The Annual Audit Letter for Birmingham City Council

Year ended 31 March 2019

October 2019

Contents

Your key Grant Thornton team members are:

Paul Dossett
Engagement Lead
T: 0207 728 3180
E: paul.dossett@uk.gt.com

Laura Hinsley
Senior Manager
T: 0121 232 5235
E: laura.e.hinsley@uk.gt.com

Tess Barker-Phillips
Manager
T: tess.s.barker-phillips@uk.gt.com
E: 0121 232 5428

Executive Summary

Purpose

Our Annual Audit Letter (Letter) summarises the key findings arising from the work that we have carried out at Birmingham City Council (the Council) and the group for the year ended 31 March 2019.

This Letter is intended to provide a commentary on the results of our work to the Council and external stakeholders, and to highlight issues that we wish to draw to the attention of the public. In preparing this Letter, we have followed the National Audit Office (NAO)'s Code of Audit Practice and Auditor Guidance Note (AGN) 07 – 'Auditor Reporting'. We reported the detailed findings from our audit work to the Council's Audit Committee as those charged with governance in our Audit Findings Report on 24 September 2019.

Respective responsibilities

We have carried out our audit in accordance with the NAO's Code of Audit Practice, which reflects the requirements of the Local Audit and Accountability Act 2014 (the Act). Our key responsibilities are to:

- give an opinion on the Council and group's financial statements (section two)
- assess the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources (the value for money conclusion) (section three).

In our audit of the Council and group's financial statements, we comply with International Standards on Auditing (UK) (ISAs) and other guidance issued by the NAO.

Our work

Materiality	We determined materiality for the audit of the group's financial statements to be £44,460,000 (£44,360,000 for the Council), which is 1.5% of the group's (and Council's) gross revenue expenditure.
Financial Statements opinion	We gave an unqualified opinion on the group's financial statements on 26 September 2019. We included an emphasis of matter paragraph in our report on the Council's completeness of equal pay contingent liability which explains that whilst the provision reflects the forecast impact of claims made to date, there remain a number of uncertainties regarding any additional liabilities that the Council may face. There are uncertainties surrounding the volume and timing of any future claims and the determination of any settlements. Our opinion is not modified in respect of this matter.
Whole of Government Accounts (WGA)	We completed work on the Council's consolidation return following guidance issued by the NAO.
Use of statutory powers	We issued our Statutory Recommendations under section 24 of the Local Audit and Accountability Act 2014 in July 2018 and March 2019.

Executive Summary

Value for Money arrangements	We were satisfied that the Council put in place proper arrangements to ensure economy, efficiency and effectiveness in its use of resources except for Governance and the Waste Service. We therefore qualified our value for money conclusion in our audit report to the Council on 26 September 2019.
Certification of Grants	We also carry out work to certify the Council's Housing Benefit subsidy claim on behalf of the Department for Work and Pensions. Our work on this claim is not yet complete and will be finalised by 30 November 2019. We will report the results of this work to the Audit Committee in our Annual Certification Letter.
Certificate	We certified that we have completed the audit of the financial statements of Birmingham City Council in accordance with the requirements of the Code of Audit Practice on 8 October 2019.

Audit of the Financial Statements

Our audit approach

Materiality

In our audit of the Council's financial statements, we use the concept of materiality to determine the nature, timing and extent of our work, and in evaluating the results of our work. We define materiality as the size of the misstatement in the financial statements that would lead a reasonably knowledgeable person to change or influence their economic decisions.

We determined materiality for the audit of the group financial statements to be £44,460,000, which is 1.5**%** of the group's gross revenue expenditure. We determined materiality for the audit of the Council's financial statements to be £44,360,000, which is 1.5**%** of the Council's gross revenue expenditure. We used this benchmark as, in our view, users of the group and Council's financial statements are most interested in where the group and Council has spent its revenue in the year.

We also identified senior officers remuneration as a sensitive item and set a lower materiality of £100,000 for testing these items based on the fact that we consider the disclosures to be sensitive and of specific interest to the reader of the financial statements.

We set a lower threshold of £2,200,000, above which we reported errors to the Audit Committee in our Audit Findings Report.

The scope of our audit

Our audit involves obtaining sufficient evidence about the amounts and disclosures in the financial statements to give reasonable assurance that they are free from material misstatement, whether caused by fraud or error. This includes assessing whether:

- the accounting policies are appropriate, have been consistently applied and adequately disclosed;
- the significant accounting estimates made by management are reasonable; and
- the overall presentation of the financial statements gives a true and fair view.

We also read the remainder of the financial statements and the narrative report and annual governance statement published alongside the financial statements to check it is consistent with our understanding of the Council and with the financial statements included in the Annual Report on which we gave our opinion.

We carry out our audit in accordance with ISAs (UK) and the NAO Code of Audit Practice. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our audit approach was based on a thorough understanding of the Council's business and is risk based.

We identified key risks and set out overleaf the work we performed in response to these risks and the results of this work.

Audit of the Financial Statements

Significant Audit Risks

These are the significant risks which had the greatest impact on our overall strategy and where we focused more of our work.

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
Management override of controls Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. The Council faces external scrutiny of its spending, and it could potentially place management under undue pressure in terms of how they report performance. We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk, which was one of the most significant assessed risks of material misstatement.	As part of our audit procedures we have: • evaluated the design effectiveness of management controls over journals; • analysed the journals listing and determined the criteria for selecting high risk unusual journals; • tested unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration; • gained an understanding of the accounting estimates and critical judgements applied made by management and consider their reasonableness with regard to corroborative evidence; • evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions; and • reviewed and tested consolidation adjustments and intra-group elimination entries.	Our audit work to date has not identified any issues in respect of management override of controls.
Valuation of equal pay liability Under ISA540 (Auditing Accounting Estimates, including Fair Value Accounting Estimates and Related Disclosures), the auditor is required to make a judgement as to whether any accounting estimate with a high degree of estimation uncertainty gives rise to a significant risk. We identified the valuation of the equal pay provision as a risk requiring special audit consideration.	As part of our audit procedures we have: • updated our understanding of the process and controls put in place by management and evaluated the design of the associated controls in place to estimate the equal pay provision; • evaluated the assumptions on which the equal pay provision estimate was based; • assessed the events or conditions that could have changed the basis of estimation; • reperformed the calculation of the estimate on a sampling basis; • undertaken procedures to assess whether the estimate has been determined and recognised in accordance with accounting standards; • determined how management assessed the estimation uncertainty; and • evaluated the impact of any subsequent transactions or events.	We are satisfied that the financial statements are not materially misstated in respect of the valuation of the equal pay liability.

Audit of the Financial Statements

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
Valuation of property, plant and equipment (specifically council dwellings, other land and buildings, and surplus assets) The Council revalues its land and buildings on a rolling five-yearly basis as well as undertaking a review of assets not valued in year and any movement until the year end. This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved (£4.8 billion in 17/18) and the sensitivity of this estimate to changes in key assumptions. Additionally, management will need to ensure the carrying value in the Council and group financial statements is not materially different from the current value or the fair value (for surplus assets) at the financial statements date, where a rolling programme is used We therefore identified valuation of land and buildings, particularly revaluations and impairments, as a significant risk, which was one of the most significant assessed risks of material misstatement, and a key audit matter. It should be noted that enhanced auditor scrutiny over the valuations of property, plant and equipment has been undertaken nationally based on recommendations from the Financial Reporting Council and all Local Government Authorities have been subject to these enhanced audit procedures.	**Auditor commentary** Upon receipt of the draft accounts we identified this risk relates to the council only. As part of our audit procedures we have: • evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to the valuation expert and the scope of their work; • evaluated the competence, capabilities and objectivity of the valuation expert; • written to the valuer to confirm the basis on which the valuation was carried out; • challenged the information and assumptions used by the valuer and assessed completeness and consistency with our understanding; • tested revaluations made during the year to see if they had been input correctly into the Council's asset register; • evaluated the assumptions made by management for those assets not revalued during the year and those valued at 1 April 2018, and how management satisfied themselves that these were not materially different to current value at year end; • evaluated the beacons used for the HRA valuation in order to ensure that the classes used are still appropriate and reflected the Council's housing stock as well as challenging the basis of valuation of such beacons; • used Gerald Eve as our auditor's expert to determine our valuation expectations and also engaged Wilkes Head and Eve LLP to complete an independent commentary on the valuations of both HRA and non HRA assets.	From our initial audit procedures on the valuation of PPE we had some concerns over the valuation process as a whole, including the robustness and consistency of valuation movements. We therefore engaged an auditor's expert to provide us with additional assurance over the valuation. The outcome of this external expert review is that the overall methods and assumptions used in the valuation of PPE (specifically council dwellings, other land and buildings, and surplus assets) are appropriate and reasonable, and that the valuation movements are in line with market trends in Birmingham over the 2018/19 financial year. In addition, we have identified a number of issues as part of our work on the valuation of property, plant and equipment which are set out below and on the following page. **Council Dwellings** We identified a £51.0m credit to the CIES relating to depreciation incorrectly reversed through the CIES on revaluation. We identified a similar error in 2017/18. This had no impact on net book value and has been amended for within the financial statements.

Audit of the Financial Statements

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
Valuation of property, plant and equipment (specifically council dwellings, other land and buildings, and surplus assets)		**Other Land and Buildings** We identified two errors from our testing: • An understatement of £27.3m in the revaluation of secondary schools due to the incorrect primary school Modern Equivalent Asset (MEA) basis being applied. • An understatement of £26.7m in building assets valued on a Depreciated Replacement Cost (DRC) basis. This is due to the historic process of capitalising expenditure which did not impact upon the current value of the asset, and including depreciation within the assets revaluation when uplifted by Building Cost Information Service (BCIS) indices. Both of these have been amended for within the financial statements. **Surplus assets** We identified an overstatement of £93.5m in the revaluation of surplus assets due to a valuation processing error where the valuation was applied to an incorrect asset. Whilst significant, this error makes up 1.6% of the total properly, plant and equipment asset base for the Council. This has been amended for within the financial statements. **Conclusion** Apart from the points noted above, our audit work has not identified any further issues in respect of valuation of property, plant and equipment (specifically council dwellings, other land and buildings and surplus assets). None of the adjustments above impact on the Council's General Fund Balances,

Audit of the Financial Statements

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
Valuation of pension fund net liability The Council's pension fund net liability, as reflected in its balance sheet as the net defined benefit liability, represents a significant estimate in the financial statements and group accounts. The pension fund net liability is considered a significant estimate due to the size of the numbers involved (£2.6 billion in the Council's balance sheet in 2017/18) and the sensitivity of the estimate to changes in key assumptions. We therefore identified valuation of the Council's pension fund net liability as a significant risk, which was one of the most significant assessed risks of material misstatement, and a key audit matter. It should be noted that enhanced auditor scrutiny over the valuations of pension fund net liabilities has been undertaken nationally on recommendations from the Financial Reporting Council and all Local Government Authorities have been subject to these enhanced audit procedures.	As part of our audit procedures we have: • updated our understanding of the processes and controls put in place by management to ensure that the Council's pension fund net liability is not materially misstated and evaluated the design of the associated controls; • evaluated the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work, and assessed the competence, capabilities and objectivity of this management actuary; • assessed the accuracy and completeness of the information provided by the Council to the actuary to estimate the liability; • tested the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial report from the actuary; • undertaken procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performing any additional procedures suggested within the report; • requested assurances from the auditor of the West Midlands Local Government Pension Fund as to the controls surrounding the validity and accuracy of membership data; contributions data, benefits data and fund assets data sent to the actuary by the pension fund; and the assets held by the pension fund at 31 March 2019; • performed analytical procedures on movements in pension assets and liabilities during the year.	We identified a number of risks as part of our work on the valuation of pension fund net liability: • McCloud judgement – the Council has proactively responded to this emerging national issue by obtaining a revised IAS 19 valuation from its actuary. The accounts have been amended to reflect an increase of £48.6m in the net pension liability with a related impact on the CIES. • Guaranteed Minimum Pension (GMP) – we have considered the actuary's approach to inclusion of GMP liabilities in the Council's net pension liability and have identified that the Council's pension liability may be overstated by approximately 0.15%, or £10m. . We are satisfied that this does not indicate a risk of material misstatement within the estimate. • Use of estimated data – we identified a difference of £9.1m between the actuary's estimate of annual pensionable pay used to calculate the service cost for the year, and the actual pensionable pay for the Council for 2018/19. We are satisfied that given the nature of the estimate, this is reasonable and the discrepancy does not indicate a risk of material misstatement. • Birmingham Children's Trust settlement – we identified a discrepancy of £6.1m between the value of liabilities transferred out of the Council's pension liability and that transferred into the Children's Trust pension liability. We are satisfied that these issues do not indicate a risk of material misstatement within the estimate. **Conclusion** We are satisfied that the amended accounts reflect a reasonable estimate of the Council's pension liability including the impact of the McCloud judgement, and that the remaining issues identified do not indicate a risk of material misstatement of the estimate. We have set out further details of our review of the actuary's estimation process on pages 20 to 21. Amendments have not been made to the group accounts for the impact of McCloud on the pension liabilities of subsidiaries, as the changes are not considered to be material.

Audit of the Financial Statements

Audit opinion

We gave an unqualified opinion on the Council's financial statements on 26 September 2019.

Preparation of the financial statements

The Council presented us with draft financial statements in accordance with the national deadline, and provided a good set of working papers to support them.

Issues arising from the audit of the financial statements

We reported the key issues from our audit to the Council’s Audit Committee on 24 September 2019.
In addition to the key audit risks reported above, we identified a number of recommendations throughout our audit that we have asked the Council's management to address for the next financial year.

Annual Governance Statement and Narrative Report

We are required to review the Council’s Annual Governance Statement and Narrative Report. It published them on its website within the Statement of Accounts in line with the national deadlines.

Both documents were prepared in line with the CIPFA Code and relevant supporting guidance. We confirmed that both documents were consistent with the financial statements prepared by the Council and with our knowledge of the Council.

Whole of Government Accounts (WGA)

We carried out work on the Council’s Data Collection Tool in line with instructions provided by the NAO. We issued an assurance statement which did not identify any issues for the group auditor to consider on 8 October 2019.

Other statutory powers

We also have additional powers and duties under the Act, including powers to issue a public interest report, make written recommendations, apply to the Court for a declaration that an item of account is contrary to law, and to give electors the opportunity to raise questions about the Council's accounts and to raise objections received in relation to the accounts.

We issued our Statutory Recommendations under section 24 of the Local Audit and Accountability Act 2014 in July 2018 and March 2019.

Certificate of closure of the audit

We certified that we have completed the audit of the financial statements of Birmingham City Council in accordance with the requirements of the Code of Audit Practice on 8 October 2019.

Value for Money conclusion

Background

We carried out our review in accordance with the NAO Code of Audit Practice, following the guidance issued by the NAO in November 2017 which specified the criterion for auditors to evaluate:
In all significant respects, the audited body takes properly informed decisions and deploys resources to achieve planned and sustainable outcomes for taxpayers and local people.

Key findings

Our first step in carrying out our work was to perform a risk assessment and identify the risks where we concentrated our work.

The risks we identified and the work we performed are set out overleaf.

Overall Value for Money conclusion

We are satisfied that, in all significant respects, except for the matter we identified overleaf, the Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2019.

Value for Money conclusion

Value for Money Risks

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
Finance The Council's Business Plan 2018+ identified continuing savings pressures, with a requirement of £117.0 million of savings to be delivered by the end of 2021/22 . The key risk is that the proposed 2018/19 savings schemes have not delivered the required recurrent savings, or are taking longer to implement than planned. In addition, the Council's financial plan for 2019/20 to 2022/23 needs to incorporate realistic and detailed savings plans. This needs to take account of key budget and service risks, whilst maintaining an adequate level of reserves to mitigate the impact of budget risks including the HMMPFI contract (see risk 3), Commonwealth Games (see risk 4), Equal Pay, Paradise Circus and Acivico Limited. We considered the Council's latest financial reports, including savings plans trackers, to establish how the Council is identifying, managing and monitoring these risks. This will involve considering the adequacy of reserves and their prudent use as well as the transparency of financial reporting.	BCC set its net revenue budget of £855.2m on 27 February 2018. Included within this budget was an assumed use of £30.5m of reserves to support budgetary pressures and a savings programme totalling £52.9m in 2018/19. Savings not fully achieved from previous years amounted to £15.7m totalling a planned savings target of £68.6m to be met in 2018/19. The GF revenue outturn position for 2018/19 showed an underspend of £5.9m comprising of a £14.6m underspend on base budget, £10.1m of savings not delivered in 18/19 and an accelerated achievement of part of the efficiency target of £5.7m. In 2018/19, £28.6m net use of total reserves was planned. However, at year end, there was an overall net contribution of £48.7m to reserves, resulting in an overall net increase to planned reserves of £77.3m. This increase related mainly to contract payments withheld in respect of a contract dispute which will be released in future years to undertake the work which has not yet been carried out. The month 3 Corporate Revenue Budget Monitoring report position up to the end of June 2019 identified the forecast outturn position to be an overspend of £17.440m. This indicates a slight improvement from the month 2 position and the Council is actively pursuing mitigations to resolve this overspend position. The 2019/20 approved savings target of £58.276m has 5.55% which is considered undeliverable and 11.58% which is at risk of non-delivery. Directorates have been requested to identify recovery plans to address these shortfalls and these proposals will be brought to Cabinet where necessary. The Council has also implemented a new reserves policy in the 'Financial Plan 2019-2023' for 2019/20 onwards which explicitly states that reserves can only be used on a one-off basis and that reserves are not to be used to avoid the necessity to achieve or the failure to deliver ongoing savings. All anticipated use of reserves should be understood and recognised as part of the budget setting process and agreed when Council approve the budget. In addition, any use of, or contribution to, reserves after the budget has been set should be approved by Cabinet or the section 151 officer.	Whilst we would emphasise that the Council did not achieve £10.1m of planned savings in 2018/19, we do recognise an achievement of £14.6m underspend on the 2018/19 base budget and a marked improvement in the budget management over the last year, coupled with enhanced transparency and control over the use of reserve balances. Of the 2019/20 savings target, 5.55% is undeliverable and 11.58% is at risk of non-delivery, which amounts to £9.983m. The Council is actively taking mitigating actions to identify recovery plans and we are satisfied the Council's remaining useable reserves (assuming 'worse case' scenario) could substantially cover the non-delivery of this savings total and budget pressures during 2019/20 and 2020/21. Savings proposals over the next four years are sufficiently detailed within the financial plan with the financial impact being split out between years. In 2019/20 £16.946m out of the £46.191m of savings are 'new' initiatives. On that basis, we concluded that the risk was sufficiently mitigated and that the Council had planned its finances effectively to support the sustainable delivery of strategic priorities and maintain statutory functions as part of sustainable resource deployment.

Value for Money conclusion

Value for Money Risks

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
Governance and the Waste Service The key risk is that the Council fails to implement adequate governance arrangements. In particular, in relation to the waste dispute in order to minimise potential industrial action. We evaluated the governance arrangements in place for the Waste Service as well as considering the progress made by the Council in considering options for the delivery of the refuse collection service.	In July 2018 and March 2019 we issued statutory recommendations to the Council, including recommendations relating to Governance and Waste Service following successive waste strikes and concerns over governance arrangements. We noted in our March 2019 recommendations that 'whilst good progress has been made in a number of areas in delivering against the recommendations, progress in relation to the refuse collection service, in particular, has been hampered by a new wave of industrial action'. There has not been any further industrial action to date since the statutory recommendations were issued in March 2019. The current Memorandum of Understanding ends in November 2019 so there will be a need to make a decision on the future direction of the service by this point. In March 2019, Cabinet approved a proposal to commission a review of the Waste Service and the specification for the review. The review will consist of two phases; Phase 1 will consist of the service review and options appraisal with Phase 2 being implementation. The Council has appointed Woods to carry out this review, with the Phase 1 report originally expected in September 2019. The Council intend to wait for this report before making decisions about future options for the service.	We identified in our initial risk assessment that the key risk is that the Council fails to implement adequate governance arrangements. In particular, in relation to the waste dispute in order to minimise potential industrial action. The independent review was originally due to report in September 2019 and the Council intend to wait for this report before making decisions about the future operating model for the Waste service. We therefore did not yet have sufficient information to conclude that this risk had been sufficiently mitigated and concerns still existed over the effectiveness of industrial relations. We concluded that these matters are evidence of weakness in informed decision making: acting in the public interest through demonstrating and applying principles and values of sound governance.

Value for Money conclusion

Value for Money Risks

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
HMMPFI (Highways Maintenance and Management PFI) Contract The Council entered into the HMMPFI contract to improve the city's highway infrastructure and provide operational services on the highway network over the full 25-year contract term. The Council's contract is with Amey Birmingham Highways Ltd (ABHL), a 'special purpose vehicle' company that employs Amey LG (a subsidiary of Amey plc, providing highway maintenance and management services) as its main subcontractor to provide the services. After various contract disputes and litigation cases the Court of Appeal judgement awarded in the Councils favour and the Supreme Court refused to grant leave to appeal which effectively ended the legal process. There was then an acceptance that the only way forward is for Amey LG to exit the contract. The key risk is the ongoing contractual disputes with Amey Birmingham Highways Limited as the Special Purpose Vehicle who sub-contract to Amey LG Limited (and other involved parties) in respect of the HMMPFI contract, which could have a significant impact on the Council's financial sustainability. We assessed the latest information relating to this contract, to establish how the Council is identifying, managing and monitoring this risk.	Whilst the HMMPFI contract settlement between Amey LG and ABHL, which took place on 29 June 2019, carries significant financial risks for the Council, the Council has been proactive in achieving a settlement which represents the best possible outcome it could expect to receive and has mitigated its risks where possible. The settlement agreed by ABHL for £215m comprised: - £100m on settlement (paid on 1 July 2019) - £30m by September 2019 - £30m by December 2019 - £55m deferred (payable on sale of Amey or otherwise five annual instalments between 2020 and 2025). Both Amey UK plc and Amey plc filed their accounts later than the Companies House deadline of 30 June 2019 and both audit reports contains a material uncertainty in relation to going concern (albeit with unqualified audit opinions). The auditors have drawn attention to the proposed plans of Ferrovial to sell the Group and the impact this will have on the ability to continue as a going concern. We are satisfied that any potential sale of the Group will require significant due diligence and the completion of the payments detailed within the settlement agreement is unlikely to be impacted. Whilst the risk remains that the lenders could withdraw their investment upon default, the Council has mitigated this risk as far as possible and has worked with the lenders to reduce covenant levels as well as reducing the likelihood of default scenarios.	Overall, we were satisfied that the Council's arrangement for managing the PFI contract dispute and for securing the settlement between Amey LG and ABHL were adequate. Whilst with any complex PFI contract settlement there will inevitably be financial and non financial risks, the Council has appropriately mitigated these risks where possible and has managed the process effectively and with transparency between Officers and Members. From a financial perspective the Council has built up healthy reserve balances of £180m as a contingency plan and is prepared to step in as the interim PFI contractor if necessary under 'step in' rights. As a result, we concluded that the HMMPFI significant VfM risk was mitigated for 2018/19.

Value for Money conclusion

Value for Money Risks

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
Commonwealth Games The key risk is that the cost of hosting the Commonwealth Games will impact on the Council's future financial sustainability. We assessed the Council's latest governance arrangements for the delivery of the XXII Commonwealth Games in 2022 and the associated funding arrangements, to establish how the Council is identifying, managing and monitoring this risk.	The Council has strengthened its governance arrangements for the delivery of the Commonwealth Games in the last 12 months and issued the 2022 Commonwealth Games Cross Partner Governance Framework in February 2019. The framework sets out the reporting lines for the various Boards, Groups and indicative cross partner working groups. These include the Commonwealth Games Strategic Board (CGSB) and the Commonwealth Games Chief Executives Group (CGCEG) which reports to the CGSB. The Security Board which reports to the CGSB and the Finance Group, the Budget Oversight Group and the Cross Partner Programme Group (CPPG) all report to the CGCEG. The 10 indicative cross partner working groups report to the CPPG or the CGCEG is the case of escalated issue resolution and setting of operational/tactical direction. Central Government announced that the cost of the Commonwealth Games would be £778m in June 2019. Central Government will fund around 75 per cent (£593.6m) and the Council is responsible for about 25 per cent (£184.4m). The Council is looking to secure about £75m in funding from various games partners including West Midlands Combined Authority, Local Enterprise Partnerships (LEPs), Midlands Engine and some local universities. At this point in time, whilst a number of these options are at a fairly advanced stage, none of the planned partner funding has been formally agreed. The Council's remaining share of £109.4m is split between £39m revenue funding, the majority of this (£37.8m) is due in 2022/23 and £70.4m capital funding of which only £14.7m is due in 2019/20.	We identified in our initial risk assessment that the key risk is that the cost of hosting the Commonwealth Games will impact on the Council's future financial sustainability. We are satisfied that the Council has put in place appropriate governance arrangements to oversee the delivery of the Commonwealth Games. In addition, following Central Government's confirmation that the total cost of the Commonwealth Games will be £778m with the Council's local commitment totalling £184.4m which includes as yet unconfirmed local partner funding of c.£75m, we were satisfied that the Council is working closely with partners to secure the partner funding. As a result, we concluded that the Commonwealth Games significant VfM risk was mitigated for 2018/19. We will continue to monitor the Council's progress with securing planned partner funding for the Commonwealth Games as part of our 2019/20 VfM review.

Value for Money conclusion

Value for Money Risks

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
Services for Vulnerable Children The Council's services for vulnerable children have been rated as 'inadequate' by Ofsted for over 10 years. An Ofsted monitoring visit in March 2018 highlighted that the Council had made some further improvements to the quality of social work practice since the last inspection, but that further work remained to be done to ensure that practice was consistently good and that the best outcomes for children are achieved on a timely and consistent basis. The key risk is that the service does not show demonstrable improvement during 2018/19 and continues to be subject to external intervention. Until such time as Ofsted has confirmed that adequate arrangements are in place this remains a significant risk to the Council. Ofsted have undertaken a further inspection of services for vulnerable children during 2018/19. We assessed the findings from Ofsted's most recent inspection, which were reported in January 2019, to establish how the Council is identifying, managing and monitoring this risk.	The Office for Standards in Education (Ofsted) completed an inspection of children's social care services at the Council between 3 December and 14 December 2018 and published its findings in a report on 17 January 2019. The Council's services for vulnerable children have been rated as 'inadequate' by Ofsted for over 10 years, but the report published in January 2019 concluded that the Council's children's social care services were 'requires improvement to be good'. The report stated that "The local authority, the shadow board, and since its inception in April 2018, Birmingham Children's Trust (BCT), have made good progress from a low base in improving the quality of services to children and families. They have made good use of monitoring visits since the 2016 inspection and many of the recommendations for improvement from that inspection have been acted on effectively. The delegation of statutory functions to BCT has enabled the re-vitalisation of both practice and working culture, and, as a result, progress has been made in improving the experiences and progress of children." Ofsted's report also highlighted the following areas which need to improve: • the quality, effectiveness and pace of partnership working with external agencies, including partner-led early help services; • trust and confidence between the courts and BCT; • effectiveness of the fostering service; • robust and timely focus on all permanence options for children; • alignment of the approach to contextual safeguarding; and • the impact of the virtual school in improving provision for children in care. In response to Ofsted's report, the Council has developed an action plan to address the areas in need of improvement which has been discussed and agreed with Ofsted.	We identified in our initial risk assessment that the key risk is that the service does not show demonstrable improvement and continues to be subject to external intervention. The findings of the Ofsted inspection undertaken in December 2018 and report in January 2019 meant that, as a result of the overall rating of 'requires improvement to be good', we are satisfied that the Council's arrangements for services for vulnerable children are appropriate. On that basis, we concluded that the risk had been sufficiently mitigated and that the Council had appropriate arrangements in place relating to managing risks effectively and maintaining a sound system of internal control, demonstrating and applying the principles and values of good governance, as part of informed decision making and planning, organising and developing the workforce effectively to deliver strategic priorities as part of strategic resource deployment.

Value for Money conclusion

Value for Money Risks

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
Management of Schools Significant failings in the Council's management of schools were identified in a review by Peter Clarke in July 2014. Since this review the Council has taken and continues to take action to improve its management of schools through the implementation of an improvement plan. The key risk is that the governance issues identified at schools will not be effectively addressed during 2018/19. As part of the assessment of schools' governance improvement the Council commissioned Birmingham Audit (internal audit) to carry out a programme of audits over a two-year period to 31 March 2019. The 2017/18 findings showed that there are a range of governance issues still to be addressed. We assessed the progress made by Internal Audit within their coverage of schools governance, to establish how the Council is identifying, managing and monitoring this risk.	Significant failings in the Council's management of schools were identified in a review by Peter Clarke in July 2014. Since this review the Council has taken and continues to take action to improve its management of schools through the implementation of its improvement plan. Birmingham Education Partnership (BEP) is responsible for driving improvement in schools performance and does so using the following structure: • leadership and governance; • continuous improvement; • wellbeing and enrichment; • partnership and communication; and • compliance & OFSTED. Continuous improvement focuses on initiatives which are helping to improve performance in schools. These include the following: • families of schools; • strategic school improvement fund (SSIF); • BEP peer review programme; and • raising attainment of disadvantaged youngsters (RADY). As part of the assessment of schools governance improvement Birmingham Audit (internal audit) has been commissioned to carry out a programme of audits over a two year period. Their findings have continued to show that there are still a range of governance issues to address across the schools visited, 37 of the 50 schools audits (74%) undertaken by internal audit in 2017/18 were assessed as 'level 3' assurance (specific control weaknesses of a significant nature noted, and/or the number of minor weaknesses noted was considerable) but none of the schools were assessed as 'level 4' assurance (controls evaluated are not adequate, appropriate or effective. Risks are not being managed and it is unlikely that objectives will be met). However, 42 of the 50 schools reviewed this year were given an overall risk rating of low (84%).	We identified in our initial risk assessment that the key risk was that plan implementation will be slower than envisaged and underlying issues will not be effectively addressed. Continuous improvement initiatives implemented by the BEP are driving performance improvement in schools. 84% of the schools reviewed by Birmingham Audit this year were given an overall risk rating of low. We recognise Birmingham schools continue to be in the national spotlight for a number of reasons and there are an increasing number of schools experiencing a deficit position for the first time. However, we do not consider these matters to be material to the Council's overall management of those schools. On that basis, we concluded that the risk had been sufficiently mitigated and that the Council had appropriate arrangements in place to manage risks effectively and maintaining a sound system of internal control, demonstrating and applying the principles and values of good governance, as part of informed decision making and planning, organising and developing the workforce effectively to deliver strategic priorities as part of strategic resource deployment.

Value for Money conclusion

Value for Money Risks

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
Improvement Panel The Birmingham Independent Improvement Panel published its final report on 2 April 2019 subsequent to the Panel standing down from the end of March 2019.	Our review of the Panel's final report dated 2 April 2019 has confirmed that all the key risks that the Council is facing are covered by the other six significant VfM risks that we identified during this year's risk assessment process. The Panel's report reflects on the progress made by the Council since June 2018 and acknowledges that "The Council has worked hard over the last year and made considerable progress on many fronts." However, the report also highlights the scale of the challenges that the Council is facing. In particular, the report stated that: "The biggest risk is if a number of these key risks coincide. The Council's Financial Plan 19+ outlines both the extent of the financial risks facing the Council and its level of reserves. The financial risks include demographic pressures, capital project overruns, major contract disputes, potential changes to the business rates regime, the Commonwealth Games and Equal Pay. It is clear that if all the Council's risks that have detrimental financial implications were to come together the Council's financial resilience would be sorely tested." In its report the Panel acknowledges that "the Council is intending to maintain constructive and critical challenge through internal scrutiny and sector-led arrangements." However, in its recommendation to the Secretary of State the Panel said ".....in the light of the exceptional risks that the Council is facing and particularly its industrial relations context, we consider that type of challenge will be insufficient. We therefore recommend that the Secretary of State should put in place external independent challenge and support, additional to that proposed by the Council, to replace the Panel."	We considered the findings of the Panel's final report and concluded that all the weaknesses in the Council's arrangements highlighted in it are covered by the other six significant VfM risks identified by our initial risk assessment for 2018/19. As a result, we no longer considered the Improvement Panel to be a significant risk. We will continue to monitor the Secretary of State's response to the Panel's final report and consider any actions arising as part of our 2019/20 VfM review.

A. Reports issued and fees

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

Reports issued

Report	Date issued
Audit Plan	18 June 2019
Audit Findings Report	24 September 2019
Annual Audit Letter	8 October 2019

Fees

	Planned £	Actual fees £
Statutory audit	241,909	288,609
Total fees	**241,909**	**288,609**

Audit fee variation

As outlined in our audit plan, the 2018-19 scale fee published by PSAA of £241,909 assumes that the scope of the audit does not significantly change. There are a number of areas where the scope of the audit has changed, which has led to additional work. These are set out in the following table.

Fee variations are subject to PSAA approval.

Area	Reason	Fee £
Statutory Recommendation	Issue of the March 2019 Statutory Recommendation and follow up	8,000
Enhanced audit report	In line with prior years we have charged an additional £4,000 for the Enhanced Audit Report	4,000
Increase in Value for Money (VfM) significant risks	Our initial VfM risk assessment identified seven significant risks for the Council in 2018-19. Based on our local government retender we expected to address up to three significant risks. Given the high level of significant risks for the Council we have undertaken 12 additional days work in order to give provide our VfM conclusion.	9,600
HMMPFI additions, impairment and assessment of the PFI model	The complexities within the HMMPFI scheme due to the settlement with Amey LG Ltd this year have led to us to undertake a more detailed assessment of the model and reserve balances held. We have also undertaken additional work in relation to the impairment of highways additions.	3,200
Assessing the impact of the McCloud ruling	The Government’s transitional arrangements for pensions were ruled discriminatory by the Court of Appeal last December. As part of our audit we have reviewed the revised actuarial assessment of the impact on the financial statements along with any audit reporting requirements.	2,400
Pensions – IAS 19	The Financial Reporting Council has highlighted that the quality of work by audit firms in respect of IAS 19 needs to improve across local government audits. Accordingly, we have increased the level of scope and coverage in respect of IAS 19 this year to reflect this.	1,600
PPE Valuation – work of experts	As above, the Financial Reporting Council has highlighted that auditors need to improve the quality of work on PPE valuations across the sector. We have increased the volume and scope of our audit work to reflect this. We have also engaged an auditor's expert to ensure the significant valuation movements provided from the Council’s internal valuer are appropriate.	8,300
Audit evidence receipt delays	In line with previous years we agreed a three-day turnaround to ensure audit testing is completed efficiently by 31 July. This deadline was not met for a substantial proportion of audit evidence requested by the audit team which has led to an additional 6 days of audit time.	4,800
Operating expenditure cut-off	We identified a weakness in controls in relation to the cut off of operating expenditure and required additional testing to gain sufficient audit assurance.	4,800

A. Reports issued and fees continued

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

Fees for non-audit services

Service	Fees £
Audit related services:	
• Housing Benefits Grant Certification 17/18 (under PSAA contract)	21,594
• Housing Benefits agreed upon procedures 18/19	22,000
• Illegal Money Lending Team reasonable assurance engagement 17/18	3,500
• Education Skills Funding Agency agreed upon procedures 17/18 (undertaken September 2018)	4,650
• Education Skills Funding Agency agreed upon procedures 18/19 (undertaken July 2019)	5,000
• Homes England agreed upon procedures 17/18	2,600
• Teachers Pensions agreed upon procedures 17/18	7,100
• Teachers Pensions agreed upon procedures 18/19	7,250
• AMSCI reasonable assurance engagement (undertaken in November 2018)	12,000
• AMSCI reasonable assurance engagement (undertaken in August 2019)	15,000
• Polling of Capital Receipts (CFB06) agreed upon procedures 17/18	5,150
Non-Audit related services	
• CFOi insights 2018/19	10,000
• CASS reporting for Finance Birmingham 17/18 (undertaken June/July 2018)	7,000
• CASS reporting for Finance Birmingham 18/19 (undertaken April-July 2019)	7,000
Total	**129,844**

Non- audit services

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the group. The table above summarises all non-audit services which were identified. We have considered whether non-audit services might be perceived as a threat to our independence as the Council and group's auditor and have ensured that appropriate safeguards are put in place.

The above non-audit services are consistent with the Council's policy on the allotment of non-audit work to your auditor.

Our commitment to our local government clients

- Senior level investment
- Local presence enhancing our responsiveness, agility and flexibility.
- High quality audit delivery
- Collaborative working across the public sector
- Wider connections across the public sector economy, including with health and other local government bodies
- Investment in Health and Wellbeing, Social Value and the Vibrant Economy
- Sharing of best practice and our thought leadership.
- Invitations to training events locally and regionally – bespoke training for emerging issues
- Further investment in data analytics and informatics to keep our knowledge of the areas up to date and to assist in designing a fully tailored audit approach

Our relationship with our clients– why are we best placed?

- We work closely with our clients to ensure that we understand their financial challenges, performance and future strategy.
- We deliver robust, pragmatic and timely financial statements and Value for Money audits
- We have an open, two way dialogue with clients that support improvements in arrangements and the audit process
- Feedback meetings tell us that our clients are pleased with the service we deliver. We are not complacent and will continue to improve further
- Our locally based, experienced teams have a commitment to both our clients and the wider public sector
- We are a Firm that specialises in Local Government, Health and Social Care, and Cross Sector working, with over 25 Key Audit Partners, the most public sector specialist Engagement Leads of any firm
- We have strong relationships with CIPFA, SOLCAE, the Society of Treasurers, the Association of Directors of Adult Social Care and others.

New opportunities and challenges for your community

The Local Government economy

Local authorities face unprecedented challenges including:

- Financial Sustainability – addressing funding gaps and balancing needs against resources
- Service Sustainability – Adult Social Care funding gaps and pressure on Education, Housing, Transport
- Transformation – new models of delivery, greater emphasis on partnerships, more focus on economic development
- Technology – cyber security and risk management

At a wider level, the political environment remains complex:

- The government continues its negotiation with the EU over Brexit, and future arrangements remain uncertain.
- We will consider your arrangements for managing and reporting your financial resources as part of our work in reaching our Value for Money conclusion.
- We will keep you informed of changes to the financial reporting requirements for 2018/19 through on-going discussions and invitations to our technical update workshops.

Delivering real value through:

- Early advice on technical accounting issues, providing certainty of accounting treatments, future financial planning implications and resulting in draft statements that are 'right first time'
- Knowledge and expertise in all matters local government, including local objections and challenge, where we have an unrivalled depth of expertise.
- Early engagement on issues, especially on ADMs, housing delivery changes, Children services and Adult Social Care restructuring, partnership working with the NHS, inter authority agreements, governance and financial reporting
- Implementation of our recommendations have resulted in demonstrable improvements in your underlying arrangements, for example accounting for unique assets, financial management, reporting and governance
- Robust but pragmatic challenge – seeking early liaison on issues, and having the difficult conversations early to ensure a 'no surprises' approach – always doing the right thing
- Providing regional training and networking opportunities for your teams on technical accounting issues and developments and changes to Annual Reporting requirements
- An efficient audit approach, providing tangible benefits, such as releasing finance staff earlier and prompt resolution of issues.

Grant Thornton in Local Government

Our client base and delivery

- We are the largest supplier of external audit services to local government
- We audit over 150 local government clients
- We signed 95% of our local government opinions in 2017/18 by 31 July
- In our latest independent client service review, we consistently score 9/10 or above. Clients value our strong interaction, our local knowledge and wealth of expertise.

Our connections

- We are well connected to MHCLG, the NAO and key local government networks
- We work with CIPFA, Think Tanks and legal firms to develop workshops and good practice
- We have a strong presence across all parts of local government including blue light services
- We provide thought leadership, seminars and training to support our clients and to provide solutions

Our people

- We have over 25 engagement leads accredited by ICAEW, and over 250 public sector specialists
- We provide technical and personal development training
- We employ over 80 Public Sector trainee accountants

Our quality

- Our audit approach complies with the NAO's Code of Audit Practice, and International Standards on Auditing
- We are fully compliant with ethical standards
- Your audit team has passed all quality inspections including QAD and AQRT

Our technical support

- We have specialist leads for Public Sector Audit quality and technical
- We provide national technical guidance on emerging auditing, financial reporting and ethical areas
- Specialist audit software is used to deliver maximum efficiencies