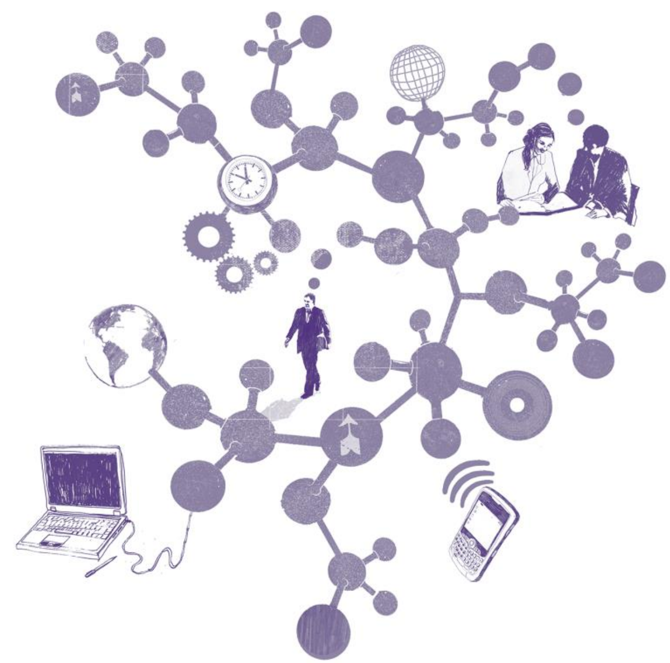
DRAFT

This version of the report is a draft. Its contents and subject matter remain under review and its contents may change and be expanded as part of the finalisation of the report.

The Audit Findings for Solihull Metropolitan Borough Council

Year ended 31 March 2016

September 2016



Mark Stocks
Partner
T 0121 232 5437
E mark.c.stocks@uk.gt.com

Neil Preece
Audit Manager
T 0121 232 5292
E neil.a.preece@uk.gt.com

Lauren McHugh
Assistant Manager
T 0121 232 5368
E lauren.a.mchugh@uk.gt.com

DRAFT

Private and Confidential

Solihull Metropolitan Borough Council
Civic Centre
Solihull
West Midlands
B90 9QS

Grant Thornton UK LLP
Colmore Plaza
20 Colmore Circus
BIRMINGHAM
West Midlands
B4 6AT

T +44 (0)121 212 4000

www.grant-thornton.co.uk

September 2016

Dear Member

Audit Findings for Solihull Metropolitan Borough Council for the year ending 31 March 2016

This Audit Findings report highlights the key findings arising from the audit for the benefit of those charged with governance (in the case of Solihull Metropolitan Borough Council, the Audit Committee), as required by International Standard on Auditing (UK & Ireland) 260, the Local Audit and Accountability Act 2014 and the National Audit Office Code of Audit Practice. Its contents have been discussed with officers.

As auditors we are responsible for performing the audit, in accordance with International Standards on Auditing (UK & Ireland), which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities for the preparation of the financial statements.

The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed primarily for the purpose of expressing our opinion on the financial statements and giving a value for money conclusion. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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

Yours faithfully

Mark Stocks

Contents

Section 1: Executive summary

The Council has again prepared its accounts and supporting working papers to a high standard. This year we have been able to work with officers to finish the audit work significantly earlier than previous years. This lays a good foundation for meeting the requirement to complete the 2017/18 audit by the end of July.

There has been one amendment to the financial statements. This does not affect the income or expenditure levels, or level of usable year-end reserves. Officers have also agreed to a number of enhancements to disclosure notes to better comply with the requirements.

We expect to provide an unqualified audit opinion and have nothing to report for our Value for Money Conclusion.

Purpose of this report

This report highlights the key issues affecting the results of Solihull Metropolitan Borough Council ('the Council') and the preparation of the group and Council's financial statements for the year ended 31 March 2016. 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 (UK & Ireland) 260, and the Local Audit and Accountability Act 2014 ('the Act').

Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion, the Council's financial statements give a true and fair view of the financial position of the Council and its income and expenditure for the year and whether they have been properly prepared in accordance with the CIPFA Code of Practice on Local Authority Accounting.

We are also required to consider other information published together with the audited financial statements, whether it is consistent with the financial statements and in line with required guidance.

We are required to carry out sufficient work to satisfy ourselves on whether the Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources ('the value for money (VFM) conclusion').

Auditor Guidance Note 7 (AGN07) clarifies our reporting requirements in the Code and the Act. We are required to provide a conclusion whether in all significant respects, the Council has put in place proper arrangements to secure value for money through economic, efficient and effective use of its resources for the relevant period.

The Act also details the following additional powers and duties for local government auditors, which we are required to report to you if applied:

- a public interest report if we identify any matter that comes to our attention in the course of the audit that in our opinion should be considered by the Council or brought to the public's attention (section 24 of the Act);
- written recommendations which should be considered by the Council and responded to publicly (section 24 of the Act);
- application to the court for a declaration that an item of account is contrary to law (section 28 of the Act);
- issue of an advisory notice (section 29 of the Act); and
- application for judicial review (section 31 of the Act).

We have nothing to report on these areas and we have not used any of these powers.

We are also required to give electors the opportunity to raise questions about the accounts and consider and decide upon objections received in relation to the accounts under sections 26 and 27 of the Act. We have not received any questions or objections.

Introduction

In the conduct of our audit we have not had to alter or change our audit approach, which we communicated to you in our Audit Plan dated 14 March 2016.

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

- review of the final version of the financial statements;
- obtaining and reviewing the management letter of representation;
- 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 commencement of our work, in accordance with the agreed timetable.

Key audit and financial reporting issues

Financial statements opinion

There has been one adjustment affecting the group and Council's reported financial position (details are recorded in section two of this report). The draft and audited financial statements for the year ended 31 March 2016 both recorded net expenditure on cost of services of £155,714k. The value of Council assets increased by £1,439k following an updated valuation for Birmingham Airport. We have also recommended a number of adjustments to improve the presentation of the financial statements.

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

- Comprehensive working papers were provided at the start of the audit, and officers again supported the audit team well in delivery of the work;
- we were able to conduct our detailed testing as planned;
- the draft financial statements showed £79,188k of investment properties being reclassified as operational properties in year. This means that they are held for purposes other than capital appreciation or rental income. A review of classification was undertaken and all non current assets classes as Investment Properties were re-assessed. Where appropriate a number of properties were reclassified as Operational Land and Buildings. In reviewing the working papers supplies to support the reclassification we have not been provided with sufficient formal decisions as evidence to support the transfer of two assets, totalling £1,904k, or why two assets totalling £1,658k were transferred in 2015/16 rather than earlier years. While we can accept the valuer's professional judgement that these transfers are shown correctly in the accounts, we are seeking specific confirmation from Members in our Letter of Representation that they support the reclassification. Please see page 16 for further details;
- the valuation of the Council's share of Birmingham Airport was confirmed during the audit and increased by £1,439k. This was reflected in the Balance Sheet by an increase in Long Term Investments and Unusable Reserves, and in the CIES as an increase in Other Comprehensive Income and Expenditure;
- Note 14 - Fair values of Assets and Liabilities was updated to include an additional disclosure note showing the Council's equivalent fair value of PFI contracts. The fair value disclosed in the additional disclosure note is £106,110k. The note includes Officers' view that the obligation for the debt remains with the service provider and therefore the Council does not have an obligation for this third party debt or to disclose a fair value. Some authorities have interpreted the guidance differently and disclosed this information in their accounts. There is no change to the CIES and Balance Sheet for this change;
- the financial statements include the Council's share of the value of Coventry & Solihull Waste Disposal Company. The total value of the Company is £70m, and this is split between the two councils. The valuation of the Council's share is £23.333m. Our valuation team believe that this valuation is at the high end of their expectations. While there is no impact on the financial statements the valuation may differ from the open market value of the Company should the Council decide to sell its' shares; and
- some other changes to disclosure notes to enhance compliance with the CIPFA Code of Practice requirements.

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

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

Other financial statement responsibilities

As well as an opinion on the financial statements, we are required to give an opinion on whether other information published together with the audited financial statements is consistent with the financial statements. This includes if the Annual Governance Statement does not meet the disclosure requirements set out in the CIPFA/SOLACE guidance or is misleading or inconsistent with the information of which we are aware from our audit.

We did not find any issues in relation to this.

Controls

Roles and responsibilities

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

Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we report these to the Council.

Findings

We draw your attention in particular to control issues identified in relation to our work on your IT controls. The report notes the positive direction of travel which has been made since the last report in September 2015 and makes a further ten recommendations which have been agreed.

Further details are provided in a separate report presented to the Audit Committee.

Value for Money

Based on our review, we are satisfied that, in all significant respects, the Council had proper arrangements in place to secure economy, efficiency and effectiveness in its use of resources.

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

Other statutory powers and duties

We have not identified any issues that have required us to apply our statutory powers and duties under the Act.

Grant certification

In addition to our responsibilities under the Code, we are required to certify the Council's Housing Benefit subsidy claim on behalf of the Department for Work and Pensions. At present our work on this claim is in progress and is not due to be finalised until 30 November 2016. We will report the outcome of this certification work through a separate report to the Audit Committee which is due in January 2017.

The way forward

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

Acknowledgement

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

Grant Thornton UK LLP
September 2016

Section 2: Audit findings

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.

Materiality

In performing our audit, we apply the concept of materiality, following the requirements of International Standard on Auditing (UK & Ireland) (ISA) 320: Materiality in planning and performing an audit. The standard states that 'misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements'.

As we reported in our audit plan, we determined overall materiality to be £9,032k (being 2% of gross revenue expenditure). We have considered whether this level remained appropriate during the course of the audit and have made no changes to our overall materiality.

We also set an amount below which misstatements would be clearly trivial and would not need to be accumulated or reported to those charged with governance because we would not expect that the accumulated effect of such amounts would have a material impact on the financial statements. We have defined the amount below which misstatements would be clearly trivial to be £451,600. This remains the same as reported in our audit plan.

As we reported in our audit plan, we identified the following items where we decided that separate materiality levels were appropriate. These remain the same as reported in our audit plan.

Balance/transaction/disclosure	Explanation	Materiality level
Disclosures of officers' remuneration, salary bandings and exit packages in notes to the statements	Due to public interest in these disclosures and the statutory requirement for them to be made.	£10k
Disclosure of auditors' remuneration in notes to the statements	Due to public interest in these disclosures and the statutory requirement for them to be made.	£10k
Cash and cash equivalents	Although the balance of cash and cash equivalents is immaterial, all transactions made by the Council affect the balance and it is therefore considered to be material by nature. We will apply our trivial level to this balance.	£452k
Related Party Transactions	Related party transactions have to be disclosed if they are material to the Council or to the related party.	Any errors identified by testing will be assessed individually, with due regard given to the nature of the error and its potential impact on users of the financial statements. We are unable to quantify a materiality level as the concept of related party transactions takes in to account what is material to both the Council and the related party.

DRAFT

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 (UK&I) 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.	**The revenue cycle includes fraudulent transactions** Under ISA (UK&I) 240 there is a presumed risk that revenue may be misstated due to the improper recognition of revenue. This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition. Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the Council, we have determined that the risk of fraud arising from revenue recognition can be rebutted for the majority of income streams, because: • there is little incentive to manipulate revenue recognition • opportunities to manipulate revenue recognition are very limited • the culture and ethical frameworks of local authorities, including Solihull Metropolitan Borough Council, mean that all forms of fraud are seen as unacceptable. However, for the occurrence/existence of other income and receivables we consider the risk of improper revenue recognition to be valid.	• Analysis of the total income categorised as fees, charges and other income to identify the methods by which the Council receives income and the proportion of income that is received by each method. • Documentation of the controls in place around each method of income. • Substantive testing of other revenue balances to ensure that transactions covering the entire period are tested in order to provide assurance that invoices have been raised appropriately and subsequently paid.	Our audit work has not identified any issues in respect of revenue recognition.

DRAFT

Audit findings against significant risks (continued)

	Risks identified in our audit plan	Work completed	Assurance gained and issues arising
2.	**Management over-ride of controls** Under ISA (UK&I) 240 it is presumed that the risk of management over-ride of controls is present in all entities.	• Review of accounting estimates, judgments and decisions made by management. • Walkthrough of journal approval process. • Testing of journal entries. • Review of unusual significant transactions.	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. In our Audit Findings Report last year we noted that not all of the Council's journal entries are required to be separately and independently authorised. Every capital journal, regardless of value, is approved. For revenue journals, only the financial operations team can process journals, but there is no approval process for journals below £250,000. While our journals testing did not identify any issues, we discussed this with officers who considered if the approval process required review. Officers reported their findings back to us in May. The report noted "On review of the staff within financial operations that can enter journals two officers now had roles actively working within the service. These two staff have had their access rights to create and input journals removed". Officers' report considered all journals between the value of £100,000 - £250,000 for the period 1st April 2015 to 15th March 2016. The report set out, for each journal type, the alternative approvals in place. We have conducted a walkthrough of each of those journal types and are satisfied that the approvals process operates as intended. Officers concluded that "the additional resources required to operate a further system to approve all the actual journals between the stated range would not significantly reduce the risk of material misstatement."

DRAFT

Audit findings against significant risks (continued)

We have also identified the following significant risk of material misstatement from our understanding of the Council. We set out below the work we have completed to address this risk.

	Risks identified in our audit plan	Work completed	Assurance gained and issues arising
3.	**Valuation of pension fund net liability** The Council's pension fund asset and liability as reflected in its balance sheet represent significant estimates in the financial statements.	• Identification of the controls put in place by management to ensure that the pension fund liability is not materially misstated. We also assessed whether these controls were implemented as expected and whether they are sufficient to mitigate the risk of material misstatement. • We reviewed the competence, expertise and objectivity of the actuary who carried out your pension fund valuation. We gained an understanding of the basis on which the valuation was carried out. • We undertook procedures to confirm the reasonableness of the actuarial assumptions made. • We reviewed the consistency of the pension fund asset and liability and disclosures in notes to the financial statements with the actuarial report from your actuary.	Our audit work has not identified any issues around the controls in place or the competence of, and assumptions made, by the actuary. We agreed with officers an additional disclosure note to show the sensitivity of the assets and liabilities to changes in the key assumptions used by the actuary.

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
Employee remuneration	Employee remuneration accruals understated (Remuneration expenses not correct)	We have undertaken the following work in relation to this risk: • Documented the processes and controls in place around the accounting for Employee Remuneration. • Carried out a walkthrough test to confirm the operation of controls is in line with our understanding and that these controls are operating effectively. • Reviewed monthly trend analysis of payments to identify any usual or irregular movements which would then be investigated. • Reviewed the monthly payroll reconciliation to ensure that information from the payroll system can be agreed to the ledger and the financial statements. • Substantive testing of employees for accuracy of payment and the agreement of employment remuneration disclosures to supporting documentation.	Our audit work has not identified any significant issues in relation to the risk identified.

Audit findings against other risks (continued)

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
Operating expenses	Creditors understated or not recorded in the correct period (Operating expenses understated)	We have undertaken the following work in relation to this risk: • Documented the processes and controls in place around the accounting for operating expenses. • Carried out a walkthrough test to confirm the operation of controls is in line with our understanding and that these controls are operating effectively. • Tested the completeness of the subsidiary system (purchase ledger) interfaces with the ledger. • Documented the processes in place for month and year end accruals. • Conducted cut off testing of purchase orders and goods received notes. • Tested a sample of goods received that have not yet been invoiced, to identify any items which have not been accrued correctly. • Completed substantive testing of a sample of operating expenses to ensure they have been accurately accounted for and are in the correct period.	Our audit work has not identified any significant issues in relation to the risk identified.

Group audit scope and risk assessment

ISA (UK&I) 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
Solihull Community Housing	Yes	Targeted*	Recorded transactions not valid	• Substantive testing of Council transactions. • Review of the Council's consolidation workings to ensure that they correctly derive from the component accounts.	Our audit work has not identified any issues in respect of the work performed.
Coventry and Solihull Waste Disposal Company	Yes	Targeted*	Investments carrying value	• Review valuation of the Company obtained by the Council. • Review the Council's consolidation workings to ensure that they correctly derive from the component accounts.	Our audit work has not identified any issues in respect of the work performed. However, our valuation team believe that the Company valuation of £70m is at the high end of their expectations. The Council's share of the Company is shown in the accounts (Note 15) as £23.333m.The valuation is based on future earnings predictions, which is a common approach. In our opinion however, the Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA) multiple applied of 9.0x to the forecast EBITDA of £8.1m is at the high end of a reasonable range. While we are not proposing any changes to the financial statements, officers and Members should be aware that, while there is no impact on the financial statements, the valuation may differ from the open market value of the Company should the Council decide to sell its' shares.
Blythe Valley Innovation Centre	No	Analytical**	Investment carrying value	• Review the Council's consolidation workings to ensure that they correctly derive from the component accounts.	Our audit work has not identified any issues in respect of the work performed.

*Targeted – the group audit team identified one or more potential risks of material misstatement 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). Audit procedures being targeted by auditing either an account balance, class of transactions or disclosures.

**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.

DRAFT

Significant matters discussed with management

	Significant matter	Commentary
1.	Note 11 – Investment Property – states "In response to the revision of the Council Plan and its priorities, in 2015/16 a review of classification for investment properties was undertaken to ensure the reasons for holding the investment properties had not changed. This was undertaken by applying a criteria test. Properties that have been reclassified under this criteria have been assessed as having an operational purpose, rather than solely to earn rentals and/or for capital appreciation." The financial statements include a critical judgement in respect of this reclassification – "In accordance with International Accounting Standard (IAS) 40 Investment property is defined as used solely to earn rentals and/or for capital appreciation. This assessment criteria has been used since IFRS was adopted. In 2015/16 a review of the classification was undertaken and all non current assets classed as Investment Properties were re-assessed by the Strategic Land and Property Team in conjunction with Financial Operations by applying a criteria test. Where appropriate a number of properties were reclassified as operational Other Land and Buildings under the Property, Plant & Equipment category. Properties that have been reclassified under this criteria have been assessed as having an operational purpose, rather than solely to earn rentals and/or for capital appreciation." As a result of this, £79,188k of investment properties were reclassified as operational properties.	We discussed this reclassification in detail with Council valuers and the accountancy team. We also conducted detailed testing on a number of the reclassified assets. The purpose of our work was to: 1) Obtain appropriate evidence why these assets are now held for operational rather than investment purposes. We understand that some of the reclassified properties are, or may be developed, but, in some cases, this will lead to higher business rates. 2) Check that the reclassifications are clearly linked to Council Priorities. 3) Obtain and review reports to Members that clearly set out the economic regeneration / development aspect. We explained to Officers that there needs to be a clear social purpose, rather than simply making the assets larger to generate more business rates or rental income. 4) We asked Officers to provide evidence that the catalyst for the change in classification was in 2015/16. If not, this would imply that the assets had been incorrectly classified in previous years, and would require a Prior Period Adjustment to correct the miss-classification. 5) We have included this matter in the Letter of Representation which will be presented at Audit Committee and which we ask Members to agree. **Conclusion** We undertook detailed testing on assets with transfer values totalling £74,075k. Of these assets, we were unable to obtain sufficient appropriate evidence to support the reclassification of Morrisons and the Post Office in Mell Square. These two assets have a combined transfer value of £1,904k. For a further two assets, namely Homer Road and Station Road, there is sufficient evidence to support a transfer, but it is unclear why these two assets were not transferred in earlier years. These two assets are treated as one for this purpose as they are part of the same proposed development. Homer Road and Station Road have a combined transfer value of £1,658k. The balances where we have been unable to gain sufficient evidence are below our materiality level, as set out on page 9, of £9,032k. As such, officers are not intending to adjust the financial statements. We have included specific reference to this in our Letter of Representation. (continued over page).

DRAFT

Significant matters discussed with management (continued)

	Significant matter	Commentary
1.	Note 11 – Investment Property – continued	(continued from previous page). The decision to reclassify investment properties as operational properties has been taken as the Council consider that the assets are not held for income generation purposes. Rather they are held for the purpose of regeneration. This includes assets such as Touchwood and Mell Square. With the exception of the items overleaf, for the items we have tested, officers have provided evidence to support this change in purpose and we do not consider that the change is unreasonable. However, as this is a significant change in the purpose that the assets are held for, and includes an element of professional judgement, we have requested a specific representation from Members to confirm they agree with the reclassification of all of the assets.

Accounting policies, estimates and judgements

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

Accounting area	Summary of policy	Comments	Assessment
Revenue recognition	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)
Judgements and estimates	Key estimates and judgements include: • useful life of capital equipment • pension fund valuations and settlements • Revaluations • impairments • provisions • accounting for PFI schemes • accounting for group interests	We have considered: • Appropriateness of the policy under relevant accounting framework • Extent of judgement involved • Potential financial statement impact of different assumptions • Adequacy of disclosure of the accounting policy We have reviewed the accounting models the Council has used to calculate the entries required in the accounts for the current PFI schemes. We have compared these to our standard accounting model to provide some independent evidence over the accuracy of the figures used. Officers have explained that the payments made under the PFI schemes are contractual. We are satisfied that the figures used are materially accurate. However, for the Schools PFI scheme, the Council has made different judgements and the estimation technique is different to those which we would expect. The effect of this is that, compared to our accounting model, the Council is disclosing a long term liability which is £1,054k lower than we would expect. This is reflected in the future long term payments also being £1,054k lower than expected. This is mainly represented by the service charge being a total of £936k lower than expected. We also noted that, for the Schools PFI scheme, there was a difference between the Council accounting model and the financial statements of £2,454k. Note 41 – "Private Finance Initiatives (PFI) and Similar Contracts" has been amended to correct this. This is a movement in the disclosure note, and the liability as per the Balance Sheet is unchanged.	● (Amber)

Assessment
● (Red) Marginal accounting policy which could potentially attract attention from regulators
● (Amber) Accounting policy appropriate but scope for improved disclosure
● (Green) Accounting policy appropriate and disclosures sufficient

Accounting policies, estimates and judgements (continued)

.

Accounting area	Summary of policy	Comments	Assessment
Judgements and estimates (continued)		The CIPFA Code of Practice allows for non-current assets to be revalued on a rolling programme. However, all of these assets need to be disclosed at their fair value at the Balance Sheet date. Officers have concluded that assets revalued in previous years have not changed materially in value. Recognising that the Council does not hold these assets specifically for sale, and that they are revalued prior to any sale, we are satisfied that the value of non-current assets is not materially misstated. Our review of key estimates and judgements has not highlighted any other issues which we wish to bring to your attention.	● (Amber)
Going concern	The Directors have a reasonable expectation that the services provided by the Council will continue for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.	We have reviewed the Directors' assessment and are satisfied with managements' assessment that the going concern basis is appropriate for the 2015/16 financial statements.	● (Green)
Other accounting policies	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

- ● Marginal accounting policy which could potentially attract attention from regulators
- ● Accounting policy appropriate but scope for improved disclosure
- ● Accounting policy appropriate and disclosures sufficient

DRAFT

Other communication requirements

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

	Issue	Commentary
1.	**Matters in relation to fraud**	• We have previously discussed the risk of fraud with the Audit Committee. 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.
2.	**Matters in relation to related parties**	• We are not aware of any related party transactions which have not been disclosed.
3.	**Matters in relation to laws and regulations**	• We are not aware of any significant incidences of non-compliance with relevant laws and regulations.
4.	**Written representations**	• Representations have been requested from management in respect of the critical judgement made in the reclassification of investment properties to operational assets.
5.	**Confirmation requests from third parties**	• We obtained direct confirmations from the PWLB for loans and from other councils and financial institutions for bank, loan and investment balances. These requests were returned with positive confirmation.
6.	**Disclosures**	• Our review found no material omissions in the financial statements.

Other communication requirements (continued)

	Issue	Commentary
7.	**Matters on which we report by exception**	We are required to report on a number of matters by exception. However, we have not identified any issues we would be required to report by exception in the following areas: • If the Annual Governance Statement does not meet the disclosure requirements set out in the CIPFA/SOLACE guidance or is misleading or inconsistent with the information of which we are aware from our audit. • The information in the Narrative Report is materially inconsistent with the information in the audited financial statements or our knowledge of the Group/Council acquired in the course of performing our audit, or otherwise misleading.
8.	**Specified procedures for Whole of Government Accounts**	We are required to carry out specified procedures (on behalf of the NAO) on the Whole of Government Accounts (WGA) consolidation pack under WGA group audit instructions. As the Council exceeds the specified group reporting threshold we are required to examine and report on the consistency of the WGA consolidation pack with the Council's audited financial statements. This work is not yet completed, but will be by the submission deadline of 21 October.

DRAFT

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 considered and walked through the internal controls for Employee Remuneration and Operating Expenses as set out on pages 13 and 14 above. The controls were found to be operating effectively and we have no matters to report to the Audit Committee.

.In relation to our work on your IT controls, further details are provided in a separate report presented to the Audit Committee.

Adjustments

One change has been made to the draft accounts in respect of the valuation of Birmingham Airport shares where the timing of the outcome of the valuation work is after the draft accounts have been published. We are required to report all non trivial adjustments to those charged with governance, whether or not the accounts have been adjusted by management. The table below summarises the adjustment arising from the audit which has been processed by management.

Impact of adjustment

The adjustment is set out in detail below along with the impact on the key statements and the reported net expenditure for the year.

	Detail	Comprehensive Income and Expenditure Statement £'000	Balance Sheet £'000	Impact on total net expenditure £000
1	Updated valuation for Birmingham Airport finalised after the draft accounts were presented. Solihull MBC's share of the valuation has increased by £1,439k. This has been adjusted in the accounts:			N/A
	• Increase in Long Term Investments		1,439	
	• Increase in Unusable Reserves		(1,439)	
	• (Surplus)/ Deficit on revaluation of available for sale financial assets	(1,439)		

DRAFT

Uncertainties and differences in estimation

The table below provides details of uncertainties and differences arising from different estimation techniques identified during the audit which have not been made within the final set of financial statements. The Audit Committee is required to approve management's proposed treatment of all items recorded within the table below:

	Detail	Comprehensive Income and Expenditure Statement £'000	Balance Sheet £'000	Reason for not adjusting
1	As reported on page 16, we were unable to obtain sufficient appropriate evidence to support the reclassification of Morrisons and the Post Office in Mell Square from investment properties to operational assets. These two assets have a combined transfer value of £1,904k. If these two assets were moved back to Investment Properties, the affect would be:	0		It is the valuer's professional judgement that these assets should now be classified as operational assets.
	Increase (Dr) Investment Properties		1,904	
	Decrease (Cr) Operational Assets		(1,904)	
	There is no overall impact on the Balance Sheet.			
2	As reported on page 16, we were unable to obtain sufficient appropriate evidence to support the reclassification, in 2015/16, of assets in Homer Road and Station Road from investment properties to operational assets. For these two assets there is sufficient evidence to support a transfer, but it is unclear why they were not transferred in earlier years. These two assets are treated as one for this purpose as they are part of the same proposed development. Homer Road and Station Road have a combined transfer value of £1,658k. The combined value of these two assets is not sufficient to require the 2014/15 financial statements to be adjusted through a Prior Period Adjustment.	0	1,658	It is the valuer's professional judgement that these assets should now be classified as operational assets and that the change is correctly reflected in 2015/16 rather than earlier years.

DRAFT

Uncertainties and differences in estimation (continued)

	Detail	Comprehensive Income and Expenditure Statement £'000	Balance Sheet £'000	Reason for not adjusting
3	As reported on page 18, for the Schools PFI scheme, the Council has made different judgements and the estimation technique is different to those which we would expect. The effect of this is that, compared to our accounting model, the Council is disclosing a long term liability which is £1,054k lower than we would expect. This is reflected in the future long term payments also being £1,054k lower than expected.	0	(1,054)	This is a difference in estimation techniques, rather than an error.
	Overall impact	**£0**	**(£1,054)**	

Disclosure changes

The table below provides details of 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	57,986	Note 14 - Fair Value of PFI liabilities	The Council Treasury Advisors, Capita, set out that they do not consider a PFI liability to constitute a financial instrument and therefore the fair value disclosure requirements do not apply. In their view, authorities only have a liability for the unitary payment and not the underlying debt; the underlying debt is that which funds the project and is incurred by and rests with the PFI provider. The Council therefore did not include fair value figures for the PFI schemes in Note 14 - Fair values of Assets and Liabilities. Grant Thornton do not agree with this analysis; we have concluded that PFI liabilities are 'contractual' and therefore constitute a financial instrument, the measurement requirements do not apply (and so there is no is impact on the carrying amount in the balance sheet) but the disclosure requirements of IFRS 7 Financial Instruments: Disclosures, as set out in Chapter 7 of the CIPFA Code of Practice do apply. The Council has consequently obtained a fair value for the PFI liabilities, and updated the disclosure note to include an additional disclosure note showing the Council's equivalent fair value of PFI contracts. The fair value disclosed in the additional disclosure note is £106,110k. There is no impact on the CIES or Balance Sheet.
2	Disclosure	N/A	Note 43 - Defined Benefit Pension Schemes	Additional disclosures included to show what the impact would be had the actuary used different assumptions. There is no impact on the CIES or Balance Sheet.
3	Disclosure	184,451	Note 41 - Private Finance Initiatives (PFI) and Similar Contracts	For the Schools PFI scheme, there was a difference between the Council accounting model and the financial statements of £2,454k. The disclosure note has been amended to correct this. This is a movement in the disclosure note, and the liability as per the Balance Sheet is unchanged.

Section 3: Value for Money

The Council continues to have robust arrangements to deliver value for money. The 2015/16 financial outturn showed a £300k favourable variance after funding £3,686k of contributions to reserves and future year commitments.

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

The Council is at the vanguard of developments on the West Midlands Combined Authority and HS2 / UK Central. However, there is more for all partners to do in relation to the very challenging position faced by the local health economy.

Background

We are required by section 21 of the Local Audit and Accountability Act 2014 ('the Act') and the NAO Code of Audit Practice ('the Code') to satisfy ourselves that the Council has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the Value for Money (VFM) conclusion.

We are required to carry out sufficient work to satisfy ourselves that proper arrangements are in place at the Council. The Act and NAO guidance state that for local government bodies, auditors are required to give a conclusion on whether the Council has put proper arrangements in place.

In carrying out this work, we are required to follow the NAO's Auditor Guidance Note 3 (AGN 03) issued in November 2015. AGN 03 identifies one single criterion for auditors to evaluate:

> *In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.*

AGN03 provides examples of proper arrangements against three sub-criteria but specifically states that these are not separate criteria for assessment purposes and that auditors are not required to reach a distinct judgement against each of these.

Risk assessment

We carried out an initial risk assessment and identified the following significant risks and other areas of focus, which we communicated to you in our Audit Plan dated 14 March 2016:

- the Solihull Health Economy;
- HS2 / UK Central; and
- the West Midlands Combined Authority.

We identified risks in respect of specific areas of proper arrangements using the guidance contained in AGN03.

We have continued our review of relevant documents up to the date of giving our report, and have not identified any further significant risks where we need to perform further work.

We carried out further work only in respect of the significant risks and areas of focus we identified from our initial and ongoing risk assessment. Where our consideration of the significant risks determined that arrangements were not operating effectively, we have used the examples of proper arrangements from AGN 03 to explain the gaps in proper arrangements that we have reported in our VFM conclusion.

Significant qualitative aspects

AGN 03 requires us to disclose our views on significant qualitative aspects of the Council's arrangements for delivering economy, efficiency and effectiveness.

We have focused our work on the significant risks that we identified in the Council's arrangements. In arriving at our conclusion, our main considerations were:

- the extent to which the Council is working with partners to deliver its priorities and benefits for the West Midlands; and
- the risk management arrangements in place to ensure delivery of key projects.

We have set out more detail on the risks we identified, the results of the work we performed and the conclusions we drew from this work on pages 27 to 29.

Overall conclusion

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

- the Council had proper arrangements in all significant respects to ensure it delivered value for money in its use of resources. The text of our report, which confirms this, can be found at Appendix A.

Key findings

We set out below our key findings against the significant risks and other areas of focus we identified through our initial risk assessment.

Significant risk	Work to address	Findings and conclusions
Solihull Health economy The local health economy faces a significant financial deficit in 2015/16. Along with Heart of England FT and NHS Solihull CCG, the Council is one of the key players in the local health economy.	We reviewed how the Council is working with partners to address the financial challenges the local health economy faces, and to plan for the future in terms of an ageing population and the consequential financial pressures.	The Health & Wellbeing Board received an update to the Sustainability and Transformation Plan (STP) in June 2016. This sets out the financial forecasts: a) The system faces a gap of £68m in 2016/17 b) A projected gap of £767m by 2020/1 c) Taking into account existing plans, the residual gap is expected to be around £350-400m by 2020/1. The Borough wide health agenda is delivered through the Integrated Care and Support Solihull (ICASS) Programme Board. Members are drawn from the Council, Solihull CCG, Heart of England Foundation Trust, Birmingham and Solihull Mental Health Foundation Trust, Healthwatch and Age UK. The objective is to develop a plan and supporting programmes to help address the health needs of Solihull. Below the main Board, there are a other groups, each responsible for different workstreams or support programmes. Our work identified that the Council is working with other organisations within the bodies and structures in place. Officers and Councillors have made an appropriate contribution to the wider health sector issues and its arrangements for working with the wider economy and in partnership are appropriate. On this basis we concluded that the risk was sufficiently mitigated and the Council has proper arrangements. We note, however, that despite the management arrangements in place and the actions of the Council as a partner to the health economy that the financial challenges are significant. It is likely that this will impact on care for patients and the Council's own social care provision in the future. As a key partner to the health sector the Council needs to continue to consider how services can work together to safeguard quality and reduce costs.

Key findings (continued)

.

Other areas of focus	Work to address	Findings and conclusions
HS2 / UK Central The Council is at the forefront of maximising the benefit to be gained from the proposed HS2 rail link station which will be located in the Borough of Solihull. The programme is significant both in scale and financial terms.	We reviewed the project management and risk assurance frameworks established by the Council in respect of HS2, to establish how the Council is identifying, managing and monitoring these risks. We also reviewed how the Council is working with partners to maximise the potential benefit to the area from HS2.	Our work identified that the Council has appropriate arrangements in place for managing HS2 and UK Central. In particular, the Council has established a Programme Office with seven members of staff, key projects supporting the delivery of HS2 and UK Central (UKC), and risk registers. With regard to the risks identified we are satisfied that appropriate mitigations have been put in place, with senior individuals assigned responsibility for each risk. The risks are reviewed and re-assessed frequently. It is clear that the project management and risk assurance frameworks are appropriate. The HS2 Growth Strategy states "It is the entire region that is poised to capitalise on the huge benefits that HS2 will bring." The approach has been developed in collaboration with a wide range of partners from across the region including neighbouring LEP's such as the Black Country, Coventry & Warwickshire, Stoke & Staffordshire, the Marches and Worcestershire; public and private sector organisations and bodies involved in the Midlands Connect transport initiative." The Council has been at the vanguard of developments in HS2 and UK Central since its inception. This includes being given £1.25m to build a business case for UK Central and access to government officials to help this process. Appropriately, to ensure risk share with other partners the Council has engaged other bodies such as Birmingham City Council and the Local Enterprise Partnership at an early stage. The Council has been a catalyst for a multi million £ development which will see infrastructure and employment improvements for the whole of the West Midlands. On that basis we concluded that the risk was sufficiently mitigated and the Council has proper arrangements.

DRAFT

Key findings (continued)

Other areas of focus	Work to address	Findings and conclusions
West Midlands Combined Authority The Council is one of the local authorities in the shadow West Midlands Combined Authority which could potentially transform the local government landscape.	We reviewed how the Council is working with partners to maximise the potential benefit from the Combined Authority.	The Council has taken a pragmatic approach to the establishment of the West Midlands combined Authority. It has taken a considered approach balancing the needs of local residents, the need to manage its own services and finances against the need to work with other authorities across the West Midlands. The Council has had a significant impact on the Combined Authority. During its development the Combined Authority was led by the Solihull Council leader, and both the Chief Executive and Deputy Chief Executive input into the various leadership and governance bodies established. The Council has been able to impact on the overall strategy of the Combined Authority, and has engaged well with its partners. This has ensured that key projects such as HS2 and UK Central, which are critical to both the Council and the wider West Midlands, have been agreed by the Government and the wider West Midlands. The Combined Authority was formally established in June 2016. The Council continues to play a key role both as partner and as project leads for parts of the Combined Authority programme. The Council continues to monitor its own interests in key areas such as the governance of the Combined Authority and projects such as HS2 and UK Central. On that basis we concluded that the risk was sufficiently mitigated and the Council has proper arrangements.

Significant difficulties in undertaking our work

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

Significant matters discussed with management

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

Any other matters

There were no other matters from our work which were significant to our consideration of your arrangements to secure value for money in your use of resources.

Section 4: Fees, non-audit services and independence

Our audit fee is unchanged from that reported in our Audit Plan.

We have no independence issues to report.

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

Fees

	Proposed fee £	Final fee £
Council audit	133,538	133,538
Grant certification	9,867	TBC
Total audit fees (excluding VAT)	**143,405**	**TBC**

The proposed fees for the year were in line with the scale fee set by Public Sector Audit Appointments Ltd (PSAA).

Grant certification

Our fees for grant certification cover only housing benefit subsidy certification, which falls under the remit of Public Sector Audit Appointments Limited. Fees in respect of other grant work, such as reasonable assurance reports, are shown under 'Fees for other services'.

We will complete our housing benefit subsidy certification work by the deadline of 30 November. We will report the final fee in our Grants Report in January 2017.

Fees for other services

Service	Fees £
Audit related services:	
• ERDF Grant	**£3,000***
• Pooling of Capital Receipts Grant	**£2,383***
• Teachers' Pension	**£4,200***
• Local Transport Plan Major Projects claim (A45 Bridge claim for 2014/15)	**£3,000**
Non-audit services	**None**

*Fees for other services are those charged in respect of 2014/15 claims for indicative purposes. Any changes will be reported in our Annual Audit Letter.

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.

Section 5: Communication of audit matters

Audit matters have been communicated appropriately.

DRAFT

Communication to those charged with governance

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

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 Public Sector Audit Appointments Limited (http://www.psaa.co.uk/appointing-auditors/terms-of-appointment/)

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

Our annual work programme is set in accordance with the Code of Audit Practice ('the Code') issued by the NAO (https://www.nao.org.uk/code-audit-practice/about-code/). Our work considers the Council's key risks when reaching our conclusions under the Code.

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

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

Appendices

DRAFT

Appendix A: Audit opinion

We anticipate we will provide the Group with an unmodified audit report.

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

We have audited the financial statements of Solihull Metropolitan Borough Council (the "Authority") for the year ended 31 March 2016 under the Local Audit and Accountability Act 2014 (the "Act"). The financial statements comprise the Group and Authority Movement in Reserves Statements, the Group and Authority Comprehensive Income and Expenditure Statements, the Group and Authority Balance Sheets, the Group and Authority Cash Flow Statements, the Housing Revenue Account Income and Expenditure Statement, the Collection Fund and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16.

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Act and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the Director of Resources and Deputy Chief Executive and auditor

As explained more fully in the Statement of the Director of Resources and Deputy Chief Executive's Responsibilities, the Director of Resources and Deputy Chief Executive 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 2015/16, which give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law 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 Deputy Chief Executive; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Narrative Report and the Annual Governance Statement to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- present a true and fair view of the financial position of the Authority and Group as at 31 March 2016 and of the Authority's and Group's expenditure and income for the year then ended; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16 and applicable law.

Opinion on other matters

In our opinion, the other information published together with the audited financial statements in the Narrative Report and the Annual Governance Statement is consistent with the Group audited financial statements.

Matters on which we are required to report by exception

We are required to report to you if:

- in our opinion the Annual Governance Statement does not comply with the guidance included in 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007; or
- we issue a report in the public interest under section 24 of the Act; or
- we make a written recommendation to the Authority under section 24 of the Act; or
- we exercise any other special powers of the auditor under the Act.

We have nothing to report in these respects.

Conclusion on the Authority's arrangements to secure value for money through economic, efficient and effective use of its resources

Respective responsibilities of the Authority and 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 20(1)(c) of the Act to be satisfied that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Scope of the review of the Authority's arrangements to secure value for money through economic, efficient and effective use of its resources

We have undertaken our review in accordance with the Code of Audit Practice prepared by the Comptroller and Auditor General as required by the Act (the "Code"), having regard to the guidance on the specified criteria issued by the Comptroller and Auditor General in November 2015, as to whether the Authority had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined these criteria as those necessary for us to consider under the Code in satisfying ourselves whether the Authority put in place proper arrangements to secure value for money through the economic, efficient and effective use of its resources for the year ended 31 March 2016.

We planned our work in accordance with the Code. Based on our risk assessment, we undertook such work as we considered necessary to form a view on whether in all significant respects the Authority has put in place proper arrangements to secure value for money through economic, efficient and effective use of its resources.

Conclusion

On the basis of our work, having regard to the guidance on the specified criteria issued by the Comptroller and Auditor General in November 2015, we are satisfied that in all significant respects *the Authority* has put in place proper arrangements to secure value for money through economic, efficient and effective use of its resources for the year ended 31 March 2016.

Certificate

We certify that we have completed the audit of the accounts of the Authority in accordance with the requirements of the Act and the Code.

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

Colmore Plaza
20 Colmore Circus
Birmingham
B4 6AT

24 September 2016

DRAFT

grant-thornton.co.uk