

The Audit Plan for Birmingham City Council

Year ended 31 March 2015

May 2015

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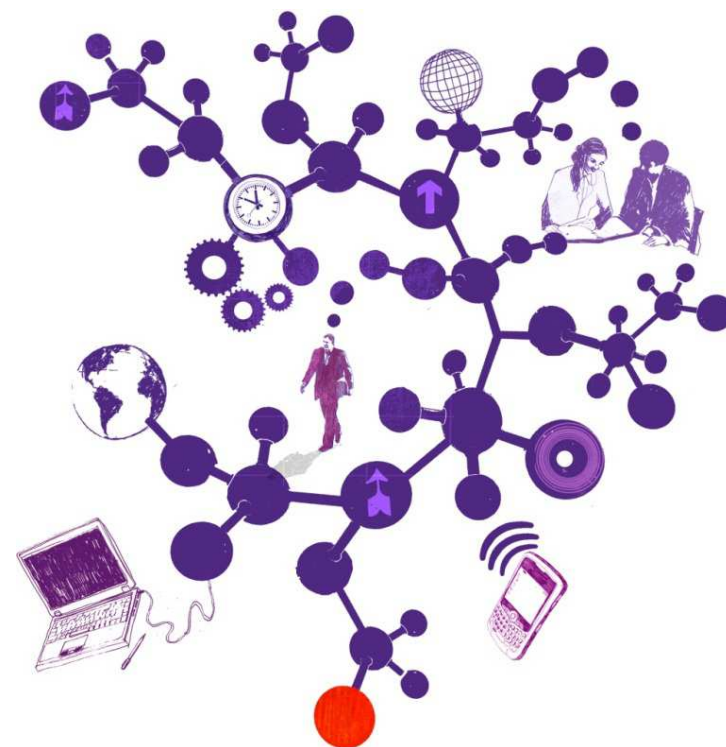
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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the Council or any 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.

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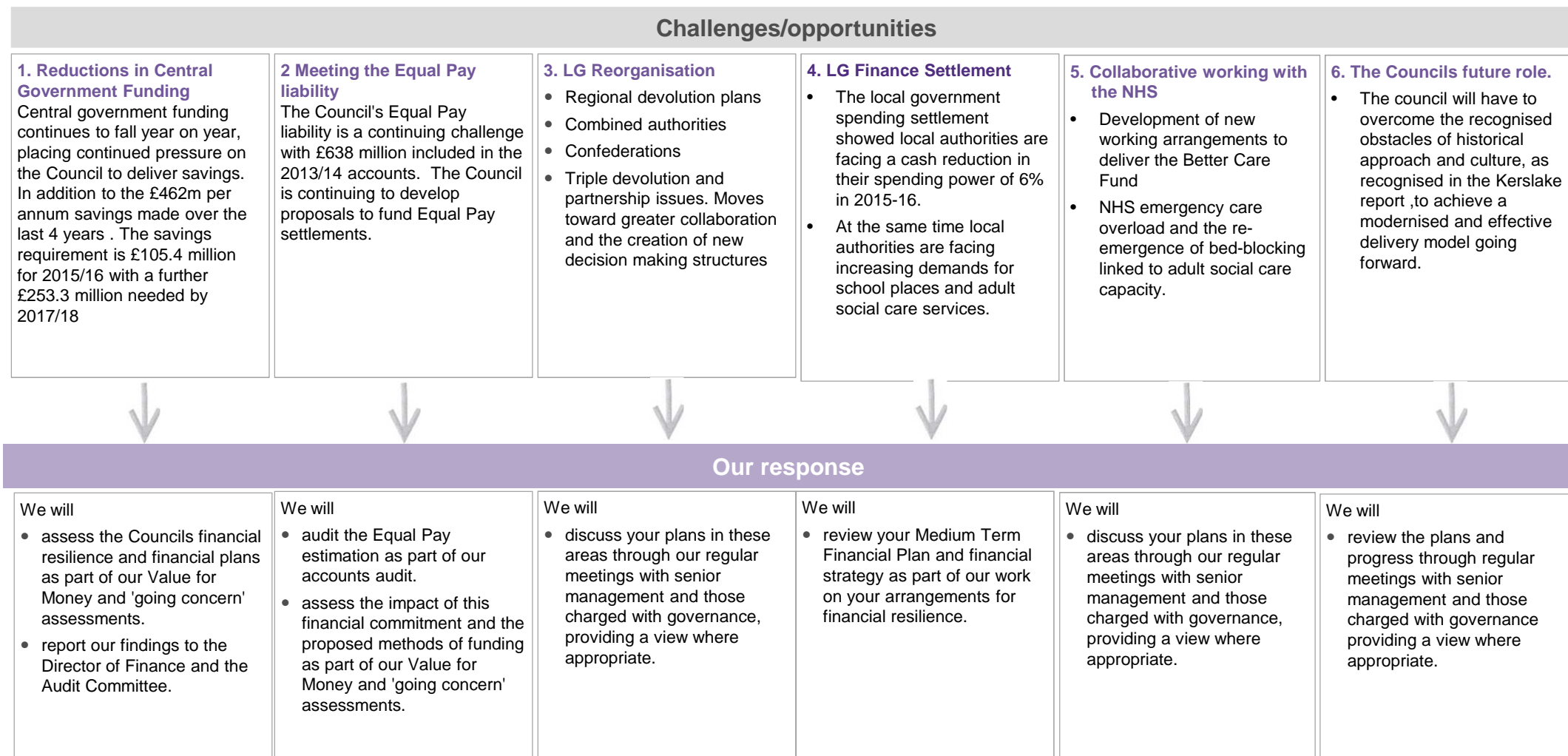
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- A. Action plan

Understanding your business

In planning our audit we need to understand the challenges and opportunities the Council is facing. We set out a summary of our understanding below.



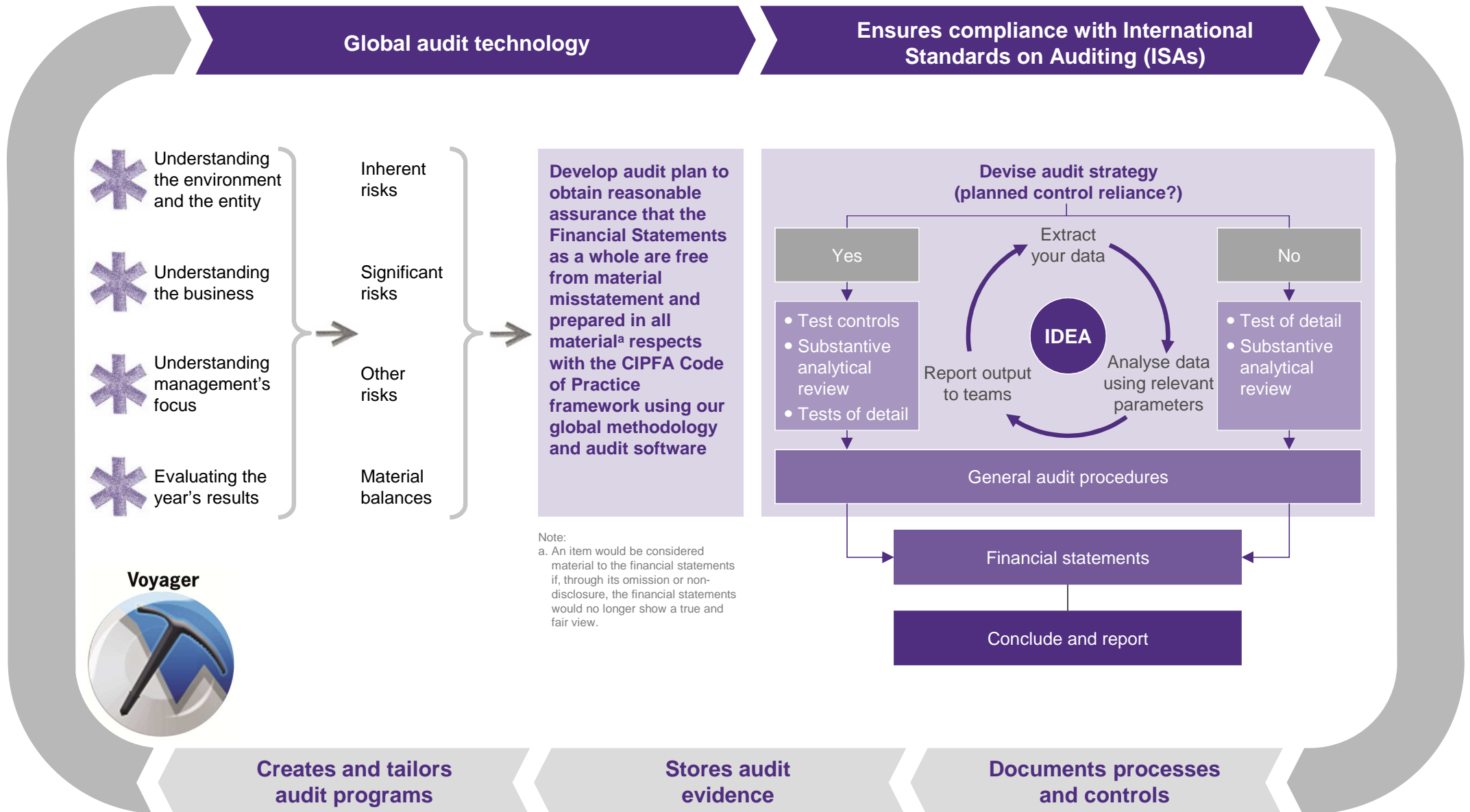
Developments relevant to your business and the audit

In planning our audit we also consider the impact of key developments in the sector and take account of national audit requirements as set out in the Code of Audit Practice ('the code') and associated guidance.

Developments and other requirements					
1. Financial reporting <ul style="list-style-type: none"> Changes to the CIPFA Code of Practice Changes to the recognition of school land and buildings on local authority balance sheets Adoption of new group accounting standards (IFRS 10, 11 and 12) 	2. Legislation <ul style="list-style-type: none"> Local Government Finance settlement 	3. Corporate governance <ul style="list-style-type: none"> Annual Governance Statement (AGS) Explanatory foreword 	4. Better Care Fund <ul style="list-style-type: none"> Better Care Fund (BCF) plans and the associated pooled budgets will be operational from 1 April 2015 	5. Financial Pressures <ul style="list-style-type: none"> Managing service provision with less resource Progress against savings plans 	6. Other requirements <ul style="list-style-type: none"> The Council is required to submit a Whole of Government accounts pack on which we provide an audit opinion The Council completes grant claims and returns on which audit certification is required

Our response					
<p>We will ensure that</p> <ul style="list-style-type: none"> the Council complies with the requirements of the CIPFA Code of Practice through discussions with management and our substantive testing schools are accounted for correctly and in line with the latest guidance the group boundary is recognised in accordance with the Code and joint arrangements are accounted for correctly 	<p>We will</p> <ul style="list-style-type: none"> discuss the impact of the legislative changes with the Council through our regular meetings with senior management and those charged with governance, providing a view where appropriate 	<p>We will</p> <ul style="list-style-type: none"> review the arrangements the Council has in place for the production of the AGS review the AGS and the explanatory foreword to consider whether they are consistent with our knowledge of the Council 	<p>We will</p> <ul style="list-style-type: none"> consider whether the BCF is a risk in the context of our VfM conclusion and will carry out further work if required 	<p>We will</p> <ul style="list-style-type: none"> review the Council's performance against the 2014/15 budget, including consideration of performance against the savings plan undertake a review of Financial Resilience as part of our VfM conclusion 	<p>We will</p> <ul style="list-style-type: none"> carry out work on the WGA pack in accordance with requirements certify the housing benefit subsidy claim in accordance with the requirements specified by Public Sector Audit Appointments Ltd.

Our audit approach



Significant risks identified

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

In this section we outline the significant risks of material misstatement which we have identified. There are two presumed significant risks which are applicable to all audits under auditing standards (International Standards on Auditing – ISAs) which are listed below:

Significant risk	Description	Substantive audit procedures
The revenue cycle includes fraudulent transactions	<p>Under ISA 240 there is a presumed risk that revenue may be misstated due to the improper recognition of revenue.</p> <p>This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.</p>	<p>Work completed to date:</p> <ul style="list-style-type: none">• We have reviewed the revenue cycles and have rebutted the presumption of fraud in revenue recognition for all revenue streams other than Council Tax Income NNDR and Housing Rents. <p>Further work planned:</p> <ul style="list-style-type: none">• Review and testing of revenue recognition policies• Substantive testing of material revenue streams
Management over-ride of controls	<p>Under ISA 240 the presumption that the risk of management over-ride of controls is present in all entities.</p>	<p>Work completed to date:</p> <ul style="list-style-type: none">• Review of the control environment for preparation and authorisation of journal entries <p>Further work planned:</p> <ul style="list-style-type: none">• Review of accounting estimates, judgments and decisions made by management• Testing of journal entries• Review of unusual significant transactions

Significant risks identified (cont'd)

Significant risk	Description	Substantive audit procedures
Equal Pay Provision	Under ISA 540 (Auditing Accounting Estimates, Including Fair Value Accounting Estimates and Related Disclosures) the auditor is required to make a judgement as to whether any accounting estimates with a high degree of estimation uncertainty gives rise to a significant risk.	<p>Work completed to date:</p> <ul style="list-style-type: none"> Review of the assumptions on which the estimate is based. <p>Further work planned:</p> <ul style="list-style-type: none"> Consider events or conditions that have occurred that could change the basis of estimation. Check the calculation of the estimate. Check that estimate has been determined and recognised in accordance with accounting standards. Determine how management have assessed estimation uncertainty Consider the impact of subsequent transactions
Sale of the NEC.	Risk that complex accounting entries required are not correctly performed.	<p>Work completed to date:</p> <ul style="list-style-type: none"> Review of proposed accounting treatment of sale proceeds. <p>Further work planned:</p> <ul style="list-style-type: none"> Review of accounting treatment of sale proceeds. Substantive testing to ensure the lease /investment arrangements have been correctly eliminated from the accounts. Accounting treatment of sale proceeds. Assurance will be gained from substantive testing
Cash	BCC have undertaken a transfer of all bank accounts during the financial year. This is a complex process which raises a significant risk that all accounts have not been identified or correctly transferred.	<p>Work completed to date:</p> <ul style="list-style-type: none"> Review of the project and actions to date in relation to bank account transfers. <p>Further work planned:</p> <ul style="list-style-type: none"> Substantive testing of accounts within the cash cycle. Consider events or conditions that have occurred that could have affected the transfer process.

Other risks identified

The auditor should evaluate the design and determine the implementation of the entity's controls, including relevant control activities, over those risks for which, in the auditor's judgment, it is not possible or practicable to reduce the risks of material misstatement at the assertion level to an acceptably low level with audit evidence obtained only from substantive procedures (ISA 315).

In this section we outline the other risks of material misstatement which we have identified as a result of our planning.

Other risks	Description	Audit Approach
Operating expenses	Creditors understated or not recorded in the correct period (Operating expenses understated)	<p>Work completed to date:</p> <p>We have</p> <ul style="list-style-type: none">• updated our documentation of the operating expenditure system• undertaken a walkthrough of the controls in place to ensure operating expenses are not understated and are recorded in the correct period.• carried out substantive testing of the expenditure incurred in the first 10 months of the financial year. <p>Further work planned:</p> <p>We will</p> <ul style="list-style-type: none">• review the application of the year end closedown process for capturing creditor accruals• undertake substantive testing of year end creditors including after date payments• test Goods Received Not Invoiced listings and Purchase Orders raised after the year end to confirm appropriate accruals• review control account reconciliations covering the agreement of creditor payments to the ledger and bank accounts.

Other risks identified (cont'd)

Other risks	Description	Audit Approach
Employee remuneration	Employee remuneration accruals understated (Remuneration expenses not correct)	<p>Work completed to date:</p> <p>We have</p> <ul style="list-style-type: none"> • updated our documentation of the payroll system • undertaken a walkthrough of the controls in place to ensure payroll expenses are not understated and are recorded in the correct period. • Undertaken a trend analysis for the first 10 months of the financial year. <p>Further work planned:</p> <p>We will</p> <ul style="list-style-type: none"> • reconcile the annual payroll to the ledger and to the segmental analysis accounts note. • undertake substantive testing of payroll payments in April/May to ensure payroll expenditure is recorded in the correct year. • complete trend analysis of monthly and weekly payroll payments covering 2014/15 and comparing to 2013/14 and determine whether substantive testing required. • review of payroll accrual processes and determine whether substantive testing required. • undertake substantive testing of the completeness of year end payroll creditors • undertake substantive testing of the completeness of IAS19 pension liabilities. • agreement of employee remuneration disclosures in the financial statements to supporting evidence
Welfare Expenditure	Welfare benefit expenditure improperly computed	<p>Work planned:</p> <ul style="list-style-type: none"> • Undertake a predictive analytical review based on DWP statistics • Perform the initial testing of benefit expenditure by following the Audit Commission HBCOUNT methodology. • Review the reconciliation between Benefits system and general ledger

Other risks identified (cont'd)

Other risks	Description	Audit Approach
Property, Plant & Equipment	Risk that property plant and equipment is improperly expensed	<p>Work completed to date:</p> <p>We have</p> <ul style="list-style-type: none"> updated our documentation and undertaken a walkthrough of the controls in place to ensure that PPE activity is valid. <p>Further work planned:</p> <p>We will</p> <ul style="list-style-type: none"> test a sample of additions to confirm they are capital items
Property, Plant & Equipment	Risk that property plant and equipment activity is not valid.	<p>Work completed to date:</p> <p>We have</p> <ul style="list-style-type: none"> updated our documentation and undertaken a walkthrough of the controls in place to ensure that PPE activity is valid. <p>Further work planned:</p> <p>We will</p> <ul style="list-style-type: none"> test agreement of the fixed asset register to the accounts and supporting notes sample test PPE additions and disposals including compliance with capitalisation requirements
Property, Plant & Equipment	Risk that revaluation measurement is not correct.	<p>Work completed to date:</p> <p>We have</p> <ul style="list-style-type: none"> updated our documentation and undertaken a walkthrough of the controls in place to ensure that PPE activity is valid. <p>Further work planned:</p> <p>We will</p> <ul style="list-style-type: none"> undertake test of revaluation cycle, including instructions to valuer and valuer's report. Evaluate compliance with revised requirements of the code for valuation particularly in relation to schools test of revaluation when assets brought in to use

Other risks identified (cont'd)

Other risks	Description	Audit Approach
Property, Plant & Equipment	Risk that property plant and equipment allowance for depreciation is not adequate.	<p>Work completed to date:</p> <p>We have</p> <ul style="list-style-type: none"> • updated our documentation and undertaken a walkthrough of the controls in place to ensure that PPE activity is valid. <p>Further work planned:</p> <p>We will</p> <ul style="list-style-type: none"> • test depreciation and impairments, including evidence of review of Useful Economic Lives and mathematical accuracy • test of surplus or deficit on disposal

Group audit scope and risk assessment

ISA 600 requires that as Group auditors we obtain sufficient appropriate audit evidence regarding the financial information of the components and the consolidation process to express an opinion on whether the group financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework.

Component	Significant?	Level of response required under ISA 600	Risks identified	Planned audit approach
NEC Group Ltd	Yes	Targeted	Subsidiary	Specific (targeted) scope procedures to be performed.
NEC (Developments) PLC	No	Analytical	Subsidiary	Agreement of consolidation using audited accounts and analytical approach.
Birmingham Technology Ltd	No	Analytical	Subsidiary	Agreement of consolidation using audited accounts and analytical approach.
Performances (Birmingham) Ltd	No	Analytical	Subsidiary	Agreement of consolidation using audited accounts and analytical approach.
Acivico Limited	Yes	Targeted	Subsidiary	Specific (targeted) scope procedures to be performed.
Birmingham Museum and Art Gallery Trust	No	Analytical	Subsidiary	Agreement of consolidation using audited accounts and analytical approach.
Service Birmingham Ltd	No	Analytical	Associate	Agreement of consolidation using audited accounts and analytical approach.
Birmingham Airport Holdings Ltd	No	Analytical	Associate	Agreement of consolidation using audited accounts and analytical approach.

Value for money

Value for money

The Code requires us to issue a conclusion on whether the Council has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the Value for Money (VfM) conclusion.

Our VfM conclusion is based on the following criteria specified by the Audit Commission:

VfM criteria	Focus of the criteria
The organisation has proper arrangements in place for securing financial resilience	The organisation has robust systems and processes to manage financial risks and opportunities effectively, and to secure a stable financial position that enables it to continue to operate for the foreseeable future
The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness	The organisation is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity

We have undertaken a risk assessment to identify areas of risk to our VfM conclusion. We will undertake work in the following areas to address the risks identified:

- Assessment of the Council's financial resilience
- Review of the Medium and Long Term Financial Strategy
- Council's arrangements for prioritising resources and development of additional revenue streams
- Council's arrangements for identifying savings and efficiencies
- Council's arrangements for funding Equal Pay liabilities
- Council's responses to the issues raised in the Kerslake report

The results of our VfM audit work and the key messages arising will be reported in our Audit Findings report and in the Annual Audit Letter.

Results of interim audit work

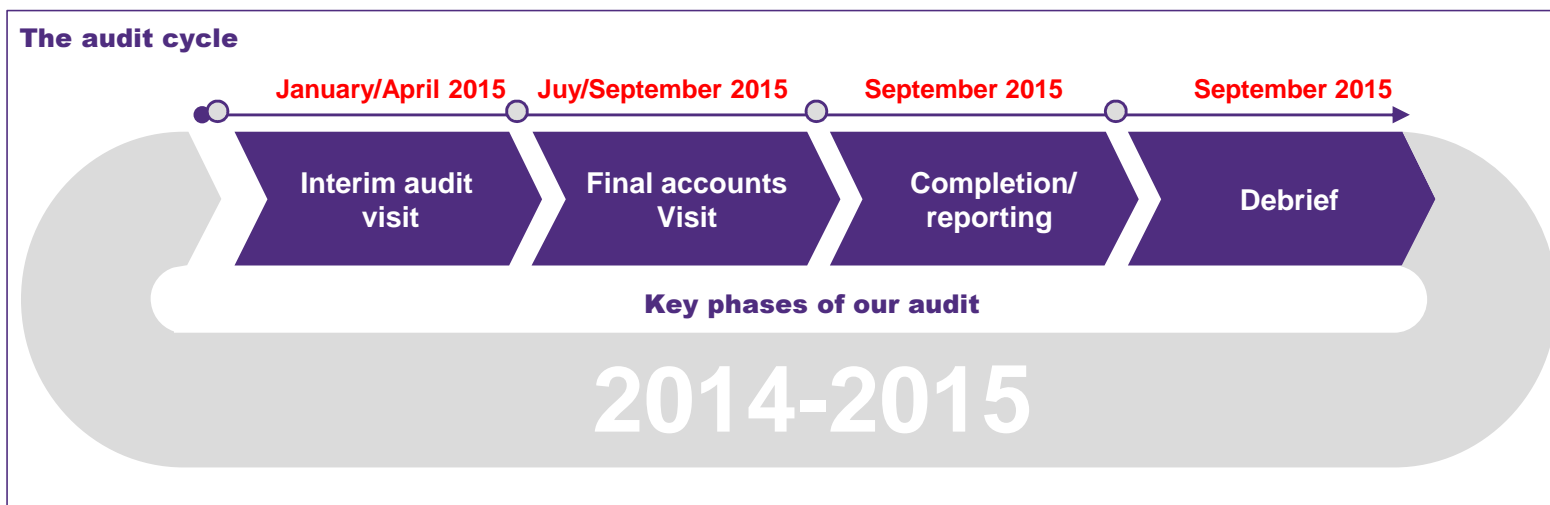
The findings of our interim audit work, and the impact of our findings on the accounts audit approach, are summarised in the table below:

	Work performed and findings	Conclusion
Internal audit	<p>We have completed a high level review of internal audit's overall arrangements. Our work has not identified any issues which we wish to bring to your attention</p> <p>We also reviewed internal audit's work on the Council's key financial systems to date. We have not identified any significant weaknesses impacting on our responsibilities</p>	<p>Overall, we have concluded that the internal audit service continues to provide an independent and satisfactory service to the Council and that internal audit work contributes to an effective internal control environment at the Council</p> <p>Our review of internal audit work has not identified any weaknesses which impact on our audit approach.</p>
Walkthrough testing	<p>We have substantially completed walkthrough tests of controls operating in areas where we consider that there is a risk of material misstatement to the financial statements.</p> <p>Our work has not identified any issues which we wish to bring to your attention. Internal controls have been implemented in accordance with our documented understanding.</p>	<p>Our work has not identified any weaknesses which impact on our audit approach</p>
Entity level controls	<p>We have obtained an understanding of the overall control environment relevant to the preparation of the financial statements including:</p> <ul style="list-style-type: none">• Communication and enforcement of integrity and ethical values• Commitment to competence• Participation by those charged with governance• Management's philosophy and operating style• Organisational structure• Assignment of authority and responsibility• Human resource policies and practices	<p>Our work has identified no material weaknesses which are likely to adversely impact on the Council's financial statements</p>

Results of interim audit work (cont'd)

	Work performed	Conclusion
Review of information technology controls	<p>Our information systems specialist performed a high level review of the general IT control environment, as part of the overall review of the internal controls system. We have also performed a follow up of the issues that were raised last year.</p> <p>IT (information technology) controls were observed to have been implemented in accordance with our documented understanding.</p>	<p>Our work has identified no material weaknesses which are likely to adversely impact on the Council's financial statements.</p> <p>We found five issues that we have brought to management's attention to ensure these are considered.</p>
Journal entry controls	<p>We have reviewed the Council's journal entry policies and procedures as part of determining our journal entry testing strategy and have identified a potential material weakness with the authorisation of journals. This weakness was reported in the 13/14 Audit findings report.</p>	<p>We have raised a recommendation relating to authorisation of authoriser access journals. (see appendix 1)</p>
Early substantive testing	<p>We have undertaken early testing in the following areas:</p> <ul style="list-style-type: none"> • Employee remuneration – Substantive testing to gain assurance over the occurrence and accuracy of payroll expenditure • Operating Expenditure – Review and interrogation of expenditure codes in order to select samples in advance of our final accounts visit. • Grants – Review of grants received to date and selection of samples in advance of our final accounts visit 	<p>Our early testing has not identified any issues which we wish to bring to your attention.</p> <p>We will complete our testing during our final accounts visit.</p>
Opening balances	<p>We have confirmed that the 2014/15 ledger opening balances agree to the 2013/14 audited closing balances. We have reviewed the code changes made for clearer reporting.</p>	<p>Our work has not identified any issues relating to the opening balances for 2014/15.</p>
Value for money	<p>We have completed our initial risk assessment to identify areas that require further review and assessment.</p>	<p>Our early review has not identified any issues which we wish to bring to your attention.</p> <p>We will complete our work in order to give a VFM opinion by the statutory deadline</p>

Key dates



Date	Activity
December 2014/January 2015	Planning
February/April 2015	Interim site visit
June 2015	Presentation of audit plan to Audit Committee
July/August/September 2015	Year end fieldwork
September 2015	Audit findings clearance meeting with Director of Finance
September 2015	Report audit findings to those charged with governance (Audit Committee)
September 2015	Sign financial statements opinion

Fees and independence

Fees

	£
Council audit	417,420
Grant certification	26,600
Total fees (excluding VAT)	444,020

Our fee assumptions include:

- Supporting schedules to all figures in the accounts are supplied by the agreed dates and in accordance with the agreed upon information request list
- The scope of the audit, and the Council and its activities, have not changed significantly
- The Council will make available management and accounting staff to help us locate information and to provide explanations

Grant certification

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

Fees for other services

Service	Fees £
Group Governance Review	33,000
Finance Birmingham (tax advice, due diligence support and secondment)	97,100
Innovation Birmingham (tax advice)	8,000
Certification of grant claims (outside Audit Commission/PSAA requirements)	11,250
Total	149,350

Fees for other services

Fees for other services reflect those agreed at the time of issuing our Audit Plan and include other services carried out since 1 April 2014. We obtained Audit Commission approval for all work once the other services fee was in excess of the 20 per cent (£83,484) threshold. Any changes will be reported in our Audit Findings Report and Annual Audit Letter.

Independence and ethics

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Auditing Practices Board's Ethical Standards and therefore we confirm that we are independent and are able to express an objective opinion on the financial statements.

Full details of all fees charged for audit and non-audit services will be included in our Audit Findings report at the conclusion of the audit.

We confirm that we have implemented policies and procedures to meet the requirement of the Auditing Practices Board's Ethical Standards.

Communication of audit matters with those charged with governance

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

This document, The Audit Plan, outlines our audit strategy and plan to deliver the audit, while The Audit Findings will be issued prior to approval of the financial statements and will present key issues and other matters arising from the audit, together with an explanation as to how these have been resolved.

We will communicate any adverse or unexpected findings affecting the audit on a timely basis, either informally or via a report to the Council.

Respective responsibilities

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

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

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

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

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

Appendix

Action plan

Priority

High - Significant effect on control system

Medium - Effect on control system

Low - Best practice

Rec No.	Recommendation	Priority	Management response	Implementation date & responsibility
1	For authoriser access journal entries, there should be authorisation by someone other than the person raising the journal.	High	A compensating journal control will be introduced which will require review of a monthly sample of unauthorised journals entered by senior staff to ensure journals are valid and accurate.	Implemented Assistant Director of Financial Services



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