Grant Thornton

External Audit Plan

Year ending 31 March 2020

Birmingham City Council

March 2020

Contents

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1. 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) Ltd, 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
- the 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.

Group Accounts

The Council is required to prepare group financial statements that consolidate the financial information of:

- Birmingham Children's Trust CIC
- National Exhibition Centre (Developments) Plc
- Acivico Limited
- Birmingham City Propco Limited
- InReach (Birmingham) Limited
- PETPS (Birmingham) Limited
- PETPS (Birmingham) Pension Fund SLP
- Birmingham Airport Holdings Limited (Associate)
- 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:

- Management override of controls (non-rebuttable presumption under ISA 240)
- Valuation of land and buildings
- Valuation of net pension fund liability
- Valuation of equal pay provision

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.

Materiality	We have determined planning materiality to be £37.0m for the group (PY £44.5m) and £36.95m for the Council (PY £43.8m), which equates to approximately 1.2% of your prior year gross expenditure. 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 £1.8m (PY £2.2m). Further information is included on page 12 of this report.
Value for Money arrangements	Our risk assessment regarding your arrangements to secure value for money has identified the following VFM significant risks: • Council resilience and financial sustainability • Contract monitoring and management • Financial impact of the Commonwealth Games • Waste service continuity and industrial relations • Contractual arrangements relating to the highways PFI Scheme Our risk assessment is a continuous process, and we will consider whether events or conditions give rise to additional risks up until the time that we give our conclusion.
Audit logistics	Our interim visits are taking place in February and March and our final visit will commence in June. Our key deliverables are this Audit Plan and our Audit Findings Report. Our audit approach is detailed in Appendix A. Our fee for the audit will be £297,409 (PY £288,609), subject to the Council meeting our requirements set out on page 15.
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.

2. 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, financial plans include savings of £56 million over the next four years, including £22 million for 2020/21.

At a national level, the UK has now left the EU, with a transition period now running until the end of 2020 while the UK and EU negotiate additional arrangements. Future arrangements remain uncertain. 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.

Financial reporting and audit – raising the bar

The Financial Reporting Council (FRC) has set out its expectation of improved financial reporting from organisations and the need for auditors to demonstrate increased scepticism and challenge, and to undertake more robust testing as detailed in the Appendix to this report.

Our work in 2018/19 has highlighted areas where local government financial reporting, in particular, property, plant and equipment and pensions, needs to be improved, with a corresponding increase in audit procedures. We have also identified an increase in the complexity of local government financial transactions which require greater audit scrutiny.

Local issues

There are a number of matters specific to the Council which we will consider as part of our work, including the publication of the independent review into the Council's waste service, the appointment of Kier as interim services provider for the Birmingham highways contract, the Council's ongoing preparation for the Commonwealth Games in 2022, the development of a new strategic risk strategy, and implementation of the finance improvement plan.

Implementation of IFRS 16 – Leases

From 1 April 2020 the Council will need to implement the new leases accounting standard (IFRS16).

This has the potential for more assets and associated liabilities to be bought onto the Council's balance sheet.

Our response

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 group and will review related disclosures in the financial statements.

As a firm, we are absolutely committed to meeting the expectations of the FRC with regard to audit quality and local government financial reporting.

Our proposed work and fee, as set further in this Audit Plan, has been agreed with the Interim Chief Finance Officer and any fee variations are subject to PSAA agreement.

We have considered the above issues as part of our Value for Money conclusion risk assessment, and have identified related significant risks as set out in part 8 of this Audit Plan.

We will assess the adequacy of your process to determine the financial impact of implementing the new standard from 1 April 2020.

3. 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	Audit of the financial information of the component	Risks set out in section 4 of this report	Full scope UK statutory audit performed by Grant Thornton UK LLP
Birmingham Children's Trust CIC	No	Specified audit procedures	We have not identified any significant risks of misstatement of the group financial statements, however the following balances are expected to be material to the group: • Expenditure • Net pension liability	We will request specific procedures from the component auditor, Crowe UK LLP, on these balances. The nature, time and extent of our involvement in the work of the component auditor will begin with a discussion on risks and guidance on designing procedures, followed by the review of relevant aspects of their audit documentation.
National Exhibition Centre (Developments) Plc	No	Specified audit procedures	We have not identified any significant risks of misstatement of the group financial statements, however the company's loan stock is expected to be material to the group.	Specific procedures will be completed on these balances by Grant Thornton UK LLP.
Acivico Limited	No	Specified audit procedures (TBC)	We have not identified any significant risks of misstatement of the group financial statements, however the company's expenditure may be material to the group.	If expenditure is material, specific procedures will be completed on these balances by Grant Thornton UK LLP. If not, analytical procedures will be performed, as below.
Other entities as set out on page 3	No	Analytical procedures	None	Analytical procedures at group level performed by Grant Thornton UK LLP.

From the completion of our planning procedures, we are not aware of any changes within the group during the 2019/20 financial year.

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

4. 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.

We will communicate significant findings on these areas, as well as any other significant matters arising from the audit, with you in our Audit Findings Report in September 2020.

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
The revenue cycle includes fraudulent transactions (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. 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: • there is little incentive to manipulate revenue recognition; • opportunities to manipulate revenue recognition are very limited; and • the culture and ethical frameworks of local authorities, including Birmingham City Council, mean that all forms of fraud are seen as unacceptable. 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 this 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.	We will: • evaluate the design effectiveness of management controls over journals; • analyse the journals listing and determine the criteria for selecting high risk unusual journals; • test unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration; • gain an understanding of the accounting estimates and critical judgements applied made by management and consider their reasonableness with regard to corroborative evidence; and • evaluate the rationale for any changes in accounting policies, estimates or significant unusual transactions.

Significant risks continued

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
Valuation of the pension fund 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. 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 at 31 March 2019) 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.	We will: • 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; • evaluate the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work; • assess the competence, capabilities and objectivity of the actuary who carried out the Council's pension fund valuation; • assess the accuracy and completeness of the information provided by the Council to the actuary to estimate the liability; • 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; • 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 • 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 and benefits data sent to the actuary by the pension fund, and the fund assets valuation in the pension fund financial statements.

Significant risks continued

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
Valuation of land and buildings	Group and Council	The Council revalues its land and buildings, including council housing, on a rolling five-yearly basis. This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved (£4.8 billion at 31 March 2019) and the sensitivity of this estimate to changes in key assumptions Additionally, where a rolling programme is used, 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. 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: • evaluate management's processes and assumptions for the calculation of the estimate; • evaluate the competence, capabilities and objectivity of the valuation experts; • confirm the basis on which the valuation was carried out, through discussions and correspondence with the Council's valuers; • challenge the information and assumptions used by the valuers to assess completeness and consistency with our understanding; • engage our own valuer to assess the instructions issued by the Council to their valuers, the scope of the Council's valuers' work, the Council's valuers' reports and the assumptions that underpin the valuations; • test revaluations made during the year to see if they had been input correctly into the Council's asset register; and • evaluate the assumptions made by management for those assets not revalued at the balance sheet date and how management has satisfied themselves that the carrying values of these assets are not materially different to current value at year end.
Valuation of equal pay liability	Group and Council	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 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.	We will: • update our understanding of management's process and controls in place to estimate the equal pay provision; • review the assumptions on which the estimate was based; • consider events or conditions that could have changed the basis of estimation; • on a sample basis, reperform the calculation of the estimate; • confirm that the estimate has been determined and recognised in accordance with accounting standards; • determine how management have assessed the estimation uncertainty; and • consider the impact of any subsequent transactions or events.

5. Other risks identified

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
International Financial Reporting Standard (IFRS) 16 Leases **(issued but not adopted)**	Group and Council	The public sector will implement this standard from 1 April 2020. It will replace IAS 17 Leases, and the three interpretations that supported its application (IFRIC 4, Determining whether an Arrangement contains a Lease, SIC-15, Operating Leases – Incentives, and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease). Under the new standard the current distinction between operating and finance leases is removed for lessees and, subject to certain exceptions, lessees will recognise all leases on their balance sheet as a right of use asset and a liability to make the lease payments. In accordance with IAS 8 and paragraph 3.3.4.3 of the Code, disclosures of the expected impact of IFRS 16 should be included in the Council's 2019/20 financial statements. The Code adapts IFRS 16 and requires that the subsequent measurement of the right of use asset where the underlying asset is an item of property, plant and equipment is measured in accordance with section 4.1 of the Code.	We will: • evaluate the processes the Council has adopted to assess the impact of IFRS16 on its 2020/21 financial statements; • evaluate whether the estimated impact on assets, liabilities and reserves has been disclosed in the 2019/20 financial statements; • assess the completeness and accuracy of the disclosures made by the Council in its 2019/20 financial statements with reference to The Code and CIPFA/LASAAC Local Authority Leasing Briefings.

6. Other matters

Other work

In addition to our responsibilities under the 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 the Local Audit and Accountability Act 2014 (the Act) and the Code, as and when required, including:
    - Giving electors the opportunity to raise questions about your 2019/20 financial statements, consider and decide upon any objections received in relation to the 2019/20 financial statements
    - Issue of a report in the public interest or written recommendations to the Council under section 24 of the Act, copied to the Secretary of State
    - Application 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 material uncertainties, and evaluate the disclosures in the financial statements.

7. 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 the 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 £37.0m for the group (PY £44.5m) and £36.95m for the Council (PY £43.8m), which equates to approximately 1.2% of your prior year gross expenditure. The reduction in materiality compared to the previous year reflects the higher profile of local audit following external reviews such as those led by Sir John Kingman and Sir Tony Redman.

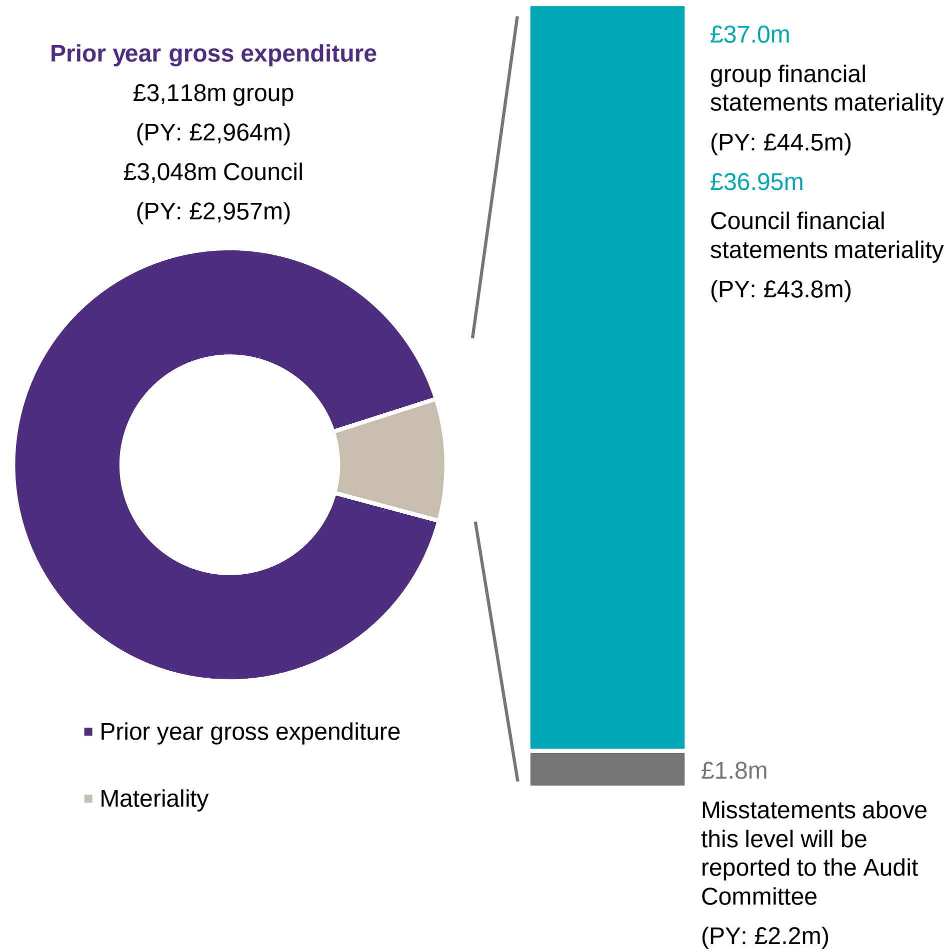
We reconsider planning materiality if, during the course of our audit engagement, we become aware of facts and circumstances that would have caused us to make a different determination of planning materiality.

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 £1.8m (PY £2.2m).

If management have 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.



8. Value for Money arrangements

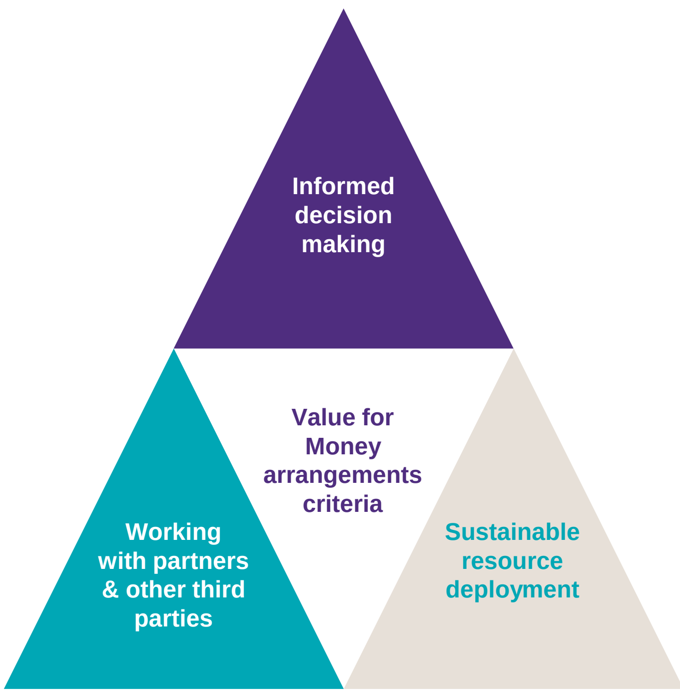
Background to our VFM approach

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 Council 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.

We will continue our review of your arrangements, including reviewing your Annual Governance Statement, and update our risk assessment as necessary up to the date that we issue our auditor's report.

Council resilience and financial sustainability

There is a risk is that the proposed 2019/20 savings plans will not deliver the required recurrent savings, or will take longer to implement than planned. In addition, the Council's medium term financial plan for 2020-21 to 2023-24 needs to incorporate realistic and detailed savings plans, while at the same time maintaining an adequate level of reserves to mitigate the impact of risks including the PFI contract, Commonwealth Games, Equal Pay and Paradise Circus.

Following years of budget restrictions and limited investment, many of the Council's operational assets are in poor condition. The Council's strategy to address this is key, and should link in to its capital plan. We also note that the Council has undergone a significant level of change in senior leadership positions in recent years. There is a risk that the governance arrangements in place have not kept up with the changes in management structure, and are no longer suitable.

We will review the Council's latest financial reports, monitoring report and savings plans trackers to establish how the Council is identifying, managing and monitoring these risks. We will consider the adequacy of reserves and the prudency of their use, as well as the transparency of financial reporting.

We will review the work that the Council has done to re-base its financial budgeting and planning, including the reprofiling of capital projects and the resulting slippage in the capital plan. We will consider the Council's approval routes and their appropriateness and effectiveness.

Value for Money arrangements continued

Waste service continuity and industrial relations

In our 2018-19 VFM work, we identified the VFM risk that the Council would fail to implement adequate governance arrangements in relation to the waste dispute. This had been the subject of previous Statutory Recommendations issued by Grant Thornton in July 2018 and March 2019.

At the time of giving our VFM conclusion in September 2019, the Council had commissioned an independent review of the Waste Service, but this had not concluded. The Council intended to wait for that report before making decisions about future options for the service.

This report has since been received by the Council, and the previous Memorandum of Understanding ended in November 2019. We therefore still consider this to be a significant risk for the purposes of our VFM work in 2019/20.

We will review the governance arrangements in place for the Waste Service, and consider the progress made by the Council in this area.

Contractual arrangements relating to the highways PFI Scheme

In our 2018-19 VFM work, we identified the risk that ongoing contractual disputes with Amey Local Government (Amey LG) (and other involved parties) in respect of the Highways PFI contract could have a significant impact on the Council's financial sustainability.

At the time of giving our VFM conclusion in September 2019, a settlement agreement had been made between Birmingham Highways Ltd (BHL) and Amey LG, with financial risk to the Council. However, preparations were ongoing for Amey LG's exiting of the PFI contract.

In February, the Council announced the appointment of Kier as interim services provider, with work ongoing to identify a long-term maintenance and management partner to replace Amey LG. We therefore still consider this to be a significant risk for the purposes of our VFM work in 2019/20.

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

Contract monitoring and management

We note that the Council's internal audit function, Birmingham Audit, has issued two separate reports that highlight substantial issues and weaknesses relating to the management and monitoring of significant contracts.

We will consider the work done by the relevant directorates to address the findings contained in the reports issued by Birmingham Audit, as well as considering any potential wider impacts of the weaknesses.

Financial impact of the Commonwealth Games

In our 2018-19 VFM work, we identified the VFM risk that the cost of hosting the Commonwealth Games could impact on the Council's future financial sustainability.

At the time of giving our VFM conclusion in September 2019, we noted that the Council had strengthened its governance arrangements relating to the delivery of the Commonwealth Games over the previous 12 months, and had clarified the governance framework under which partner bodies would report and work.

Work to identify sources of funding for the Council's share of the costs is ongoing. We therefore still consider this to be a significant risk for the purposes of our VFM work in 2019/20.

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.

9. Audit logistics & team

Planning and risk assessment

Audit Committee March 2020 — **Audit Plan**

Interim audit March 2020

Audit Committee June 2020 — **Progress Report**

Year end audit June – September 2020

Audit Committee September 2020 — **Audit Findings Report**

Audit opinion

October 2020 — **Annual Audit Letter**

Jon Roberts, Key Audit Partner

Jon will be the main point of contact for the Chief Executive, statutory officers and Members. Jon will share his wealth of knowledge and experience across the sector, providing challenge. Jon will ensure our audit is tailored specifically to the Council, focussing his time on the key audit risks

Laurelin Griffiths, Engagement Manager

Laurelin will work with members of the finance and executive teams, ensuring that work is completed as smoothly as possible and on a timely basis. She will attend Audit Committee meetings, undertake reviews of the team's work and draft reports, ensuring that they remain clear, concise and understandable to all.

Zak Francis, Support Manager

Zak will support Laurelin in her work to oversee the delivery of audit testing. He will share responsibility for considering any complex accounting issues that arise in the year, and will complete preliminary reviews of the team's work while providing on-site support.

Kirsty Lees, Audit Incharge

Kirsty will be the day to day contact for the Council's finance team. She will monitor deliverables, highlight any significant issues and adjustments to management, and maintain an awareness of the detail of the rest of the team's work.

The Council's responsibilities

Where audited bodies 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 audited bodies. Where the elapsed time to complete an audit exceeds that agreed due to a body not meeting 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 body not meeting its obligations, we are not able to guarantee the delivery of the audit to the agreed timescales. In addition, delayed audits will incur additional audit fees.

Our requirements

To minimise the risk of a delayed audit, you need to 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; and
- respond promptly and adequately to audit queries.

10. Audit fees

Planned audit fees 2019/20

Across all sectors and firms, the FRC has set out its expectation of improved financial reporting from organisations and the need for auditors to demonstrate increased scepticism and challenge and to undertake additional and more robust testing. Within the public sector, where the FRC has recently assumed responsibility for the inspection of local government audit, the regulator requires that all audits achieve a 2A (few improvements needed) rating.

Our work across the sector in 2018/19 has highlighted areas where local government financial reporting, in particular, property, plant and equipment and pensions, needs to be improved. We have also identified an increase in the complexity of local government financial transactions. Combined with the FRC requirement that 100% of audits achieve a 2a or above rating (the highest two ratings of their four point scale) this means that additional audit work is required. We have set out below the expected impact on our audit fee. The table overleaf provides more details about the areas where we will be undertaking further testing.

As a firm, we are absolutely committed to meeting the expectations of the FRC with regard to audit quality and local government financial reporting. Our proposed work and fee for 2019/20 at the planning stage, as set out below and with further analysis overleaf, has been agreed with the Interim Chief Finance Officer and is subject to PSAA agreement.

	Actual Fee 2017/18	Actual Fee 2018/19	Proposed fee 2019/20
Council Audit	£322,903	£288,609	£297,409

Assumptions:

In setting the above fees, we have assumed that the Council will:

- prepare a good quality set of accounts, supported by comprehensive and well presented working papers which are ready at the start of the audit
- provide appropriate analysis, support and evidence to support all critical judgements and significant judgements made during the course of preparing the financial statements
- provide early notice of proposed complex or unusual transactions which could have a material impact on the financial statements.

Relevant professional standards:

In preparing our fee estimate, we have had regard to all relevant professional standards, including paragraphs 4.1 and 4.2 of the FRC's Ethical Standard which stipulate that the Engagement Lead (Key Audit Partner) must set a fee sufficient to enable the resourcing of the audit with staff of appropriate skills, time and abilities to deliver an audit to the required professional standard.

Audit fee variations – Further analysis

Planned audit fees

The table below shows the planned variations to the original scale fee for 2019/20 based on our best estimate at the audit planning stage. Further issues identified during the course of the audit may incur additional fees. In agreement with PSAA (where applicable) we will be seeking approval to secure these additional fees for the remainder of the contract via a formal rebasing of your scale fee to reflect the increased level of audit work required to enable us to discharge our responsibilities. Should any further issues arise during the course of the audit that necessitate further audit work additional fees will be incurred, subject to PSAA approval.

Audit area	£	Rationale for fee variation
Scale fee	**£241,909**	
Raising the bar	£13,000	The Financial Reporting Council (FRC) has highlighted that the quality of work by all audit firms needs to improve across local audit. This will require additional supervision and leadership, as well as additional challenge and scepticism in areas such as journals, estimates, financial resilience and information provided by the entity. As outlined earlier in the Plan, we have also reduced the materiality level, reflecting the higher profile of local audit. This will entail increased scoping and sampling.
Pensions – valuation of net pension liabilities under International Auditing Standard (IAS) 19	£4,500	We have increased the granularity, depth and scope of coverage, with increased levels of sampling, additional levels of challenge and explanation sought, and heightened levels of documentation and reporting.
PPE Valuation – work of experts	£10,000	We have engaged our own audit expert – Wilks Head & Eve LLP – and increased the volume and scope of our audit work to ensure an adequate level of audit scrutiny and challenge over the assumptions that underpin PPE valuations. This increase includes an estimate for the fee payable to the auditor's expert, which we estimate will be in the region of £5,000.
New standards and developments	£4,000	You are required to respond effectively to new accounting standards and we must ensure our audit work in these new areas is robust. This year we will both be responding to the introduction of IFRS16.
Local issues	£20,000	There are a number of local issues specific to the Council and its audit which will require additional inputs to complete our work, including: monitoring the impact of the Strategic Programme Board; the increased level of work we anticipate will be required to support our audit opinion and VFM conclusion, including preparations for the Commonwealth Games, the new strategic risk strategy and implementation of the finance improvement plan; work on the Council's PFI model and the retendered Highways arrangements; and additional testing to gain assurance around the completeness of the Council's expenditure, following issues noted in the 2018/19 year.
Enhanced Audit Report	£4,000	As the Council holds listed debt, it meets the FRC definition of a Public Interest Entity. Certain additional Ethical and Quality standards apply, including the need for us to produce an Enhanced Audit Report.
Revised scale fee (to be approved by PSAA)	**£297,409**	

11. 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.

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 you.

The following other services were identified:

Service	£ Fee	Threats	Safeguards
Audit related:			
Certification of 2018/19 Housing capital receipts grant	5,250	For these three audit-related services, we consider that the following perceived threats may apply:	The level of recurring fees taken on their own are not significant in comparison to the confirmed scale fee for the audit and in particular relative to Grant Thornton UK LLP's turnover overall. Further, each is a fixed fee and there is no contingent element to any of them. These factors mitigate the perceived self-interest threat to an acceptable level.
Certification of 2018/19 Teachers' Pension return	7,250	• Self-Interest (because this is a recurring fee)	Our team have no involvement in the preparation of the form which is certified, and do not expect material misstatements in the financial statements to arise from the performance of the certification work. Although related income and expenditure is included within the financial statements, the work required in respect of certification is separate from the work required to audit the financial statements, and is performed after the audit of the financial statements has been completed.
Certification of 2018/19 Housing Benefits Subsidy claim	29,500	• Self Review • Management	The scope of the work does not include making decisions on behalf of management or recommending or suggesting a particular course of action for management to follow. Our team perform these engagements in line with set instructions and reporting frameworks. Any amendments made as a result of our work are the responsibility of informed management.

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Independence & non-audit services continued

Service	£ Fee	Threats	Safeguards
Audit related (continued):			
Education Skills Funding Agency agreed upon procedures 2018-19	5,000	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on their own is not considered a significant threat to independence as the fee for this work is £5,000 in comparison to the confirmed scale fee for the audit 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 mitigate the perceived self-interest threat to an acceptable level.
AMSCI reasonable assurance engagements (undertaken in August and December 2019)	15,800	Self-Interest (because this is a recurring fee)	The level of recurring fees taken on their own is not considered a significant threat to independence as the fee for this work is £15,800 in comparison to the confirmed scale fee for the audit 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 mitigate the perceived self-interest threat to an acceptable level.
Non-audit related:			
CFO insights subscription	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 confirmed scale fee for the audit 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 mitigate the perceived self-interest threat to an acceptable level.
CASS reporting 2019 (Finance Birmingham)	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 confirmed scale fee for the audit 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 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 your policy on the allotment of non-audit work to your auditors. All services have been approved by the Audit and Governance 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.

The firm is committed to improving our audit quality – please see our transparency report:

https://www.grantthornton.co.uk/globalassets/1.-member-firms/united-kingdom/pdf/annual-reports/interim-transparency-report-2019.pdf

Appendices

Audit Quality – national context

Audit Quality – national context

What has the FRC said about Audit Quality?

The Financial Reporting Council (FRC) publishes an annual Quality Inspection of our firm, alongside our competitors. The Annual Quality Review (AQR) monitors the quality of UK Public Interest Entity audits to promote continuous improvement in audit quality.

All of the major audit firms are subject to an annual review process in which the FRC inspects a small sample of audits performed from each of the firms to see if they fully conform to required standards.

The most recent report, published in July 2019, shows that the results of commercial audits taken across all the firms have worsened this year. The FRC has identified the need for auditors to:

- improve the extent and rigour of challenge of management in areas of judgement
- improve the consistency of audit teams' application of professional scepticism
- strengthen the effectiveness of the audit of revenue
- improve the audit of going concern
- improve the audit of the completeness and evaluation of prior year adjustments.

The FRC has also set all firms the target of achieving a grading of '2a' (limited improvements required) or better on all FTSE 350 audits. We have set ourselves the same target for public sector audits from 2019/20.

Other sector wide reviews

Alongside the FRC, other key stakeholders including the Department for Business, energy and Industrial Strategy (BEIS) have expressed concern about the quality of audit work and the need for improvement. A number of key reviews into the profession have been undertaken or are in progress. These include the review by Sir John Kingman of the Financial Reporting Council (Dec 2018), the review by the Competition and Markets authority of competition within the audit market, the ongoing review by Sir Donald Brydon of external audit, and specifically for public services, the Review by Sir Tony Redmond of local authority financial reporting and external audit. As a firm, we are contributing to all these reviews and keen to be at the forefront of developments and improvements in public audit.

What are we doing to address FRC findings?

In response to the FRC's findings, the firm is responding vigorously and with purpose. As part of our Audit Investment Programme (AIP), we are establishing a new Quality Board, commissioning an independent review of our audit function, and strengthening our senior leadership at the highest levels of the firm, for example through the appointment of Fiona Baldwin as Head of Audit. We are confident these investments will make a real difference.

We have also undertaken a root cause analysis and put in place processes to address the issues raised by the FRC. We have already implemented new training material that will reinforce the need for our engagement teams to challenge management and demonstrate how they have applied professional scepticism as part of the audit. Further guidance on auditing areas such as revenue has also been disseminated to all audit teams and we will continue to evolve our training and review processes on an ongoing basis.

What will be different in this audit?

We will continue working collaboratively with you to deliver the audit to the agreed timetable whilst improving our audit quality. In achieving this you may see, for example, an increased expectation for management to develop properly articulated papers for any new accounting standard, or unusual or complex transactions. In addition, you should expect engagement teams to exercise even greater challenge management in areas that are complex, significant or highly judgmental which may be the case for accounting estimates, going concern, related parties and similar areas. As a result you may find the audit process even more challenging than previous audits. These changes will give the audit committee – which has overall responsibility for governance - and senior management greater confidence that we have delivered a high quality audit and that the financial statements are not materially misstated. Even greater challenge of management will also enable us to provide greater insights into the quality of your finance function and internal control environment and provide those charged with governance confidence that a material misstatement due to fraud will have been detected.

We will still plan for a smooth audit and ensure this is completed to the timetable agreed. However, there may be instances where we may require additional time for both the audit work to be completed to the standard required and to ensure management have appropriate time to consider any matters raised. This may require us to agree with you a delay in signing the announcement and financial statements. To minimise this risk, we will keep you informed of progress and risks to the timetable as the audit progresses.

We are absolutely committed to delivering audit of the highest quality and we should be happy to provide further detail about our improvement plans should you require it.