

# The Audit Findings for Solihull Metropolitan Borough Council

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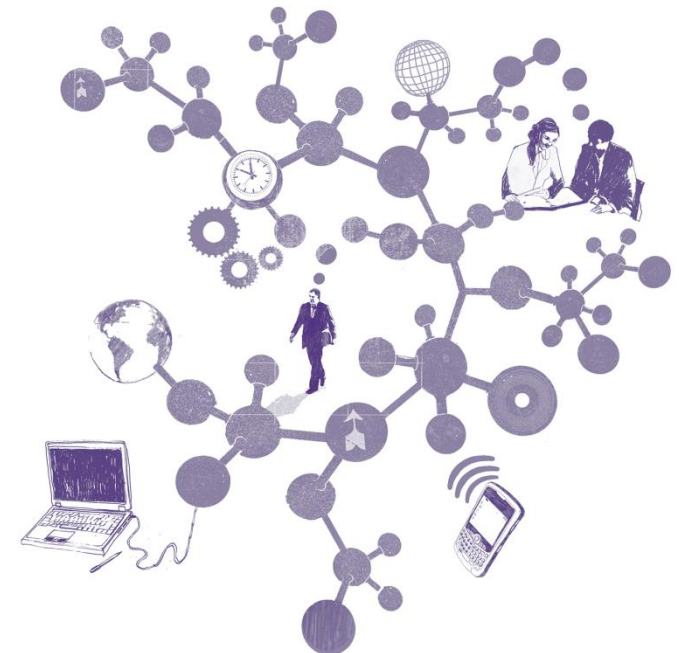
**Year ended 31 March 2014**

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

01. Executive summary

02. Audit findings

03. Value for Money

04. Fees, non audit services and independence

05. Communication of audit matters

The Council has again prepared its accounts and supporting working papers to a high standard, and there are only three items that we need to draw to your attention. Firstly, following last year's financial statements audit, officers agreed to re-assess whether the valuation basis for Coventry and Solihull Waste Disposal Company remained appropriate. To ensure the valuation is up to date, Officers and the Council's external advisors completed this work after the production of the draft accounts. The Council's external advisors determined that the Company should be valued on a different basis. The effect of this is to increase the valuation in the Council accounts from £2.575m to £25.908m.

Our audit also identified two disclosure amendments that your officers have agreed to in the financial statements. These do not affect the income or expenditure levels, or the level of usable year-end reserves.

We expect to conclude that you have made proper arrangements to secure economy, efficiency and effectiveness in your use of resources.

# Executive summary

## **Purpose of this report**

This report highlights the key matters arising from our audit of Solihull Metropolitan Borough Council's (the Council) financial statements for the year ended 31 March 2014. 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 25 February 2014.

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

- review of the final version of the financial statements;
- housing benefit payments testing;
- local council tax discount scheme testing;
- obtaining and reviewing the final management letter of representation;
- review of final version of the Annual Governance Statement;
- updating our post balance sheet events review, to the date of signing the opinion; and
- 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.

Other than changes caused by the revaluation of Coventry & Solihull Waste Disposal Company, we have not identified any adjustments affecting the Council's reported financial position. The draft and audited financial statements show net expenditure of £154,203k. In addition, we have identified two misclassification changes to the financial statements as shown on page 16.

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

- our audit went very well and we were able to complete our detailed testing as planned;
- officers were very responsive to our questions and adopted a positive attitude throughout;
- the valuation of the Coventry and Solihull Waste Disposal Company increased from £2.575m to £25.908m. We agreed the approach to the revised valuation with officers, and the increase was not as a direct result of our audit work this year; and
- we did not identify any other issues affecting the primary statements. The only changes made to the financial statements were to further improve clarity. Further details are set out in section 2 of this report.

### **Value for Money conclusion**

We are pleased to report that, based on our review of the Council's arrangements to secure economy, efficiency and effectiveness in its use of resources, we propose to give an unqualified VfM conclusion.

Further detail of our work on Value for Money is set out in section 3 of this report.

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

Officers submitted the WGA consolidation pack by 30 June in accordance with the revised national timetable. This was one month earlier than the previous year. We will complete our work in respect of the Whole of Government Accounts in accordance with the national timetable and issue our opinion by 3 October.

### **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.

Our work has not identified any control weaknesses which we wish to highlight for your attention.

Further details are provided within section 2 of this report.

### **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 Resources.

### **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

Subject to satisfactory clearance of outstanding matters, we plan to issue an audit report including an unqualified opinion on the financial statements.

Appendix A contains a copy of our draft audit report.

# 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 Committee on 7 March 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 changes to our Audit Plan as previously communicated to you on 7 March 2014.

## **Audit opinion**

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



# Audit findings against significant risks

"Significant risks often relate to significant non-routine transactions and judgemental matters. Non-routine transactions are transactions that are unusual, either due to size or nature, and that therefore occur infrequently. Judgemental 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> </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. We noted that journals over £250,000 are reviewed by the budget holder and that appropriate access controls over who can post journals are in place.</p> <p>We set out later in this section of the report our work and findings on key accounting estimates and judgements.</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.

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
<b>Operating expenses</b>	Creditors understated or not recorded in the correct period	<ul style="list-style-type: none"> <li>• Update our understanding and discuss the cycle with relevant personnel from the finance team and the Order, Processing &amp; Payments team.</li> <li>• Perform walkthrough tests of the controls identified in the cycle.</li> <li>• Testing of the key controls.</li> <li>• Substantive testing on transactions.</li> <li>• Cut off testing on pre and post year end transactions.</li> </ul>	Our audit work has not identified any issues in respect of operating expenses.
<b>Employee remuneration</b>	Employee remuneration accrual understated	<ul style="list-style-type: none"> <li>• Update our understanding and discuss the cycle with relevant personnel in Payroll.</li> <li>• Perform walkthrough tests of the controls identified in the cycle.</li> <li>• Substantive testing of year end balances to address any residual risks.</li> </ul>	Our audit work has not identified any issues in respect of employee remuneration.
<b>Welfare expenditure</b>	Welfare benefit expenditure improperly computed	<ul style="list-style-type: none"> <li>• Update our understanding and discuss the cycle with relevant personnel in the Income &amp; Awards and Benefits.</li> <li>• Perform walkthrough tests of the controls identified in the cycle.</li> <li>• Substantive testing via the HB COUNT work which provides assurances over the balances in the financial statements.</li> <li>• Review of key reconciliations that are performed between the Revenue and Benefits systems and the ledger.</li> </ul>	Our audit work to date has not identified any issues in respect of welfare expenditure.

## Audit findings against other risks (continued)

In this section we detail our response to the other risks of material misstatement which we identified in the Audit Plan.

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
<b>Housing Rent Revenue Account</b>	Revenue transactions not recorded	<ul style="list-style-type: none"> <li>• Update our understanding and discuss the cycle with relevant personnel at Solihull Community Housing.</li> <li>• Perform walkthrough tests of the controls identified in the cycle.</li> <li>• Substantive testing to address any residual risks.</li> </ul>	Our audit work has not identified any issues in respect of the housing rent account.
<b>Property, plant &amp; equipment</b>	PPE activity not valid	<ul style="list-style-type: none"> <li>• Walkthrough tests were completed in relation to the specific accounts assertion risks which we consider to present a risk of material misstatement to the financial statements.</li> <li>• Substantive testing to confirm the Council's rights &amp; obligations and the physical existence of assets.</li> <li>• Substantive testing to prove the accuracy of depreciation calculations in the asset register.</li> <li>• Substantive testing of year end balances to address any residual risks during the final audit.</li> <li>• Review of accounting estimates, judgements and decisions made by management.</li> </ul>	Our audit work has not identified any issues in respect of property, plant & equipment activity.
<b>Property, plant &amp; equipment</b>	Revaluation measurement not correct	<ul style="list-style-type: none"> <li>• Update our understanding and discuss the cycle with relevant personnel in the Valuation Team.</li> <li>• Perform walkthrough tests of the controls identified in the cycle.</li> <li>• Review of the Council's arrangements for instructing the Valuer.</li> <li>• Performance of procedures for relying on the work of the Valuer.</li> <li>• Performance of tests of detail on valuations.</li> <li>• Review of accounting estimates, judgements and decisions made by management including the assessment of whether valuations remain current between valuation dates.</li> </ul>	Our audit work has not identified any issues in respect of property, plant and equipment valuation.

# 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
Coventry & Solihull Waste Disposal Company	Yes	Targeted	Investments carrying value	<ul style="list-style-type: none"> <li>Review valuation of the Company obtained by the Council</li> <li>Review the Council's consolidation workings to ensure that they correctly derive from the component accounts.</li> </ul>	Our audit work has not identified any issues in respect of the consolidation of the Company. However, following receipt of the report of the external valuers, the valuation of Coventry and Solihull Waste Disposal Company increased from £2.575m to £25.908m.
Solihull Community Housing	Yes	Targeted	Recorded transactions not valid	<ul style="list-style-type: none"> <li>Substantive testing of Council transactions</li> <li>Review the Council's consolidation workings to ensure that they correctly derive from the component accounts.</li> </ul>	Our audit work has not identified any issues in respect of the consolidation of Solihull Community Housing.
Blythe Valley Innovation Centre	No	Analytical	Investments carrying value	<ul style="list-style-type: none"> <li>Review valuation of the Company obtained by the Council</li> <li>Review the Council's consolidation workings to ensure that they correctly derive from the component accounts.</li> </ul>	Our audit work has not identified any issues in respect of Blythe Valley Innovation Centre.

**Targeted** - the group audit team identified one or more reasonably possible risks at a component level and has determined that audit procedures at the component level are needed to respond to the risk(s). The group audit team selects this approach whenever sufficient appropriate audit evidence for the audit of the group can be obtained by performing audit procedures that respond to the identified risk(s).

**Analytical** - is applied to components that are not individually significant. The group audit team selects this approach when the component is not significant and the risks can be addressed sufficiently by applying analytical procedures at the group level.

# 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>	Revenue from the provision of services is recognised when the Council can measure reliably the percentage of completion of the transaction and it is probable that economic benefits or service potential associated with the transaction will flow to the Council.	Our review of your revenue recognition policy has not highlighted any issues which we wish to bring to your attention.	 (Green)
<b>Judgements and estimates</b>	Key estimates and judgements include: <ul style="list-style-type: none"> <li>• useful life of capital equipment</li> <li>• pension fund valuations and settlements</li> <li>• revaluations</li> <li>• impairments</li> <li>• provisions</li> <li>• accounting for PFI schemes</li> <li>• accounting for group interests</li> </ul>	We have considered: <ul style="list-style-type: none"> <li>• Appropriateness of the policy under relevant accounting framework</li> <li>• Extent of judgement involved</li> <li>• Potential financial statement impact of different assumptions</li> <li>• Adequacy of disclosure of the accounting policy</li> </ul> <p>Our review of key estimates and judgements has not highlighted any issues which we wish to bring to your attention.</p>	 (Green)
<b>Other accounting policies</b>	We have reviewed the Council's policies against the requirements of the CIPFA Code and accounting standards.	Our review of accounting policies has not highlighted any issues which we wish to bring to your attention.	 (Green)

## Assessment

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

 (Amber) Accounting policy appropriate but scope for improved disclosure

 (Green) Accounting policy appropriate and disclosures sufficient

# Adjustments

One adjustment to the draft financial statements has been identified during the audit process. We are required to report all adjustments to those charged with governance, whether or not the financial statements have actually been adjusted by management. The table below summarises the adjustments arising from the audit which have been processed by management.

## Impact of adjustments

All adjustments are set out below along with the impact on the primary statements and the reported financial position.

Detail	Comprehensive Income and Expenditure Account £'000	Balance Sheet £'000	Impact on total net expenditure £'000
1 Note 19 (b) - Available-for-sale financial assets - No active market (Equity Instruments) included a valuation of £2,575k for Coventry & Solihull Waste Disposal Company (CSWDC). This was the value of the preference shares owned by the Council. The company was valued on this basis as it was felt there was no active market for the company. As stated in the Note, Officers requested a review of the valuation basis from the Council's external valuers and this was received in July. The valuation was timed so that it would reflect the latest audited CSWDC accounts for the year ended 31 March 2014. The external valuers concluded there were comparable companies to use as a basis for the valuation. The valuation basis has therefore changed and is now based on the value of the company rather than the value of the preference shares. The valuation therefore now also includes the Council's share of the ordinary shares, amounting to £23,333k. As a result, the valuation in the Council's accounts has increased from £2,575k to £25,908k. This has resulted in a new line towards the bottom of the Comprehensive Income and Expenditure Account – "Surplus on revaluation on Available for Sale Financial Instruments". This is now shown as £23,333k. The effect of this is to increase the Balance Sheet value by £23,333k. There is no effect on actual income, expenditure or usable reserves.	23,333	23,333	Nil
<b>Overall impact</b>	<b>£23,333</b>	<b>£23,333</b>	<b>£Nil</b>

## Unadjusted misstatements

We have not identified any misstatements requiring adjustment to the draft financial statements which officers have declined to make.

## Internal controls

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

Our audit included consideration of internal controls relevant to the preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control. We have not identified any matters that are of sufficient importance to merit being reported to you.

## 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. We have no significant disclosure changes to report.

Adjustment type	Value £'000	Account balance	Impact on the financial statements
1 Misclassification	566	Note 45 – Grant Income	The note included £58,001k for Housing and Council Tax Benefits Scheme grant income. This was overstated by £566k which should have been disclosed in Other revenue Grants, Contributions and Donations. Officers agreed to the adjustment. There was no impact on total income received.
2 Misclassification	498	Group Accounts	The Group Accounts included £498k cash in transit in respect of Solihull Community Housing which had actually been received by the Council by 31 March. The overall change is a £498k movement between creditors and cash on the Group Statements. There is no net effect.



# 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 not been made aware of any significant incidents in the period and no other issues have been identified during the course of our audit procedures.</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 standard letter of representation has been requested from the Council.</li> </ul>
4.	<b>Disclosures</b>	<ul style="list-style-type: none"> <li>Our review identified three additional disclosures to improve the presentation of the financial statements as reported to you above.</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

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04. Fees, non audit services and independence

05. Communication of audit matters

The Council continues to have robust arrangements to deliver value for money. The 2013/14 financial outturn showed a £200,000 favourable variance on revenue, after contributing £2.9m to reserves and carrying forward £940,000 into 2014/15. All Cabinet portfolio areas showed favourable variances against budget.

The Medium Term Financial Strategy shows a challenging but achievable position, with many savings already having been delivered.

# 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 highlighted that Members and Officers continue to work well together to ensure that the Medium Term Financial Strategy (MTFS) is realistic and reflects the Council's objectives. Annual budgets are thoroughly scrutinised before approval. Robust and timely budget monitoring and reporting highlights any issues in a timely manner. The Council has a sound level of reserves and is well placed to deliver the MTFS over the three year period.

### 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

Overall our work highlighted that the Member led Budget Strategy Group identifies potential savings which are then considered by appropriate committees and Cabinet before the final budget is agreed by Full Council. The Aligning Resources to Our Priorities (ARTOP) Board continues to have a crucial role in monitoring delivery. Papers presented clearly demonstrate a comprehensive, thorough and wide ranging approach. The approach can be summed up in an extract from one of the reports – "It is important to emphasise that the overriding principle of the service redesign was to improve the service to the customer which in turn has released capacity to deliver savings". The Council has been forward thinking and innovative in delivering savings. For example, early payment of past pension costs and bringing some of the Solihull Community Housing functions back in house.

# Value for Money

Our Audit Plan explained that for both Local Authorities with Adult Social Services and CCGs we identified the Better Care Fund (BCF) as an area of focus in the initial risk VfM risk assessment. We therefore conducted cross-cutting work in conjunction with colleagues to ensure that, as a health economy, Solihull has appropriate arrangements in place to address the challenges and requirements of the BCF.

Our work focused on the arrangements in place to work with other organisations to develop and submit the BCF Plan. We are able to conclude that the Council to date has achieved the timescale and assurance requirements set by NHS England.

Our work identified that the BCF has good joint working with Solihull CCG and the reports were prepared as required and submitted to the Health and Well Being Board in accordance with the national timetable.

The Council will need to continue working with BCF partners to ensure the opportunities afforded are seized and the health benefits for the people of Solihull are realised

## **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>	The Council continues to be under borrowed against its prudential indicators. There are no adverse financial ratios that we are aware of, and the Council continues to be financially sound. Financial forecasting and budget monitoring are robust.	<b>Green</b>	<b>Green</b>
<b>Strategic financial planning</b>	<p>The MTFs states "A clear priority for the Council in terms of financial planning is to ensure that the financial strategy is not reliant on ongoing contributions from working balances and this is achieved by 2016/17". The MTFs is underpinned by realistic assumptions on key variables, and is designed to deliver the Council priorities. The financial challenges remain with significant cashable savings required - £5.9m in 2014/15, £13.8m in 2015/16 and £6.5m in 2016/17. One off savings from both the release of specific reserves (£2.3m) and treasury management (£4m) have been identified to help balance the medium term position.</p> <p>The Council continues to think in the long term as well as short. For example, discussions to facilitate the expansion of the Touchwood Shopping Centre and the UK Central development.</p>	<b>Green</b>	<b>Green</b>
<b>Financial governance</b>	The leadership team, including senior members, are aware of the challenging financial position and the need to make savings. Members are well briefed and well informed by the Director of Resources and his team. Both revenue and capital budgets are reported to Cabinet quarterly. Given the size of the Council, reporting is at an appropriate level of detail.	<b>Green</b>	<b>Green</b>

Theme	Summary findings	RAG rating 2012-13	RAG rating 2013-14
<b>Financial control</b>	The Council has a history of preparing budgets which are realistic - demonstrated by meeting them year on year. In year reporting shows very little fluctuation. The Council has a prudent approach to financial planning and forecasting. Savings are identified well in advance by the Budget Strategy Group and delivery is reported to the ARTOP Board.	<b>Green</b>	<b>Green</b>
<b>Prioritising resources</b>	<p>The Council Plan 2014-18 streamlined and re-focused the Council priorities. The overall purpose is "Lives not services". The Plan sets four priorities:</p> <ul style="list-style-type: none"> <li>• Improve Health and Wellbeing</li> <li>• Managed Growth</li> <li>• Build Stronger Communities</li> <li>• Deliver Value</li> </ul> <p>The MTFS is used as a basis from which to deliver the Council priorities. Annual budgets are then derived from the MTFS.</p>	<b>Green</b>	<b>Green</b>
<b>Improving efficiency &amp; productivity</b>	The ARTOP Board comprises senior officers, with individual budget / departmental managers attending for their items. We can see that there is a presentation and discussion about each of the savings areas, and then the ARTOP Board decides which ones can be classified as "green" ie. achieved. One of the reports we considered was looking at waste collection with a view to reducing the numbers by one team, saving £157,000 each year. The work done on this review identified that, while savings cannot be made by reducing the number of vehicles and staff, there is scope to make other efficiencies which will achieve the same savings. Officers and the ARTOP Board therefore have an open mind about how to deliver savings while maintaining service quality.	<b>Green</b>	<b>Green</b>

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

01. Executive summary

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05. Communication of audit matters

The audit fee has increased by £1,470 from previously reported in respect of work on material business rates balances. This additional work was necessary as auditors are no longer required to carry out work to certify NDR3 claims.

In our Audit Plan we reported that one of our audit team has a long-standing friendship with an officer in your economic development team. We ensured that this auditor did not undertake any audit work involving economic development. We have no other independence issues to report.

# Fees, non audit services and independence

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

## Fees

	Per Audit plan £	Actual fees £
Council audit	176,580	178,050
Grant certification	17,000	TBC
<b>Total audit fees</b>	<b>193,580</b>	<b>TBC</b>

There is additional fee of £1,470 in respect of work on material business rates balances. This additional work was necessary as auditors are no longer required to carry out work to certify NDR3 claims. The additional fee is 50% of the average fee previously charged for NDR3 certifications for Metropolitan District Councils and is subject to agreement by the Audit Commission.

We have not yet completed our grant certification work. We will report the final fee in our Grant Certification Report.

## Fees for other services

Service	Fees £
Certification of an ERDF Grant Claim which falls outside of the Audit Commission certification arrangements.	2,400

## 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.

Ethical standards and International Standards on Auditing (ISA) 260 require us to give you full and fair disclosure of matters relating to our independence. In this context, we disclose the following to you:

One of our audit team has a long-standing friendship with an officer in your economic development team. We will ensure that this auditor does not undertake any audit work involving economic development.



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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

Audit matters have been communicated appropriately.

# 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.

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

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

## **INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SOLIHULL METROPOLITAN BOROUGH COUNCIL**

### **Opinion on the financial statements**

We have audited the financial statements of Solihull Metropolitan Borough 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, the Group Cash Flow Statement, the Housing Revenue Account Income and Expenditure 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 Solihull Metropolitan Borough 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 Director of Resources and auditor**

As explained more fully in the Statement of the Director of Resources' Responsibilities, the Director of 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 Director of 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 Solihull Metropolitan Borough 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, Solihull Metropolitan Borough 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 Solihull Metropolitan Borough 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

Colmore Plaza  
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Birmingham  
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26 September 2014



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