



The Audit Findings for Bournemouth Borough Council

Year ended 31 March 2013

25 September 2013

Simon Garlick

Director

T 0117 305 7878

E simon.p.garlick@uk.gt.com

Samantha Harding

Senior Manager

T 0117 305 7874

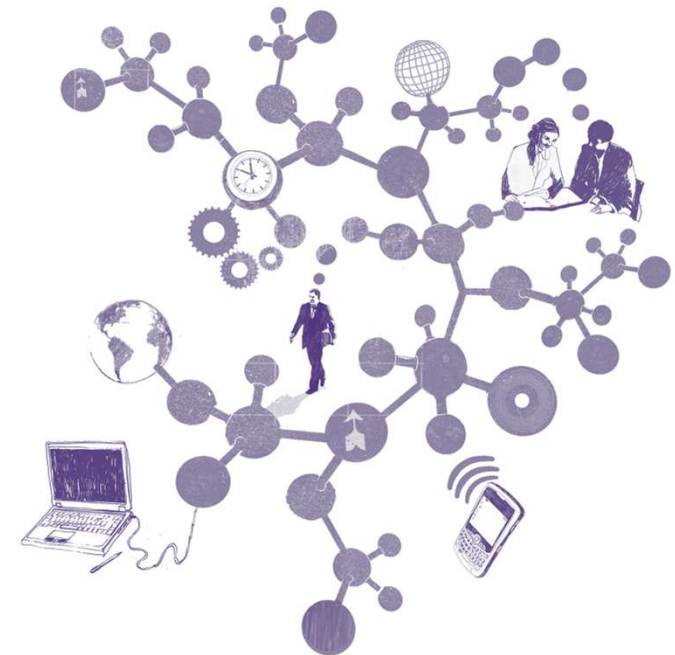
E sam.g.harding@uk.gt.com

Nicky Binnie

Executive

T 0117 305 7892

E nicky.h.binnie@uk.gt.com



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.

Contents

Section	Page
1. Executive summary	5
2. Audit findings	8
3. Value for Money	22
4. Fees, non audit services and independence	26
5. Communication of audit matters	28

Appendices

- A Action plan
- B Audit opinion

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

Executive summary

Purpose of this report

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

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

Introduction

In the conduct of our audit we have not had to alter or change our planned audit approach, which we communicated to you in our Audit Plan dated March 2013.

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

- review of the final version of the financial statements
- obtaining and reviewing the final management letter of representation
- review the work of the Dorset County Pensions scheme audit
- a small number outstanding minor issues to be resolved
- 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 before the local government deadline. We have however experienced some delays in receiving responses to queries due to changes within the finance team.

Key issues arising from our audit

Financial statements opinion

We anticipate providing an unqualified opinion on the financial statements.

We have identified 1 adjustment affecting the Council's reported financial position (details are recorded in section 2 of this report). This change was corrected in the draft financial statements and relates to capital expenditure in relation to academy schools that the Council has retained on its balance sheet until completion of works to the school buildings. We have also requested 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:

- There have been a number of personnel changes in the finance department during the year. It is to the Council's credit that it has been able to manage these changes to produce its financial statements to a good standard.
- In the finance team, previously there was a concentration of knowledge with one person, resulting in potential fragility. It is important that knowledge is more widely communicated within the finance team. This is currently being addressed.

- We have during the course of our audit identified a number of trivial misstatements, which are not required to be reported here. We will discuss our detailed findings with the finance team and suggest areas where improvements could be made.

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)

We will complete our work in respect of the Whole of Government Accounts in accordance with the national timetable.

Controls

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

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

We draw your attention in particular to control issues identified in relation to:

- Authorisation and controls over journals
- Retention of documentation
- A number of IT related issues

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 Executive Director (Finance).

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

Acknowledgment

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

Grant Thornton UK LLP
September 2013

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

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 25th September 2013. We also set out the adjustments to the financial statements 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 25th March 2013 except for the areas highlighted below.

- Capital grants & Contributions (including those received in advance) was identified as a significant risk of material misstatement, following a review of the accounts this area was no longer considered to be a significant risk.

Audit opinion

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

Audit findings against significant risks

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

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

	Risks identified in our audit plan	Work completed	Assurance gained and issues arising
1.	<p>Improper revenue recognition</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"> • review and testing of revenue recognition policies • testing of material revenue streams • review of unusual significant transactions 	<p>Our audit work has not identified any issues in respect of revenue recognition.</p>
2.	<p>Management override of controls</p> <p>Under ISA 240 there is a presumed risk of management over-ride of controls</p>	<ul style="list-style-type: none"> • review of accounting estimates, judgements and decisions made by management • testing of journals entries • review of unusual significant transactions 	<p>Our audit work has not identified any evidence of management override of controls.</p> <p>Our review of journal controls and testing of journal entries has identified two areas where controls could be strengthened.</p> <p>Our review of unusual and significant transactions has not identified any issues.</p>

Audit findings against other risks

In this section we detail our response to the other risks of material misstatement which we identified in the Audit Plan. Recommendations, together with management responses, are attached at Appendix A.

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
Operating expenses	Operating expenses understated	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> documented our understanding of processes and key controls over the transaction cycle undertaken walkthrough of the key controls to assess the whether those controls are designed effectively tested operating expenses including testing a sample of 60 transactions. 	<p>Our audit work has not identified any significant issues in relation to the risk identified.</p> <p>As reported in the internal control section, we were unable to obtain documentation at the Council for continuing payments to care homes and individuals for social care. (5 cases in a sample of 60)</p> <p>We obtained sufficient evidence by undertaking alternative procedures.</p> <p>This issue has also been raised by Internal Audit.</p>
Operating expenses	Creditors understated or not recorded in the correct period	<ul style="list-style-type: none"> Testing of year end creditors. 	<p>Our audit work has not identified any significant issues in relation to the risk identified.</p>
Employee remuneration	Remuneration expenses not correct	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> documented our understanding of processes and key controls over the transaction cycle undertaken walkthrough of the key controls to assess the whether those controls are designed effectively tested payroll expenses including testing a sample of 60 transactions reviewed termination benefits and exit packages agreed Officers Emoluments to supporting payroll documentation. 	<p>Our audit work has not identified any significant issues in relation to the risk identified.</p> <p>As reported in the internal control section, we were unable to obtain contracts of employment . This was as a result of individuals joining the Council as a result of reorganisations (2 cases in a sample of 60).</p> <p>We obtained sufficient evidence by undertaking alternative procedures.</p>


Audit findings against other risks

In this section we detail our response to the other risks of material misstatement which we identified in the Audit Plan. Recommendations, together with management responses, are attached at Appendix A.


Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
Welfare expenditure	Welfare benefits improperly computed	We have undertaken the following work in relation to this risk: <ul style="list-style-type: none"> • documented our understanding of processes and key controls over the transaction cycle • undertaken walkthrough of the key controls to assess the whether those controls are designed effectively • undertaken the certification work of the housing benefit and council tax benefit subsidy claim. Testing a sample of 25 benefit payments. 	Our audit work has not identified any significant issues in relation to the risk identified.
Housing rent	Revenue transactions not recorded	We have undertaken the following work in relation to this risk: <ul style="list-style-type: none"> • documented our understanding of processes and key controls over the transaction cycle • undertaken walkthrough of the key controls to assess the whether those controls are designed effectively • undertaken substantive procedures including a detailed analytical review. 	Our audit work has not identified any significant issues in relation to the risk identified.

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
<p>Revenue recognition</p>	<ul style="list-style-type: none"> Revenue from the sale of goods is recognised when the Council transfers the significant risks and rewards of ownership to the purchaser and it is probable that economic benefits or service potential associated with the transaction will flow to the Council. 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. Interest receivable on investments is accounted for respectively as income on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract. Where revenue has been recognised but cash has not been received, a debtor for the relevant amount is recorded in the Balance Sheet. Where debts may not be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected. 	<ul style="list-style-type: none"> The policies are in accordance with CIPFA's Code. The limited judgement applied in the application of the policies, other than in the determination of the collectability of outstanding debts. The accounting policies are adequately disclosed. 	

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

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
Judgements and estimates	<p>The Council included the following areas in its disclosures of key judgements and estimates made in the preparation of the accounts.</p> <ul style="list-style-type: none"> • That BH Live is not a subsidiary of the Council. • The provision of the Central Library and associated IT is treated as a PFI scheme with the relevant accounting transactions and policies. • Adequacy of provisions. • Estimated useful life of property, plant and equipment. • Pension fund valuations and settlements. • Impairment of bad debts. 	<ul style="list-style-type: none"> • Two key judgements were omitted from the note: • The derecognition of Academy schools and their assets. • The justification for using major repairs allowance as a proxy for depreciation. 	
Other accounting policies	<ul style="list-style-type: none"> • We have reviewed the Council's policies against the requirements of the CIPFA Code and accounting standards. 	<ul style="list-style-type: none"> • Our review of accounting policies has identified some amendments required to increase transparency and improve understanding of the financial statements, as follows: • Policy added to explain the Council's treatment of its different types of schools. • Greater detail of the Council's approach to componentisation. • Additional disclosure to include accounting standard IFRS7 in Accounting Standards not yet adopted note. 	

Assessment

 Marginal accounting policy which could potentially attract attention from regulators

 Accounting policy appropriate and disclosures sufficient

 Accounting policy appropriate but scope for improved disclosure

Adjusted misstatements

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

Impact of adjusted misstatements

All adjusted misstatements are set out below along with the impact on the key statements and the reported financial position.

Detail	Comprehensive Income and Expenditure Account £'000	Balance Sheet £'000	Impact on total net expenditure £'000
1 Schools expenditure included as Revenue Expenditure Funded by Capital under Statute (REFCUS) should have been capitalised in the Property, Plant and Equipment note as the transfer to academy status had not taken place by the end of the year. This means that the schools remained assets of the Council during 2012/13. This was amended prior to the issue of draft accounts.	(6,847)	6,847	(6,847)
2 Impairment of IMAX cinema has not been disclosed as an impairment in the accounts. This has been included as a downward revaluation. This was amended prior to the issue of draft accounts.		1,866	No impact
3 Housing Revenue Account income has been incorrectly disclosed on the CIES and this impacts on the calculation of other housing services income.	44,766		No impact
4 Other land and buildings assets from the Housing Revenue Account were incorrectly included in the Council Dwellings figure in the Property, Plant and equipment note.		2,611	No impact
Overall impact			£(6,847)

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.

	Finding
1	Note 35 - Grant income - S256 grant income of £1,026K was omitted from this note disclosure.
2	Note 38 - Council as lessee operating lease note has been amended as the mercury abatement unit has been duplicated and included both as an operating and a finance lease. £1,018K to be removed from the note. Minimum lease payments was also amended by £161K
3	Housing Revenue Account assets - Note added to explain the movements in accumulated depreciation and cost in year.
4	Balance Sheet - Provisions have been reclassified from short term to long term liabilities, to better reflect the timing of likely payments. This change has impacted on both years in the accounts.
5	Note 12 - Capital commitments - Two additional items were added to the note in relation to additional capital commitments identified. These relate to The Bourne Academy and Vale Road development. The total of these two is £3,734K.
6	Balance Sheet - Current lease obligations were included in borrowings. These have been separated to reference to the supporting notes.

Internal controls

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

Our audit included consideration of internal controls relevant to the preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control. The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

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

	Assessment	Issue and risk	Recommendations
1.	Deficiency – risk of inconsequential misstatement	<p>We identified that there is no requirement for journals raised to be authorised. The Council does carry out checks on postings, however this is an administration function checking postings rather than a higher level authorisation of the postings. Journals are a key risk for fraudulent, erroneous manipulation of the accounts. This issue was identified in the previous auditors report in 2011/12.</p> <p>We have also identified that users within finance are able to post journals using another user's ID. There is no control over this as journals are saved into a common area prior to uploading in the ledger. Therefore the journals could not be checked against the originator and the user ID included on the journals. However, we have found no instances of erroneous journals being posted.</p>	<p>Consider implementing a policy for incorporating authorisation of journals in to the process.</p> <p>Ensure journal user ID as shown on the template is protected so that this can not be edited.</p>
2.	Deficiency – risk of inconsequential misstatement	<p>During a number of our tests, there were difficulties in obtaining documentation. This related to staff employment contracts and documentation to support care payments.</p> <p>There is a risk that incorrect payments may be made without an adequate audit trail.</p>	<p>The Council should ensure that it retains sufficient documentation to support current expenditure.</p>

Internal controls

	Assessment	Issue and risk	Recommendations
3.	Deficiency – risk of material misstatement	<p>Our review identified that Oracle E-Business System updates and patches had not been applied to the Oracle E-Business Suite since January 2010.</p> <p>Failure to implement the Oracle quarterly recommended updates and patches may result in major security vulnerabilities existing in the Oracle environment.</p> <p>This issue was identified in an Internal audit report carried out by the Council and reported to Audit and Governance Committee in March. Our testing was undertaken in May.</p>	Ensure that all patches and updates are updated for the Oracle E – Business System.
4.	Deficiency – risk of inconsequential misstatement	<p>Password complexity (i.e. the requirement that passwords must contain more than one character set, such as numbers and letters) was not enforced within Vision at time of review.</p> <p>This increases the risk of compromise of user accounts through password guessing or cracking.</p>	Password complexity should be enforced within the Council.
5.	Deficiency – risk of inconsequential misstatement	<p>Login sessions within Active Directory and Civica OpenRevenues were not automatically disconnected after a period of inactivity.</p> <p>This risks misuse of unattended login sessions by other valid users of the system, leading to loss of accountability of actions performed and also potential misuse of unattended login sessions by unauthorised personnel, leading to unauthorised data disclosure or data tampering.</p>	Consider automatic disconnecting after a determined period of inactivity.

Internal controls

	Assessment	Issue and risk	Recommendations
6.	Deficiency – risk of consequential misstatement	At time of review, at least one end-user had the ability to administer security within Oracle EBS and Civica OpenRevenues and Vision (Payroll). There is a risk that responsibilities can be muddled with operational users making unwarranted changes to the system.	The responsibility of administering security within Oracle EBS and Civica OpenRevenues and Vision (Payroll) should be transferred to IT system administrators who do not perform end-user duties.
7.	Deficiency – risk of consequential misstatement	The Council has a process of HR advising IT administrators of leavers, in order for their access rights to be removed. A report is provided monthly from HR to IT. This can result in delays in removing leavers access rights, with a number of risks of inappropriate access to systems.	The introduction of a proactive method of advising IT of leavers in advance for financially critical systems, would allow for more timely removal of access rights.
8.	Deficiency – risk of consequential misstatement	User accounts and associated permissions within Oracle EBS and Civica OpenRevenues were not being formally and proactively reviewed for appropriateness. There is a risk that inappropriate changes could be made to the system.	Management should periodically perform formal reviews of user accounts and permissions within Oracle EBS and Civica OpenRevenues.

Internal controls

	Assessment	Issue and risk	Recommendations
9.	<p>Deficiency – risk of inconsequ ential misstatem ent</p>	<p>Batch Administration Policies and Procedures</p> <p>Documented policies and procedures have not been formally established addressing the topic of batch administration (e.g., monitoring, configuration, error resolution) within Oracle EBS R11 and Civica OpenRevenues.</p> <p>Batch processes may not be effectively administered, leading to loss of data integrity and/or system down-time.</p>	<p>Documented policies and procedures addressing the topics of batch administration, monitoring and error handling / resolution within Oracle EBS R11 and Civica OpenRevenues should be established, formally approved by the appropriate members of the organisation, and communicated to relevant personnel responsible for implementing them and/or abiding by them.</p>

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.	Matters in relation to fraud	<ul style="list-style-type: none"> We have not been made aware of any other incidents in the period and no other issues have been identified during the course of our audit procedures.
2.	Matters in relation to laws and regulations	<ul style="list-style-type: none"> We are not aware of any significant incidences of non-compliance with relevant laws and regulations.
3.	Written representations	<ul style="list-style-type: none"> A standard letter of representation has been requested from the Council. In particular, representations will be requested from management in respect of the significant assumptions used in making accounting estimates for property valuations.
4.	Disclosures	<ul style="list-style-type: none"> Our review found no material omissions in the financial statements.
5.	Matters in relation to related parties	<ul style="list-style-type: none"> We are not aware of any related party transactions which have not been disclosed.
6.	Going concern	<ul style="list-style-type: none"> Our work has not identified any reason to challenge the Council's decision to prepare the financial statements on a going concern basis.

Section 3: Value for Money

01. Executive summary

02. Audit findings

03. Value for Money

04. Fees, non audit services and independence

05. Communication of audit matters

Value for Money

Value for Money conclusion

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

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

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

- **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 undertaken a review which considered the Council's arrangements against the following three expected characteristics of proper arrangements as defined by the Audit Commission:

- Financial governance;
- Financial planning; and
- Financial control.

Overall our work highlighted that the Council is in a strong financial position. The issues identified by the previous auditor last year have been addressed during the current financial year to improve the transparency of internal financial reporting and financial governance.

Value for Money

Challenging economy, efficiency and effectiveness

We have reviewed whether the Council has prioritised its resources to take account of the tighter constraints it is required to operate within. We have completed the following work:

- Reviewed the value for money profile produced by the Audit Commission, the findings support our opinion. Areas where the Council is an outlier have been considered and satisfactory explanations received.
- The Council has a good track record of seeking innovative ways to achieve the required cost reductions. This includes joint and partnership working in the delivery of many of its services, both with other councils and with the private sector.
- The Council has begun the roll out a Core Service Transformation programme across all its services, to identify efficiencies and ways of increasing income. The programs have included extensive consultation and consideration of different methods of service delivery. Costed savings targets over a number of years form part of the plans.
- Budget monitoring reports for 2013/14 have identified that there has been slippage in realising some of the savings identified as part of the Core Service Transformation programme in the early part of the year. The Council has contingency arrangements in place to mitigate against this.
- The Council has performance monitoring aligned to corporate objectives. There is open and transparent reporting of progress with performance data available on the Councils website in the various Overview and Scrutiny Committees.
- There is extensive use of benchmarking in non financial areas and in certain service areas, revenues and benefits and housing, but this is an area of development for the Council. It has joined the CIPFA benchmarking club and will during 2013/14 develop this area further.

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 put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2013.

To support our VfM conclusion against the specified criteria we performed a risk assessment against VfM risk indicators specified by the Audit Commission. Following completion of our work we noted the following residual risks to our VfM conclusion:

Residual Risk identified	Assurances obtained	Conclusion on residual risk
<p>External Financial Benchmarking</p> <p>Although the Council uses external benchmarking to evaluate and assess its non financial performance, the use of robust benchmarking for its financial performance is currently less extensive with limited use of unit cost information. The lack of demonstrable benchmarking was identified in the previous auditors Annual Governance Report.</p>	<p>The work undertaken as part of our Value for Money review has assessed the Council's indicators benchmarked by the Audit Commission across a range of financial areas . Where the Council is an outlier, satisfactory explanations for performance have been received.</p>	<p>The Council has recognised that this and progress has been made since the year end to obtain benchmarking data with a programme of obtaining comparative financial information being developed including joining the CIPFA benchmarking club to assess and monitor performance and to identify areas for consideration in 2013/14.</p>
<p>Savings Plans</p> <p>The Council has rolled out a programme of Core Services Transformation reviews of all of the services it delivers. Integral to this process has been the release of savings, which has replaced the Savings and Efficiency programme from 2013/14. There has been slippage in this programme as it become embedded within the Council.</p>	<p>The Council has recognised that there is slippage in some of the Core Service Transformation savings. There is capacity within the council to mitigate against this during 2013/14.</p>	<p>The Council is in a comparatively strong financial position. It has recognised that some slippage is expected in the delivery of savings and efficiency and has a contingency in place to deliver a balanced budget in 201/14.</p>

Section 4: Fees, non audit services and independence

01. Executive summary

02. Audit findings

03. Value for Money

04. Fees, non audit services and independence

05. Communication of audit matters

Fees, non audit services and independence

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

Fees

	Per Audit plan £	Actual fees £
Council audit	152,690	152,690
Grant certification	15,350	15,350
Total audit fees	168,040	168,040

Fees for other services

Service	Fees £
VAT advice re Madeira Road development	7,490

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

01. Executive summary

02. Audit findings

03. Value for Money

04. Fees, non audit services and independence

05. Communication of audit matters

Communication of audit matters to those charged with governance

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

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

Respective responsibilities

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

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

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

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

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

Appendices

Appendix A: Action plan

Priority

High - Significant effect on control system

Medium - Effect on control system

Low - Best practice

Rec No.	Recommendation	Priority	Management response	Implementation date & responsibility
1	<p>Consider implementing a policy for incorporating authorisation of journals in to the process.</p> <p>Ensure journal user ID as shown on template is protected so that this can not be edited.</p>	<p>Medium</p> <p>Low</p>	<p>A trial system of authorisation will be introduced with effect from 16th September 2013 with the intention of making it permanent from December 2013 – any issues raised during the trial will be discussed and remedied with the external auditor.</p> <p>Review the spread sheet system and process because at this point in time this cannot be effected without affecting the daily collection process. Alternative options are now being considered and the implementation of a new financial management system may well overcome this problem.</p>	<p>Trial System Sept 2013 and if agreed full adoption Dec 2013 – Service Director, Strategic Finance.</p> <p>Review complete by 31st October 2013. Service Director, Strategic Finance.</p>
2	<p>The Council should ensure that it retains sufficient documentation to support current expenditure.</p>	Low	<p>The Council accepts the recommendation and is investigating a mechanism to implement it.</p>	Active

Appendix A: Action plan

Rec No.	Recommendation	Priority	Management response	Implementation date & responsibility
3	Ensure that all patches and updates are updated for the Oracle E – Business System.	High	Patches have now been applied to the Oracle test systems. 14 issues have been found on the test systems of which 12 have been resolved. 2 issues are outstanding and are with the supplier to give a resolution. Once resolution is complete it will be delivered to Live.	Responsible Officer: Fred Baert Expected completion Date: Oct 2013
4	Password complexity should be enforced within the Council.	Medium	The requirement to enforce password complexity will be discussed with the system suppliers with a view to implementing this control by then end of the 2013 year.	Responsible Officer: Paula Welch Expected completion Date: Dec 2013
5	Consider automatic disconnecting after a determined period of terminal inactivity.	Medium	Screen lockout is operating and while the time was originally set to 15 minutes it has been relaxed to 30 minutes due to user complaints. It has been noted that some account sets ups have over-ridden this requirement and a review of these accounts will be undertaken to ensure that all computers meet this requirement.	Responsible Officer: Fred Baert Expected completion Date: Dec 2013
6	The responsibility of administering security within Oracle EBS and Civica OpenRevenues and Vision (Payroll) should be transferred to IT system administrators who do not perform end-user duties.	Medium	In the past this was an IT task. It was decided to have dedicated staff which fully understand the system to be able to control this. The staff which carry out this task are fully trained in those systems and the best person to carry out that role. The current management decision is that dedicated staff in the team who operate the system are administrators. The risks of this approach will be reviewed and alternative approaches considered however should the existing system be continued the controls will be reviewed to ensure they reduce the risk appropriately.	Responsible Officer: Fred Baert, Tracy Lewis, Jon Alsopp Expected completion Date: Dec 2013

Appendix A: Action plan

Rec No.	Recommendation	Priority	Management response	Implementation date & responsibility
7	<p>Management should periodically perform formal reviews of the user accounts and permissions within Oracle EBS and Civica OpenRevenues.</p>	Medium	<p>Oracle Oracle reviews are carried out currently on a three monthly basis. A new user is currently been trained to carry this task out on a monthly basis.</p> <p>Civica Civica access right are currently been reviewed to look at role based access. This approach will include undertaking a review that user permissions are appropriate.</p> <p>Civica changes including deleting leavers are carried out on a daily basis. A weekly sweep of all users is completed and any inactive users are removed.</p>	<p>Responsible Officer: Fred Baert Expected completion Date: Dec 2013</p> <p>Responsible Officer: Fred Baert Expected completion Date: Dec 2013</p> <p>Complete</p>
8	<p>The introduction of a proactive method of advising IT of leavers in advance for financially critical systems, would allow for more timely removal of access rights</p>	Medium	<p>The introduction of a proactive method of advising IT of leavers in advance for financially critical systems, would allow for more timely removal of access rights.</p>	As above

Appendix A: Action plan

Rec No.	Recommendation	Priority	Management response	Implementation date & responsibility
9	<p>Documented policies and procedures addressing the topics of batch administration, monitoring and error handling / resolution within Oracle EBS R11 and Civica OpenRevenues should be established, formally approved by the appropriate members of the organisation, and communicated to relevant personnel responsible for implementing them and/or abiding by them.</p>	Medium	<p>Formal policies and procedures which set out the requirements for the administration of batches within Oracle EBS R11 and Civica OpenRevenues are currently being written. These will be communicated to the relevant Officers when complete.</p>	<p>Responsible Officer: Fred Baert Expected completion Date: Oct 2013</p>

Appendix B: Audit opinion

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

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF BOURNEMOUTH BOROUGH COUNCIL

Opinion on the Council's financial statements

We have audited the financial statements of Bournemouth Borough Council for the year ended 31 March 2013 under the Audit Commission Act 1998. The financial statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement, the Housing Revenue Account Income and Expenditure Statement, the Movement on the Housing Revenue Account 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 2012/13.

This report is made solely to the members of Bournemouth 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 Council and the Council's Members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the Executive Director (Finance) and auditor

As explained more fully in the Statement of Responsibilities, the Executive Director (Finance) 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 Council's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Executive Director (Finance); 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. 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 Bournemouth Borough Council as at 31 March 2013 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 2012/13.

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 Council 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 Council's arrangements for securing economy, efficiency and effectiveness in the use of resources

Respective responsibilities of the Council and the auditor

The Council 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

Council 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 Council 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 Council'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 November 2012, as to whether the Council 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 Council put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2013.

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 Council 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 November 2012, we are satisfied that, in all significant respects, Bournemouth Borough Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2013.

Certificate

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

Simon Garlick
Engagement Lead
for and on behalf of Grant Thornton UK LLP, Appointed Auditor

Hartwell House
55-61 Victoria Street
BRISTOL
BS1 6FT

25 September 2013

Appendix C: Overview of 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.

Changes to Audit Plan

We have not had to change our Audit Plan as previously communicated to you on 25th March 2013 except for a reduction in the risk identified for capital grants and receipts.

Account	Transaction cycle	Material misstatement risk?	Description of risk	Change to the audit plan	Audit findings
Cost of services - operating expenses	Operating expenses	Other	Operating expenses understated	No	A number of adjustments have been made to operating expenses in the CIES.
Cost of services – employee remuneration	Employee remuneration	Other	Remuneration expenses not correct	No	Changes have been made to the senior officers remuneration note.
Costs of services – Housing & council tax benefit	Welfare expenditure	Other	Welfare benefits improperly computed	No	None
Cost of services – Housing revenue	HRA	Other	Housing revenue transactions not recorded	No	A change has been made to the housing income on the CIES.
Cost of services – other revenues (fees & charges)	Other revenues	None		No	None

Audit findings

Account	Transaction cycle	Material misstatement risk?	Description of risk	Change to the audit plan	Audit findings
(Gains)/ Loss on disposal of non current assets	Property, Plant and Equipment	None		No	None
Payments to Housing Capital Receipts Pool	Property, Plant & Equipment	None		No	None
Precepts and Levies	Council Tax	None		No	None
Interest payable and similar charges	Borrowings	None		No	None
Pension Interest cost	Employee remuneration	None		No	None
Interest & investment income	Investments	None		No	None
Return on Pension assets	Employee remuneration	None		No	None
Investment properties: Income expenditure, valuation, changes & gain on disposal	Property, Plant & Equipment	None		No	None
Income from council tax	Council Tax	None		No	None
NNDR Distribution	NNDR	None		No	None
PFI revenue support grant and other Government grants	Grant Income	None		No	None

Audit findings

Account	Transaction cycle	Material misstatement risk?	Description of risk	Change to the audit plan	Audit findings
Capital grants & Contributions (including those received in advance)	Property, Plant & Equipment	None		Yes	None
(Surplus)/ Deficit on revaluation of non current assets	Property, Plant & Equipment	None		No	None
Actuarial (gains)/ Losses on pension fund assets & liabilities	Employee remuneration	None		No	None
Other comprehensive (gains)/ Losses	Revenue/ Operating expenses	None		No	None
Property, Plant & Equipment	Property, Plant & Equipment	None		No	Two changes have been made to the Property, plant and equipment note.
Heritage assets & Investment property	Property, Plant & Equipment	None		No	None
Intangible assets	Intangible assets	None		No	None
Investments (long & short term)	Investments	None		No	None
Debtors (long & short term)	Revenue	None		No	None

Audit findings

Account	Transaction cycle	Material misstatement risk?	Description of risk	Change to the audit plan	Audit findings
Assets held for sale	Property, Plant & Equipment	None		No	None
Inventories	Inventories	None		No	None
Borrowing (long & short term)	Debt	None		No	None
Creditors (long & Short term)	Operating Expenses	Other	Creditors understated or not recorded in the correct period	No	None
Provisions (long & short term)	Provision	None		No	Provisions have been reclassified from short term to long term liabilities.
Pension liability	Employee remuneration	None		No	None
Reserves	Equity	None		No	None



© 2013 Grant Thornton UK LLP. All rights reserved.

'Grant Thornton' means Grant Thornton UK LLP, a limited liability partnership.

Grant Thornton is a member firm of Grant Thornton International Ltd (Grant Thornton International). References to 'Grant Thornton' are to the brand under which the Grant Thornton member firms operate and refer to one or more member firms, as the context requires. Grant Thornton International and the member firms are not a worldwide partnership. Services are delivered independently by member firms, which are not responsible for the services or activities of one another. Grant Thornton International does not provide services to clients.

grant-thornton.co.uk