# Updated External Audit Plan

*Year ending 31 March 2019*

Birmingham City Council

May 2019

# Contents

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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit planning process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the Council or all weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. 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.

# Introduction & headlines

### Purpose

This document provides an overview of the planned scope and timing of the statutory audit of Birmingham City Council ('the Council') for those charged with governance.

### Respective responsibilities

The National Audit Office ('the NAO') has issued a document entitled Code of Audit Practice ('the Code'). This summarises where the responsibilities of auditors begin and end and what is expected from the audited body. Our respective responsibilities are also set out in the Terms of Appointment and Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA), the body responsible for appointing us as auditor of Birmingham City Council. We draw your attention to both of these documents on the PSAA website.

### Scope of our audit

The scope of our audit is set in accordance with the Code and International Standards on Auditing (ISAs) (UK). We are responsible for forming and expressing an opinion on the :

- Council and group's financial statements that have been prepared by management with the oversight of those charged with governance (the Audit committee); and
- Value for Money arrangements in place at the Council for securing economy, efficiency and effectiveness in your use of resources.

The audit of the financial statements does not relieve management or the Audit Committee of your responsibilities. It is the responsibility of the Council to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Council is fulfilling these responsibilities.

Our audit approach is based on a thorough understanding of the Council's business and is risk based. We will be using our new audit methodology for the 2018/19 audit which will enable us to be more responsive to changes that may occur in your organisation.

| | |
|---|---|
| **Group Accounts** | The Council is required to prepare group financial statements that consolidate the financial information of<br>• Acivico Limited<br>• Birmingham City Propco Limited<br>• Innovation Birmingham Limited (disposed of in April 2018)<br>• InReach (Birmingham) Limited<br>• National Exhibition Centre (Developments) Plc<br>• PETPS (Birmingham) Limited<br>• PETPS (Birmingham) Pension Fund Scottish Limited Partnership<br>• Birmingham Children's Trust CIC<br>• Birmingham Airport Holdings Limited (Associate)<br>• Paradise Circus General Partner Limited (Joint Venture) |
| **Significant risks** | Those risks requiring special audit consideration and procedures to address the likelihood of a material financial statement error have been identified as:<br>• The non-rebuttable presumed risk under ISA 240 that the risk of management over-ride of controls is present in all entities<br>• Valuation of property, plant and equipment<br>• Valuation of pension fund net liability<br>• Valuation of equal pay provision<br>We will communicate significant findings on these areas as well as any other significant matters arising from the audit to you in our Audit Findings (ISA 260) Report. |

# Introduction & headlines

| | |
|---|---|
| **Materiality** | We have determined planning materiality to be £44.5m (PY £43.8m) for the group and £44.4m (PY £43.6m) for the Council, which equates to 1.5% of your prior year gross expenditure for the year. We are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. Clearly trivial has been set at £2.2m (PY £2.2m). |
| **VfM arrangements** | In 2017/18 we issued a qualified 'adverse' conclusion on the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources. The weaknesses in arrangements which we identified, were both significant in terms of their impact and numerous in terms of the number of different aspects, that we were unable to satisfy ourselves that the Council had proper arrangements to secure VfM.<br><br>Our risk assessment regarding your arrangements to secure value for money for the 2018/19 financial year have identified the following VfM significant risks:<br>• Finance<br>• Governance and the Waste Service<br>• Highways Management and Maintenance PFI (HMMPFI) Contract<br>• Commonwealth Games<br>• Improvement Panel<br>• Services for Vulnerable Children<br>• Management of Schools<br><br>As part of our VfM work we will also follow up on the Statutory Recommendations which were issued to the Council in March 2019 and are attached at appendix A. |
| **Audit logistics** | Our interim visit took place in February and March and our final visit is taking place in June and July. Our key deliverables are this Audit Plan and our Audit Findings Report. Our audit approach is detailed in Appendix A.<br>Our fee for the audit will be £241,909 (PY: £314,618) for the Council, subject to the Council meeting our requirements set out on page 13. |
| **Independence** | We have complied with the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements. |

# Key matters impacting our audit

## Factors

### The wider economy and political uncertainty

Local Government funding continues to be stretched with increasing cost pressures and demand from residents. For Birmingham City Council, there are significant ongoing financial pressures as well as risks such as the waste strike, Equal Pay and the Commonwealth Games.

At a national level, the government continues its negotiation with the EU over Brexit, and future arrangements remain clouded in uncertainty. The Council will need to ensure that it is prepared for all outcomes, including in terms of any impact on contracts, on service delivery and on its support for local people and businesses.

### Changes to the 2018/19 CIPFA Code

The most significant changes relate to the adoption of:

- IFRS 9 Financial Instruments which impacts on the classification and measurement of financial assets and introduces a new impairment model.
- IFRS 15 Revenue from Contracts with Customers which introduces a five step approach to revenue recognition.

### Creation of new subsidiaries

The Children's Trust became operational in 2018/19 and will be consolidated in the Council's group accounts for the first time.

The Council has also provided a guarantee to the Children's Trust relating to the West Midlands Local Government Pension Scheme.

### Other duties under legislation and the Code

We issued written recommendations to the Council in March 2019 under section 24 of the Local Audit and Accountability Act 2014 (attached at appendix A).

## Our response

**The wider economy and political uncertainty**

- 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 consider whether your financial position leads to material uncertainty about the going concern of the Council and will review related disclosures in the financial statements.

**Changes to the 2018/19 CIPFA Code**

- 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.
- As part of our opinion on your financial statements, we will consider whether your financial statements reflect the financial reporting changes in the 2018/19 CIPFA Code.

**Creation of new subsidiaries**

- We will consider the group accounts consolidation including the Children's Trust
- We will review the accounting treatment and valuation of the pension guarantee

**Other duties under legislation and the Code**

- We will follow up with Council Officers on the progress made for each of our Statutory Recommendations and will include our findings within the VfM section of our Audit Report in July 2019.

# Group audit scope and risk assessment

In accordance with ISA (UK) 600, as group auditor we are required to obtain sufficient appropriate audit evidence regarding the financial information of the components and the consolidation process to express an opinion on whether the group financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework.

| Component | Individually Significant? | Audit Scope | Risks identified | Planned audit approach |
|---|---|---|---|---|
| **Birmingham City Council** | Yes | | Please, see page 3 | Full scope UK statutory audit performed by Grant Thornton UK LLP. |
| **Birmingham Children's Trust** | No | Audit of one or more classes of transactions, account balances or disclosures relating to significant risks of the group financial statements. | Valuation of pension net liability<br><br>Accuracy of expenditure | Specific scope procedures to be performed on the valuation of the pension net liability and the accuracy of expenditure incurred by the Trust during the year. These procedures will be performed either by the group auditor or the component auditor. |
| **Birmingham City Propco Ltd** | No | Audit of one or more classes of transactions, account balances or disclosures relating to significant risks of the group financial statements. | Investment properties valuation | Specific scope procedures to be performed on the valuation of investment properties by the group auditor.<br>However, if investment properties are immaterial at year end then we will perform analytical procedures at a group level. |
| **InReach ltd** | No | Analytical procedures | Consolidation process | We plan to perform analytical procedures at a group level.<br>However, if investment properties are material at year end, we will perform specific scope procedures on investment properties valuation to be performed by the group auditor. |
| **NEC (Developments) Plc** | No | Analytical procedures | Consolidation process | We will perform analytical procedures at a group level. |
| **Acivico Ltd** | No | Analytical procedures | Consolidation process | We will perform analytical procedures at a group level. |

# Group audit scope and risk assessment

| Component | Individually Significant? | Audit Scope | Risks identified | Planned audit approach |
|---|---|---|---|---|
| **Innovation Birmingham ltd (disposed of in April 2018)** | No | Analytical procedures | Consolidation process | We will perform analytical procedures at a group level. |
| **PETPS (Birmingham) Pension Fund Scottish Limited Partnership** | No | Analytical procedures | Consolidation process | We will perform analytical procedures on a group level. |
| **PETPS (Birmingham) Ltd** | No | Analytical procedures | Consolidation process | We will perform analytical procedures at a group level. |
| **Birmingham Airport Holdings Ltd (Associate)** | No | Analytical procedures | Consolidation process | We will perform analytical procedures on a group level. |
| **Paradise Circus General Partner Limited (Joint Venture)** | No | Analytical procedures | Consolidation process | We will perform analytical procedures on a group level. |

**Key changes within the group:**

- Birmingham Children's Trust has been established
- Innovation Birmingham Ltd was disposed of during 2018/19

**Audit scope**

- Audit of the financial information of the component using component materiality
- Audit of one more classes of transactions, account balances or disclosures relating to significant risks of material misstatement of the group financial statements
- Review of component's financial information
- Specified audit procedures relating to significant risks of material misstatement of the group financial statements
- Analytical procedures at group level

# Significant risks identified

Significant risks are defined by ISAs (UK) as risks that, in the judgement of the auditor, require special audit consideration. In identifying risks, audit teams consider the nature of the risk, the potential magnitude of misstatement, and its likelihood. Significant risks are those risks that have a higher risk of material misstatement.

| Risk | Risk relates to | Reason for risk identification | Key aspects of our proposed response to the risk |
|---|---|---|---|
| **ISA240 revenue risk (rebutted)** | **Group and Council** | Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue.<br><br>This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition. | Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the Council, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:<br>• there is little incentive to manipulate revenue recognition<br>• opportunities to manipulate revenue recognition are very limited<br>• the culture and ethical frameworks of local authorities, including Birmingham City Council, mean that all forms of fraud are seen as unacceptable<br><br>Therefore we do not consider this to be a significant risk for Birmingham City Council. |
| **Management over-ride of controls** | **Group and Council** | 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.<br><br>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. | We will:<br>• evaluate the design effectiveness of management controls over journals<br>• analyse the journals listing and determine the criteria for selecting high risk unusual journals<br>• test unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration<br>• gain an understanding of the accounting estimates and critical judgements applied made by management and consider their reasonableness with regard to corroborative evidence<br>• evaluate the rationale for any changes in accounting policies, estimates or significant unusual transactions. |

# Significant risks identified

| Risk | Risk Relates to | | Key aspects of our proposed response to the risk |
|---|---|---|---|
| **Valuation of pension net liability** | **Group and Council** | 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.<br><br>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.<br><br>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. | We will:<br>• update 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 evaluate the design of the associated controls;<br>• evaluate the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work;<br>• assess the competence, capabilities and objectivity of the actuary who carried out the Council's pension fund valuation;<br>• assess the accuracy and completeness of the information provided by the Council to the actuary to estimate the liability;<br>• test 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;<br>• undertake 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; and<br>• obtain 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. |

# Significant risks identified

| Risk | Risk Relates to | | Key aspects of our proposed response to the risk |
|---|---|---|---|
| **Valuation of property, plant and equipment (specifically council dwellings, other land and buildings, and surplus assets)** | **Group and Council** | The Council revalues its land and buildings on a rolling five-yearly basis as well as undertaking 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 2017/18) 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<br><br>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. | We will:<br>• evaluate management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work<br>• evaluate the competence, capabilities and objectivity of the valuation expert<br>• write to the valuer to confirm the basis on which the valuation was carried out<br>• challenge the information and assumptions used by the valuer to assess completeness and consistency with our understanding<br>• test revaluations made during the year to see if they had been input correctly into the Council's asset register<br>• evaluate the assumptions made by management for those assets not revalued during the year and those valued at 1st April 2018, and how management has satisfied themselves that these are not materially different to current value at year end:<br>• review the beacons used for the HRA valuation in order to ensure that the classes used are still appropriate and reflect Council's housing stock as well as challenging the basis of valuation of such beacons. |
| **Valuation of equal pay liability** | **Group and Council** | 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.<br><br>We identified the valuation of the equal pay provision as a risk requiring special audit consideration. | We will:<br>• update our documentation of the process and undertake a walkthrough of the controls in place to estimate the equal pay provision;<br>• review the assumptions on which the equal pay provision estimate was based;<br>• consider the events or conditions that could have changed the basis of estimation;<br>• reperform the calculation of the estimate on a sampling basis;<br>• check that the estimate has been determined and recognised in accordance with accounting standards;<br>• determine how management assessed the estimation uncertainty; and<br>• consider the impact of any subsequent transactions or events. |

# Other matters

## Other work

In addition to our responsibilities under the NAO Code of Practice, we have a number of other audit responsibilities, as follows:

- We read your Narrative Report and Annual Governance Statement and any other information published alongside your financial statements to check that they are consistent with the financial statements on which we give an opinion and consistent with our knowledge of the Council.
- We carry out work to satisfy ourselves that disclosures made in your Annual Governance Statement are in line with the guidance issued by CIPFA.
- We carry out work on your consolidation schedules for the Whole of Government Accounts process in accordance with NAO group audit instructions.
- We consider our other duties under legislation and the NAO Code of Practice, as and when required, including:
    - giving electors the opportunity to raise questions about your 2018/19 financial statements, consider and decide upon any objections received in relation to the 2018/19 financial statements;
    - issuing a report in the public interest or written recommendations to the Council under section 24 of the Act, copied to the Secretary of State.
    - applying to the court for a declaration that an item of account is contrary to law under Section 28 or for a judicial review under Section 31 of the Act; or
    - issuing an advisory notice under Section 29 of the Act.
- We certify completion of our audit.

## Other material balances and transactions

Under International Standards on Auditing, "irrespective of the assessed risks of material misstatement, the auditor shall design and perform substantive procedures for each material class of transactions, account balance and disclosure". All other material balances and transaction streams will therefore be audited. However, the procedures will not be as extensive as the procedures adopted for the risks identified in this report.

## Going concern

As auditors, we are required to “obtain sufficient appropriate audit evidence about the appropriateness of management's use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the group's ability to continue as a going concern” (ISA (UK) 570). We will review management's assessment of the going concern assumption and evaluate the disclosures in the financial statements.

# Materiality

### The concept of materiality

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law. Misstatements, including omissions, are considered to be material if they, individually or in aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

### Materiality for planning purposes

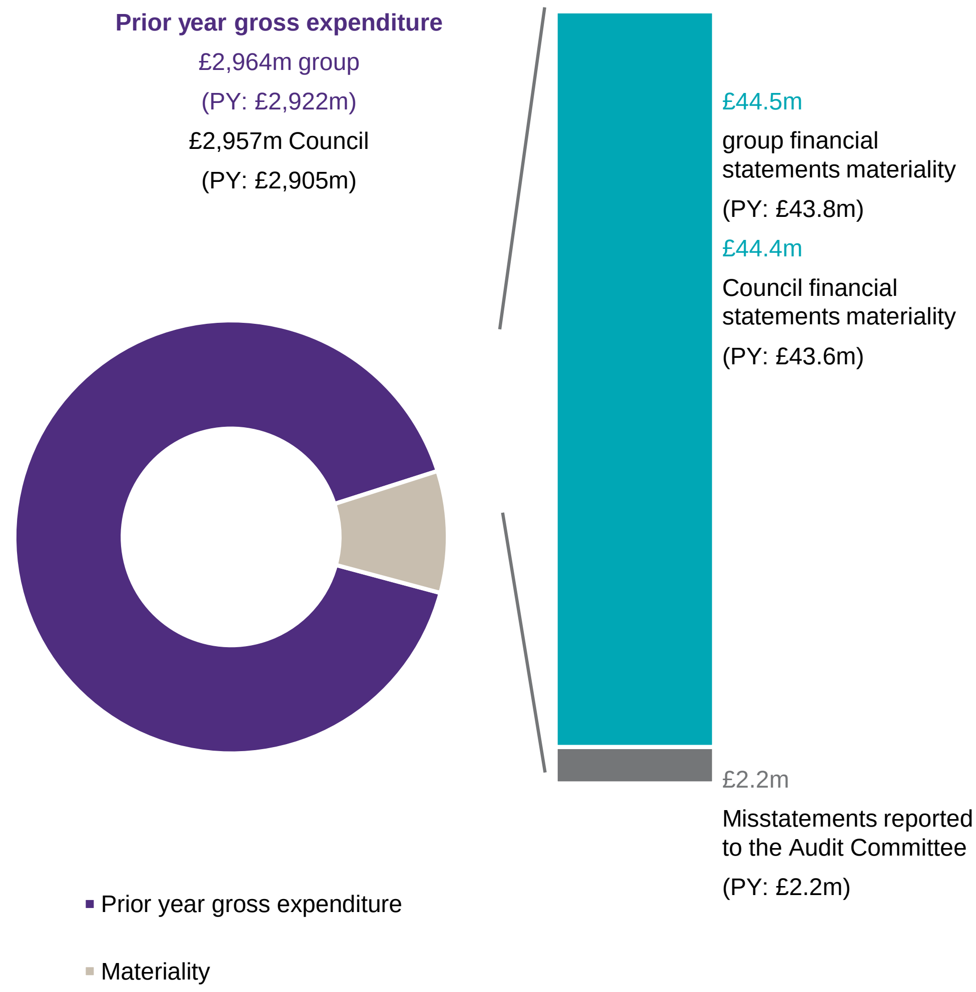
We have determined financial statement materiality based on a proportion of the gross expenditure of the group and Council for the financial year. In the prior year we used the same benchmark. Materiality at the planning stage of our audit is 44.5m (PY £43.8m) for the group and £44.4m (PY £43.6m) for the Council, which equates to 1.5% of your prior year gross expenditure for the year. We design our procedures to detect errors in specific accounts at a lower level of precision which we have determined to be £100k for senior officer remuneration.

We reconsider planning materiality if, during the course of our audit engagement, we become aware of facts and circumstances that would have caused us to make a different determination of planning materiality.

### Matters we will report to the Audit Committee

Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Audit Committee any unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work. Under ISA 260 (UK) 'Communication with those charged with governance', we are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. ISA 260 (UK) defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria. In the context of the group and Council, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £2.2m (PY £2.2m).

If management has corrected material misstatements identified during the course of the audit, we will consider whether those corrections should be communicated to the Audit Committee to assist it in fulfilling its governance responsibilities.



# Value for Money arrangements

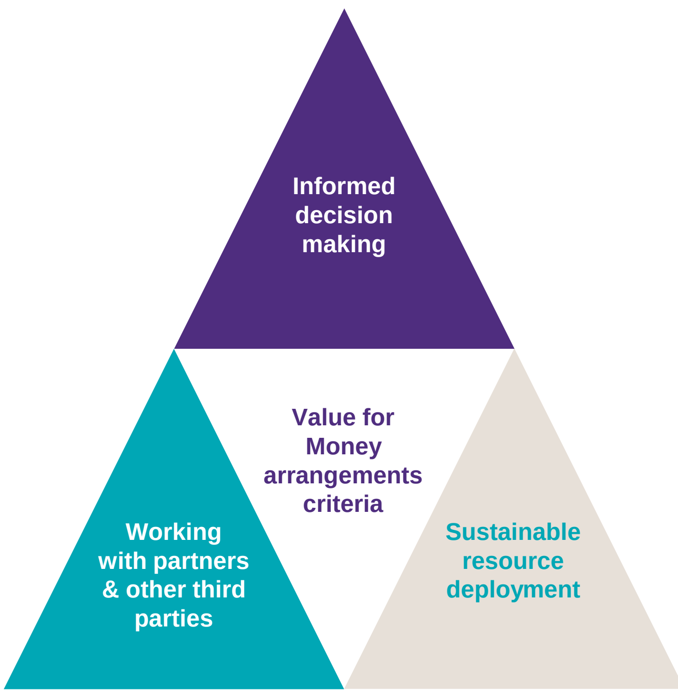
## Background to our VfM approach

The NAO issued its guidance for auditors on Value for Money work in November 2017. The guidance states that for Local Government bodies, auditors are required to give a conclusion on whether the Authority has proper arrangements in place to secure value for money.

The guidance identifies one single 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.”*

This is supported by three sub-criteria, as set out below:




## Significant VfM risks

Those risks requiring audit consideration and procedures to address the likelihood that proper arrangements are not in place at the Council to deliver value for money. In light of the significant financial risks that the Council is facing in delivery of its 2019/20 budget and beyond, we will be reviewing whether it is appropriate or not, to exercise any of the auditor’s formal powers.

### Finance

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 medium term 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 next page), Commonwealth Games (see next page), Equal Pay, Paradise Circus and Acivico Limited.

We will review 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.

### 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 will review the governance arrangements in place for the Waste Service as well as considering the progress made by the Council to review other options for the delivery of the refuse collection service.

# Value for Money arrangements (continued)

### HMMPFI Contract

The key risk is the ongoing contractual disputes with Amey Birmingham Highways Limited as the SPV who sub-contract to Amey Local Government (and other involved parties) in respect of the HMMPFI contract, which could have a significant impact on the Council's financial sustainability.

We will review the latest information relating to this contract, to establish how the Council is identifying, managing and monitoring this risk.

### Commonwealth Games

The key risk is that the cost of hosting the Commonwealth Games will impact on the Council's future financial sustainability.

We will review 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.

### 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.

The key risk is that the Council fails to implement the next steps and recommendations set out in the Panel's final report, taking into account the Council's own stocktake report issued in March 2019.

### Services for Vulnerable Children

The key risk is that the service does not show demonstrable improvement 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 an inspection of services for vulnerable children.

We will review Ofsted's findings which were reported in January 2019, to establish how the Council is identifying, managing and monitoring this risk.

### Management of Schools

The key risk is that the governance issues identified at schools will not be effectively addressed.

We will review the progress made by Internal Audit within their coverage of schools governance, to establish how the Council is identifying, managing and monitoring this risk.

# Audit logistics, team & fees

**Planning and risk assessment**

**Audit committee** January 2019 — **VFM Plan**

**Interim audit** February – March 2019

**Audit committee** May 2019 — **Updated Audit Plan**

**Year end audit** May – July 2019

**Audit committee** July 2019 — **Audit Findings Report and draft Annual Audit Letter**

**Audit opinion**

August 2019 — **Annual Audit Letter**

**Paul Dossett, Engagement Lead**

**Laura Hinsley, Senior Manager**

**Tess Barker–Phillips, Audit Manager**

### Audit fees

The planned audit fees are £241,909 (PY: £314,168) for the financial statements audit completed under the Code, which are inline with the scale fee published by PSAA. £27,750 of fees are planned for audit-related services and £17,000 for non-audit related services which constitute non NAO Code work by PSAA. In setting your fee, we have assumed that the scope of the audit, and the Council and its activities, do not significantly change.

Where additional audit work is required to address any additional risks identified, we will consider the need to charge fees in addition to the audit fee on a case by case basis. Any additional fees will be discussed and agreed with management and require PSAA approval.

### Our requirements

To ensure the audit is delivered on time and to avoid any additional fees, we have detailed our expectations and requirements in the following section 'Early Close'. If the requirements detailed overleaf are not met, we reserve the right to postpone our audit visit and charge fees to reimburse us for any additional costs incurred.

# Early close

### Meeting the 31 July audit timeframe

In the prior year, the statutory date for publication of audited local government accounts was brought forward to 31 July, across the whole sector. This was a significant challenge for local authorities and auditors alike. For authorities, the time available to prepare the accounts was curtailed, while, as auditors we had a shorter period to complete our work and faced an even more significant peak in our workload than previously.

Birmingham City Council achieved early close in 2017/18 and the audit was completed in line with the earlier deadline.

We have carefully planned how we can make the best use of the resources available to us during the final accounts period. As well as increasing the overall level of resources available to deliver audits, we have focused on:

- bringing forward as much work as possible to interim audits
- starting work on final accounts audits as early as possible, by agreeing which authorities will have accounts prepared significantly before the end of May
- seeking further efficiencies in the way we carry out our audits
- working with you to agree detailed plans to make the audits run smoothly, including early agreement of audit dates, working paper and data requirements and early discussions on potentially contentious items.

We are satisfied that, if all these plans are implemented, we will be able to complete your audit and those of our other local government clients in sufficient time to meet the earlier deadline.

### Client responsibilities

Where individual clients do not deliver to the timetable agreed, we need to ensure that this does not impact on audit quality or absorb a disproportionate amount of time, thereby disadvantaging other clients. We will therefore conduct audits in line with the timetable set out in audit plans (as detailed on page 13). Where the elapsed time to complete an audit exceeds that agreed due to a client not meetings its obligations we will not be able to maintain a team on site. Similarly, where additional resources are needed to complete the audit due to a client not meeting their obligations we are not able to guarantee the delivery of the audit by the statutory deadline. Such audits are unlikely to be re-started until very close to, or after the statutory deadline. In addition, it is highly likely that these audits will incur additional audit fees

### Our requirements

To minimise the risk of a delayed audit or additional audit fees being incurred, we will be grateful if you could ensure that you:

- produce draft financial statements of good quality by the deadline you have agreed with us, including all notes, the narrative report and the Annual Governance Statement
- ensure that good quality working papers are available at the start of the audit, in accordance with the working paper requirements schedule that we have shared with you
- ensure that the agreed data reports are available to us at the start of the audit and are reconciled to the values in the accounts, in order to facilitate our selection of samples
- ensure that all appropriate staff are available on site throughout (or as otherwise agreed) the planned period of the audit
- respond promptly and adequately to audit queries.

In return, we will ensure that:

- the audit runs smoothly with the minimum disruption to your staff
- you are kept informed of progress through the use of an issues tracker and weekly meetings during the audit
- we are available to discuss issues with you prior to and during your preparation of the financial statements.

### Risks identified

We have discussed the year end timetable with finance officers. We understand that the final accounts team and other parts of the finance function are currently extremely short-staffed due to an unprecedented number of staff experiencing serious and unexpected illnesses, resulting in these staff being off work at short notice and with uncertain return dates.

The finance team have flagged to us that this represents a risk to the year end accounts delivery. This therefore presents a risk to the delivery of the audit, both in terms of being able to commence the audit in a timely manner, and the potential for increased errors. If the accounts are late or contain significant errors there is a risk that the audit deadline may not be met.

We will continue to discuss plans with finance officers to identify potential risks to delivery of the accounts in line with expected deadlines, and any mitigations that can be put into place to avoid delays to the audit. We commenced our audit on 28 May 2019 and received the unaudited financial statements by the deadline of 31 May 2019.

# Independence & non-audit services

**Auditor independence**

Ethical Standards and ISA (UK) 260 require us to give you timely disclosure of all significant facts and matters that may bear upon the integrity, objectivity and independence of the firm or covered persons relating to our independence. We encourage you to contact us to discuss these or any other independence issues with us. We will also discuss with you if we make additional significant judgements surrounding independence matters.

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 Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, 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 Financial Reporting Council’s Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements. Further, we have complied with the requirements of the National Audit Office’s Auditor Guidance Note 01 issued in December 2017 and PSAA’s Terms of Appointment which set out supplementary guidance on ethical requirements for auditors of local public bodies.

# Independence & non-audit services

## Other services provided by Grant Thornton

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council and its subsidiaries. The following other services were identified.

| Service | £ | Threats | Safeguards |
|---|---|---|---|
| **Audit related** | | | |
| Certification of housing benefits claim, pooled housing capital receipts, teachers' pensions | 33,844 | Self-Interest (because this is a recurring fee) | The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £33,844 in comparison to the total fee for the audit of £241,909 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level. |
| Certification of grant claims (non-Code work as defined by PSAA) | 27,750 | Self-Interest (because this is a potentially recurring fee) | The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £27,750 in comparison to the total fee for the audit of £241,909 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level. |
| **Non-audit related** | | | |
| CFOi (non-Code work as defined by PSAA) | 10,000 | Self-Interest (because this is a recurring fee) | The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £10,000 in comparison to the total fee for the audit of £241,909 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level. |
| CASS reporting – Finance Birmingham (non-Code work as defined by PSAA) | 7,000 | Self-Interest (because this is a recurring fee) | The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £7,000 in comparison to the total fee for the audit of £241,909 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level. |

The amounts detailed are fees agreed to-date for audit related and non-audit services to be undertaken by Grant Thornton UK LLP in the current financial year. These services are consistent with the group's policy on the allotment of non-audit work to your auditors. All services have been approved by the Audit Committee. Any changes and full details of all fees charged for audit related and non-audit related services by Grant Thornton UK LLP and by Grant Thornton International Limited network member Firms will be included in our Audit Findings report at the conclusion of the audit.
None of the services provided are subject to contingent fees.

# Appendices