit has highlighted some weakness in internal controls, although overall financial controls in the council are appropriate and satisfactory. It is important that strong financial controls are maintained as services are reviewed as part of the transformation programme, and that any agreed recommendations made by internal audit are not deferred.

### **Challenging economy, efficiency and effectiveness**

We have considered the Council's arrangements to challenge economy, efficiency and effectiveness against the following themes:

- Prioritising resources
- Improving efficiency & productivity

The Council is committed to challenging its services through its transformation programme to achieve efficiencies that are based around improvements to the customer experience. The Council has a track record of delivering budgets with large levels of savings and Members and Directors are confident that the transformation programme will support delivery of future savings.

New strategic purposes were set in July 2013. These were not translated into a strategic or annual plan for 2013/14 or for 2014/15. We have seen that budgets are set with strategic purposes in mind and these appear to influence decisions around investment and savings. However without an annual strategic plan or even a year end service review, it is difficult to assess how effectively the Council is prioritising resources.

Performance measures are being developed to more effectively reflect the new corporate priorities. However there is currently no operational performance management system or routine measurement of the effectiveness of services at a corporate level.

In the past the Council has struggled to demonstrate the level of savings achieved through its transformation programme, in part because the Council's budget and monitoring processes lack transparency. As a result of this the savings delivered by transformation have not been capable of being distinguished from the efficiencies delivered by other budget measures. It is hence difficult to gauge the extent of the cost and quality improvements delivered by transformation, which in turn makes it difficult to assess whether this process will be able to deliver large future cost efficiencies.

The Council is in the process of committing to and implementing a number of large capital schemes. As part of our VFM work, we considered the arrangements that the Council has in place for considering and approving such schemes. In particular we considered the adequacy and transparency of reporting to members prior to the commitment being made.

A full business case should be provided to Members prior to a commitment being made to any large project, so that they are given the opportunity to consider and challenge. We note that in relation to the Council House/Parkside project, no business case was formally considered and approved by Members prior to a commitment being made. This omission is concerning given the scale of undertaking. The purpose of establishing and reporting a business case at the outset of a project is to set out the costs and benefits, so that management and Members are clear about the level of investment and the outcomes to be delivered. This would also set out for instance, the agreed basis of usage in relation to the Council House project, between the Council and its partners. More recently, reports have been presented to Members which provided more detail on the cost and benefits of the project.

It is pleasing to note that more detailed case has been presented to members in relation to the leisure centre, which is supported by reports from a number of external advisors. There are clearly risks associated with the town centre and leisure centre project which are acknowledged in reports and minutes of meetings. The Council will need to make sure there are robust risk management arrangements in place around these projects as they progress.

### **Overall VFM conclusion**

On the basis of our work, and having regard to the guidance on the specified criteria published by the Audit Commission, we are satisfied that in all significant respects the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2014.

We set out below our detailed findings against six risk areas which have been used to assess the Council's performance against the Audit Commission's criteria. We summarise our assessment of each risk area using a red, amber or green (RAG) rating, based on the following definitions:

<b>Green</b>	Adequate arrangements
<b>Amber</b>	Adequate arrangements, with areas for development
<b>Red</b>	Inadequate arrangements

The table below and overleaf summarises our overall rating for each of the themes reviewed:

Theme	Summary findings	RAG rating 2012-13	RAG rating 2013-14
<b>Key indicators of performance</b>	<p>The Council does not routinely report indicators of performance, financial or otherwise to committee. We understand that monitoring is done at service manager level and we have seen some data that is collected. We have obtained some indicators of performance directly from managers around sickness and revenues collection, and these show that the council is performing well in these areas.</p> <p>We have also considered Audit Commission performance profiles which are based on the published annual accounts. Council spending and balances are not significantly different to the average in these indicators.</p> <p>The Council does not currently have any borrowing. There are limited levels of capital reserves and the council is now planning to borrow to finance the capital programme.</p> <p>Overall the Council does not have liquidity issues, and based on the available information financial performance is satisfactory, with adequate levels of general fund balances.</p>	<b>Green</b>	<b>Green</b>
<b>Strategic financial planning</b>	<p>The Council has in place a medium term financial plan, which makes reasonable assumptions about future income and expenditure streams and other factors such as inflation and the impact of known future events.</p> <p>In recent years considerable slippage in the capital programme has occurred, which has happened again this year.</p> <p>The Council set new strategic ambitions in July 2013. These have yet to be translated into annual planning. Service managers are in the process of developing and testing performance measures.</p> <p>The budget process has some regard to strategic ambitions to provide a framework around the budget process and to influence decisions. However without a corporate plan and reported performance measures it is difficult to assess whether the Council's medium term financial plan is linked to its strategic priorities.</p>	<b>Green</b>	<b>Amber</b>

Theme	Summary findings	RAG rating 2012-13	RAG rating 2013-14
<b>Financial governance</b>	<p>There has been a commitment to sharing services between Bromsgrove and Redditch councils which has meant that many services now operate with a single management team and some are fully integrated. This has delivered recurring savings.</p> <p>There is also a strong commitment to transformation principles that are being adopted throughout the council. These factors all indicate that senior management recognise the need to change to both improve services and reduce costs.</p> <p>Whilst budget reporting has improved in terms of narrative, we continue to have concerns about the accuracy of the reporting as once again the outturn was not accurately forecast at Q3 (outturn was significantly better than forecast) This has also been the case for the last two years and as previously reported, this is likely to be due to a number of factors including:</p> <ul style="list-style-type: none"> <li>• Lack of understanding of outturn savings and thus recurring savings being included in following year budgets, possibly leading to inflated budgets being set. This is being reviewed for 14/15 as a means to deliver the current 'unidentified' savings.</li> <li>• Budget holders not accurately forecasting outturn, probably by not declaring underspends until the outturn.</li> </ul> <p>Whilst this outcome is positive in terms of the levels of balances held, it leads to a lack of confidence in both budget setting arrangements and financial control. Reporting of the capital programme is not given as high a profile as revenue reporting</p> <p>Financial reports to members are delayed (e.g.. Q1 report was not reported until September) which lessens their effectiveness as a management tool.</p> <p>Arrangements for risk management have improved year on year due to investment in the process. However the corporate risk register is still not being used as a management tool, to provide assurance around key risks and how they are being mitigated.</p>	<b>Amber</b>	<b>Amber</b>

<p><b>Financial control</b></p>	<p>This part of the assessment considers adequacy of budget setting, savings plan setting and monitoring, finance department resourcing, adequacy of financial systems and internal audit.</p> <p>A key member of the finance team has recently left and the department is currently going through a restructure. This provides some short term risks to both the effectiveness of the department and in the operation of key controls. A new financial ledger is to be implemented in 2014/15 which provides additional risks, that will need to be properly managed. However in the longer term these changes should both deliver savings and lead to a more effective team.</p> <p>Internal audit generally provides an effective service to the Council. There has been some turnover and staff sickness that has in the past led to difficulties delivering the agreed plan. Most of the internal audit plan was delivered by the time the AGS was prepared in June, although ideally the programme should be fully completed by then.</p> <p>Internal Audit has issued a number of reports this year giving moderate, limited and in one case, no assurance. Whilst not all these reports relate to key financial systems, this is slightly worse overall than in the previous year. In some cases, not all of internal audit recommendations have been agreed and implemented due to on-going transformation work.</p>	<p><b>Green</b></p>	<p><b>Green</b></p>
<p><b>Prioritising resources</b></p>	<p>The Council has implemented and continues to consider alternative methods of delivery as indicated by its shared services and transformation programmes. It seems likely that the Council may have to explore further sharing of services due to continuing budget pressures if the quality of services is to be improved and non essential services retained.</p> <p>As referred to under other themes, the Council does not yet have an annual planning process. The budget is set with some consideration of the strategic themes when making budget decisions. However without an annual or other corporate plan with measurable outcomes, it is difficult to assess the success of the council in prioritising its resources in line with strategic ambitions.</p>	<p><b>Not separately reported</b></p>	<p><b>Amber</b></p>

<p><b>Improving efficiency &amp; productivity</b></p>	<p>This part of the assessment considers whether costs are understood, delivery of savings , service redesign and effectiveness of key services.</p> <p>There is some overlap with the findings on this theme .</p> <p>It is clear that the Council wants to make changes that will deliver long term benefits to the Council, as this is key to the shared services and the separate transformation agenda. Most organisations will achieve annual savings through a mixture of recurring savings and short term fixes, but it is important that there is a clear understanding of this . It is increasingly important that savings achieved are recurring and that the Council is not reliant on short term fixes .</p> <p>Without an effective performance management system, it is not possible to assess the impact on services of decisions. There is no information on the performance of key services such as planning, leisure and housing as this information is not reported, and in a number of areas not measured. Much of the reported success measures are anecdotal and focus on limited areas of the organisation.</p> <p>However where we have obtained comparative information, e.g. revenues collection performance, performance is good. We are aware of some slippage in performance where we have undertaken specific work, for example in benefits there has been limited quality checks over at least the last year, although this is to be rectified.</p> <p>Whilst clearly change has occurred and continues that should inevitably improve efficiency and productivity, this is not reported and so it is not possible to measure success.</p>	<p><b>Not separately assessed</b></p>	<p><b>Amber</b></p>
<p><b>Management of natural resources</b></p>	<p>A high level assessment of this area is required this year and we were asked to consider whether the organisation produces reports on how it uses natural resources and whether this affects decision making.</p> <p>Officers were unable to provide specific information on this and thus we have assessed this as amber</p>	<p><b>Not assessed</b></p>	<p><b>Amber</b></p>

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## Section 4: Fees, non audit services and independence

01. Executive summary

02. Audit findings

03. Value for Money

**04. Fees, non audit services and independence**

05. Communication of audit matters

# Fees, non audit services and independence

We confirm below our final fees charged for the audit

## Fees

	Per Audit plan £	Actual fees £
Council audit	64,006	*64,906
Extra fee		
Grant certification	3,872	tbc
<b>Total audit fees</b>	<b>67,878</b>	<b>tbc</b>

The Audit Commission determines the scale fee for the audit. They have confirmed that the fee will be increased by £900 for all district councils to reflect the additional work around the new collection fund accounting requirements.

## Fees for other services

Service	Fees £
None	Nil

## Independence and ethics

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Auditing Practices Board's Ethical Standards and therefore we confirm that we are independent and are able to express an objective opinion on the financial statements.

We confirm that we have implemented policies and procedures to meet the requirements of the Auditing Practices Board's Ethical Standards.



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## Section 5: Communication of audit matters

01. Executive summary

02. Audit findings

03. Value for Money

04. Fees, non audit services and independence

05. Communication of audit matters

# Communication of audit matters to those charged with governance

International Standard on Auditing (ISA) 260, as well as other ISAs, prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table opposite.

The Audit Plan outlined our audit strategy and plan to deliver the audit, while this Audit Findings report presents the key issues and other matters arising from the audit, together with an explanation as to how these have been resolved.

## Respective responsibilities

The Audit Findings Report has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission ([www.audit-commission.gov.uk](http://www.audit-commission.gov.uk)).

We have been appointed as the Council's independent external auditors by the Audit Commission, the body responsible for appointing external auditors to local public bodies in England. As external auditors, we have a broad remit covering finance and governance matters.

Our annual work programme is set in accordance with the Code of Audit Practice ('the Code') issued by the Audit Commission and includes nationally prescribed and locally determined work. Our work considers the Council's key risks when reaching our conclusions under the Code.

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

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

# Appendices

# Appendix A: Action plan

Rec No.	Recommendation	Priority	Management response	Implementation date & responsibility
	Financial statements			
1	AGS to be updated to reflect the weaknesses in internal audit reports, including reports issued subsequent to the S151 signing the accounts.	medium	Agreed that the Internal Audit judgement in relation to weaknesses in control be included in the AGS	Jayne Pickering May 2015
2	Bank Reconciliation process should be reviewed and streamlined as it is currently unnecessarily complicated	low	Agreed that reconciliation process be reviewed prior to the closedown of 2014/15. This will be undertaken as part of the finance restructure work	Sam Morgan By March 2015
3	Procedures and policies contained in the Constitution should be kept under review on a rolling basis. In particular the Financial regulations and both the fraud and corruption and whistleblowing policies should be brought up to date.	medium	Agreed that out of date policies be brought up to date. A plan of updates to be in place to ensure all policies are reviewed.	Jayne Pickering/Sam Morgan Plan in place by December 14 with reviews commencing from January 2015
4	TCWG have regular updates on the progress of the ledger implementation project. Independent assurance on this should be provided by Internal audit at key stages in the project.	high	Discussions / Updates to be held with Internal Audit Verbal Update to Cabinet at each meeting	Sam Morgan November 2015
5	Corporate risk register to be better aligned with corporate priorities and to be routinely reported at a senior level including periodic reporting to cabinet	medium	Risk Register to be updated to reflect Strategic Purposes Report to Audit Board at six monthly intervals	Jayne Pickering March 2015

## Appendix A: Action plan (cont)

Rec No.	Recommendation	Priority	Management response	Implementation date & responsibility
	VFM conclusion			
6	Undertake a detailed review of 2013/14 outturn, to have a better understanding of where recurring savings can be reflected in the revised 2014/15 budget. 14/15 budget setting should include a review of vacancies and whether these should now be reflected in base budgets.	high	Detailed review of savings being undertaken to identify all recurring savings with Heads of Service. Review of vacancies as part of the budget process	Jayne Pickering / Sam Morgan / HOS November 2014
7	Consider how the Council can both accelerate and improve the accuracy of in year financial reporting.	high	Presentation to 4 <sup>th</sup> Tier to develop more robust forecasting and monitoring of budgets. Finance system to be used by budget holders to reflect more informed position on monitoring of financial position	Jayne Pickering / Sam Morgan January 2015
8	Accelerate the work around developing performance measures and embedding them into routine committee reporting procedures, and an operational performance management system. Ideally this should be in place for the 15/16 financial year, to support an annual plan- which should also be in place for the start of that year.	high	Management Team currently considering options for development of reporting framework of measures to enable members to consider the information.	Deb Poole / Rebecca Dunne March 2015
9	All significant projects, particularly for capital schemes, must be supported by a clearly communicated business case that is considered before approval is given to any schemes. Robust project management arrangements will need to be in place as capital projects proceed, which will include adequate reporting of progress and risk management to those charged with governance.	high	Improvements have already been made to the reporting arrangements around decisions on major capital items.	Jayne Pickering/ HOS Due date: on-going

# Appendix B: Audit opinion

**We anticipate we will provide the Council with an unmodified audit report**

## INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS BROMSGROVE DISTRICT COUNCIL

### Opinion on the financial statements

We have audited the financial statements of Bromsgrove District Council for the year ended 31 March 2014 under the Audit Commission Act 1998. The financial statements comprise the Movement in Reserves Statement, the Group Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Group Comprehensive Income and Expenditure Statement, the Balance Sheet, the Group Balance Sheet, the Cash Flow Statement and Collection Fund and the related notes.

The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013/14.

This report is made solely to the members of Bromsgrove District Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's Members as a body, for our audit work, for this report, or for the opinions we have formed.

### Respective responsibilities of the Executive Director and auditor

As explained more fully in the Statement of the Executive Director (Finance and Resources) Responsibilities, the Executive Director (Finance and Resources) is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom, and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

### Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Authority and Group's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Executive Director (Finance and Resources); and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the explanatory foreword to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

### Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the financial position of Bromsgrove District Council as at 31 March 2014 and of its expenditure and income for the year then ended;
- give a true and fair view of the financial position of the Group as at 31 March 2014 and of its expenditure and income for the year then ended; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013/14 and applicable law.

### Opinion on other matters

In our opinion, the information given in the explanatory foreword for the financial year for which the financial statements are prepared is consistent with the financial statements.

**Matters on which we report by exception**

We report to you if in our opinion the annual governance statement does not reflect compliance with 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007; we issue a report in the public interest under section 8 of the Audit Commission Act 1998; we designate under section 11 of the Audit Commission Act 1998 any recommendation as one that requires the Authority to consider it at a public meeting and to decide what action to take in response; or we exercise any other special powers of the auditor under the Audit Commission Act 1998.

We have nothing to report in these respects.

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

***Respective responsibilities of the Authority and the auditor***

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

We are required under Section 5 of the Audit Commission Act 1998 to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires us to report to you our conclusion relating to proper arrangements, having regard to relevant criteria specified by the Audit Commission.

We report if significant matters have come to our attention which prevent us from concluding that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

***Scope of the review of arrangements for securing economy, efficiency and effectiveness in the use of resources***

We have undertaken our audit in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission in October 2013, as to whether the Authority has proper arrangements for: securing financial resilience; and challenging how it secures economy, efficiency and effectiveness.

The Audit Commission has determined these two criteria as those 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 2014.

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

***Conclusion***

On the basis of our work, having regard to the guidance on the specified criteria published by the Audit Commission in October 2013, we are satisfied that, in all significant respects, *Bromsgrove District Council* put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2014.

***Certificate***

We certify that we have completed the audit of the financial statements of Bromsgrove District Council in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission.

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



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